Life is full of ups and downs.
We're there for both.

Welcome to
UniCredit Bank Banja Luka

2015 Annual Report

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Inside real life. A 360° view.

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UniCredit Bank Banja Luka

Imagine you're hungry.

You need food, of course. But you also need a plate and a fork. Maybe even a knife. After that, you'll need water to wash the dishes and before that, the right tools to cook your meal. And don't forget the table, or the chair, or the roof over your head.

In the end, food is just a small part of our far more complicated system of needs – a system that is contained by its own set of values. Consider, for example, the entire production chain behind the food on your table. Food comes from a farm. It has to be tended by people, and inspected by others to ensure it is safely made, processed and transported to market. Every link in this chain is crucial for today's consumers, who are increasingly sensitive to the quality of their food, as well as the environmental and working conditions that produce it.

UniCredit firmly believes that to truly understand real life, we must directly experience it. That way we are more prepared to find sustainable solutions while the world's needs and values constantly change.

For us, helping customers fulfil the basic necessities of modern life is just as important as offering the very best financial and banking products.

This means providing a complete range of services to support families and businesses, fully aware that responding to their needs builds a sustainable future for everyone.

Our products begin with real human insights that help us accompany customers throughout their lives. Because life is full of ups and downs, but it is also full of many other things, like buying a home, getting married, having children and sending them to university, etc.

We know life often takes unexpected twists and turns while many of us work to buy a home, get married, have children and send them to university.

It's a 360-degree approach that we call Real Life Banking.

Over the following pages, our aim is not just to present data and numbers about our Group's performance. We also want to share stories that show how we have helped people realize their dreams and supported the communities that host our branches.

Because the drive to build a better future is what keeps people going.

And supporting people keeps us going too.

Life is full of ups and downs.
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My ideas are so big, they make me feel small.

Let’s talk about realizing your projects.

Stefan runs his family’s company in Bucharest. He has designed and built kitchens since he was a boy, and still loves it. But since he also loves to cook, he thinks it would be perfect to combine his passions by opening a special show room that hosts cooking classes and workshops with famous chefs.

A place like that would have some cultural value and give his whole neighborhood a boost, so he thinks he could apply to receive public funds. But he doesn’t know where to start. He needs a partner, someone who helps prove the feasibility of the project to the government.

Hey Stefan, why not ask us? We often give advice to customers who want to get grants and other funding. In Romania, for instance, we provide 360° support, from the stage when a client gets an investment idea, to when the client secures funding, until even after that, while the client’s use of funding is monitored.

Thanks to our preliminary advice, including guidance on where to apply for funds, and our full range of banking products and attentive monitoring service, Stefan can make his idea a reality. And, who knows, maybe it will also help him become the world’s next great artisan-cook.

CEO message

"We are constantly developing new and upgrading existing products, in line with clients' needs and modern life requirements..."

Dalibor Ćubela
CEO

Dear clients, shareholders and business partners,

although we have a demanding and a challenging year behind us, we are happy to be able to state that UniCredit Bank a.d. Banja Luka has finished year 2015 successfully with results exceeding planned values and market performance. With total assets of 1.25 billion BAM, our Bank represents a systemically important financial institution on the Bosnia and Herzegovina market, the same as our owner UniCredit Group on the European market.

Geopolitical tensions on both global and local level have negative impact on the economical and business environment of the financial sector in B&H. Existing level of industrial activity does not provide for more pronounced GDP growth needed for higher living standard; weak investment climate measured by small number of new projects and lack of stronger investment cycle, as well as high unemployment rate which causes the missing positive impact on GDP through growing domestic demand all point to a difficult business environment and limited market potentials.

With a clear vision to regain leadership position in the Republika Srpska market, Bank continued to deliver good results in 2015, with a focus on long term stability and sustainability, market share growth and profitability, representing Bank's three main strategic goals. Long term stability and sustainability is reflected through the Bank's strong capital position (with CAR at 18,3% after dividend payout), good quality of the loan portfolio with low NPL ratio (8,4%) and high NPL coverage ratio (76%), good quality balance sheet and adequate level of liquidity at all times. Strong and continuous growth of customer loan volumes (+17,9% y/y) as well as customer deposits (+13,8% y/y) resulted in a significant increase in the Bank's market share in loans and deposits on RS market. And finally, Bank delivered a record profitability in its latest history and confirmed leadership position in this KPI. Owing to sound capital ratios, Bank was able to payout dividend end of 2015 in amount of 8,85 mln BAM out of 2014 net profit.

Such results are made owing to high quality and strong commitment of UniCredit Bank Banja Luka's employees, focus on clients' needs and good quality of the client base, responsible risk management and strict cost discipline. Interest rates development in the market is a reflection of strong competitors' pressure given the limited market potential, where Bank's ability to manage all balance sheet positions becomes crucial.

Also, Bank is largely implementing new technologies, which support us in dealing with challenges, business modernization, upgrade in efficiency and improvements in quality of service. We have implemented Compliance function, strictly monitoring Bank's compliance with local, group and European regulation in all segments of operation. Special attention is dedicated to data protection as well continuous upgrade in physical and IT security. We are constantly developing new and upgrading existing products, in line with clients' needs and modern life requirements, and so we have improved our card business offer by introducing chip cards and contactless technology, upgraded e-banking service, introduced new products in insurance business and prepared for implementing of the mobile banking service at the beginning of 2016.

We want to be recognized as a responsible member of the community we work in, grow together and support households, families, individuals in different professions, pensioners, entrepreneurs and companies. Our Bank is an important business partner of the RS Government and of the local communities. Being the most significant partner to international companies in the RS market, we opened an International Center which is transferring experiences from European markets by connecting mother companies and their daughter companies in Republika Srpska. An independent research of client satisfaction, measured by TRI*M index, shows that UniCredit Bank Banja Luka is the first choice for clients looking for a place where they can get best financial advice or service.

The year ahead of us is bringing new and complex challenges, with modest GDP growth projections and investment potential, possible political turmoil, continuing competition pressures, negative interest rates on the European money market reflecting also on our business. However, considering we put strong commitment, professionalism and passion for work in our everyday business, we will continue to aspire to remain Bank no. 1, as seen by our clients, and a responsible partner of the local community. In that context, we put special focus on socially responsible business and cooperation with the community on projects of social significance.

On behalf on the Management Board, I would like to express my deepest respect to our clients, shareholders, business partners and employees, as well as gratitude for their loyalty and trust, and above all professional and good relationship in which we grow together and make success.

Yours sincerely,

Dalibor Ćubela
CEO

Ok guys, where's the stage?

Let's talk about getting the goods on time.

Every summer, major music festivals are held in the countryside. The line-ups are announced months in advance, and thousands of people buy tickets to see their favorite bands live. But sometimes ... things can go wrong.

Tens of thousands of goods pass through the customs every day. It's so ordinary that you never even think about it. Until one day, when goods vital to your business operation absolutely must arrive in time.

From concert equipment to spare parts, it can take up to three working days to get your customs payments processed. That is why in Russia we introduced the PayHD card. It speeds up import/export operations and helps our customers avoid bad surprises. With PayHD, goods are always processed quickly, with no extra paper work required.

Now entrepreneurs in Russia can concentrate on their own business and stop worrying about import/export timings.

Macroeconomic review in Bosnia and Herzegovina

Macroeconomic review in 2015

Global economy growth in 2015 remained moderate, but the recovery was not sufficient to be characterised as global expansion. Joint impact of global factors and internal economic factors in Bosnia and Herzegovina resulted in improved indicators compared to previous year.

Export character of the economy in Bosnia and Herzegovina, primarily oriented to the most developed economies in the European Union (16% of total exports from BiH is related to Germany), enables positive correlation with positive business trends in those markets. Gradual improvement of macroeconomic environment in EU countries is positively reflected mainly through increased external demand and direct foreign investments.

Substantial growth of economic indicators was recorded in 2015 despite numerous challenges faced by Bosnia and Herzegovina from the very beginning of the year. Many responses to such challenges have formed and will form the future direction of the development of the overall economy, and the planned implementation of EU accession of BiH. One of the factors that affected the moderate GDP growth in 2015 was the fact that 2014 as a basic year had inferior performance indicators due to natural disasters that struck the significant portion of the country in the middle of the year.

The most significant event that marked 2015 and inspired optimism by giving the fresh opportunity to make a leap from unsustainable model toward functional future, is certainly the Decision of the Parliament of the EU on approval of activation of Stabilisation and Association Agreement and its official entering into force on 1 June 2015.

The set of key socio-economic reforms, supplemented by measures for creating sustainable economic model of growth, under the common name Reform Agenda 2015-2018, will be the benchmark of political compromise that is currently the most important. Reform Agenda is composed of six main areas: Public finance, taxation and fiscal sustainability, Business climate and competitiveness, Labour market, Reform of social security and pensions, Rule of law and good governance, and the Reform of public administration.

Despite the readiness of Bosnia and Herzegovina to support the Reform Agenda, because of significant backlog in completing agreed reforms and adopting laws, the IMF froze its final payments of IV SBA in September 2014 until the expiry of the arrangement in June 2015. IMF's funds are the main pillar of fiscal stability of the country, and their absence was clearly felt in the budget for 2015, especially considering the significant amount of funds allotted during 2014, that was additionally increased for the support after the natural disasters. The Government of RS managed to find a temporary solution and partially overcome the missing budgetary funds by issuing securities on the local market.

During three visits to Bosnia and Herzegovina during 2015, the delegation of the IMF monitored all events while evaluating whether there was any improvement, but still setting the clear conditions, such as adopting Budget for 2016 as a critical point for further discussion on the new V SBA for BiH.

The adoption of amendments to the Criminal Code in April 2015 was also an additional challenge that Bosnia and Herzegovina faced, thus avoiding sanctions that could have resulted from non-compliance with EU regulations.

Although the functional labour market is in fact one of the main reform priorities, every change in this area is difficult to implement in Bosnia and Herzegovina, which is demonstrated by the process of adopting the Labour Act. Employment is planned to be one of the priority reforms in the country. However, it is not likely that it will result in a significant decrease of unemployment rate, that remained at the level of almost 44% in 2015, with an almost unchanged amount of gross and net salaries. Besides the Labour Act, restricting the grey economy and reform of education system are important parts of key defined activities for 2016.

Industrial production recorded negative changes in the first quarter of 2015 compared to the previous year, and the particular change of trend started only in May, which was primarily induced by bad results in the previous year due to natural disasters. Industrial production growth remained on a very low level throughout the entire year (2.6%), which is lower than initially expected. Electricity sector, which is decreasing compared to the previous year has a significant impact on low growth rates.

Current account deficit has been slightly decreasing during 2015 based on lower import rates. It is expected that, by the end of the year, it will be on a slightly lower level than last year (7.3% of GDP), led by lower oil and food prices. With respect to import-oriented economy of Bosnia and Herzegovina, with the negative import-export ration, the continued economic growth should lead to the strengthening the current account deficit.

Consumer price index remained on very low levels during almost the entire year, led by imported deflatory pressures through oil and food prices. The level of consumer price index in November 2015 was on level of -1.3%, and the achievement of positive value is not expected until the second quarter of 2016.

Rating of Bosnia and Herzegovina has not been changed yet, i.e. it was again confirmed in November 2015 by S&P in the category "B with stable outlook". According to Moody's, the rating is still at the same level since 2012 "B3 with stable outlook".

Measured by the Doing Business 2016 index, Bosnia and Herzegovina is on the 79th place of the ranking list of 189

Macroeconomic review in 2015 (CONTINUED)

countries, while by the Competitiveness Index 2015-2016 it is on the very bottom among the countries in the region on 111th place on the list of 140 countries.

Expectations for 2016

The continuation of a substantial business growth of 3% is expected in the following year. Fiscal adjustments and reforms are crucial for supporting economic recovery. Significant risks and challenges remain present, primarily in the form of creating potential new political uncertainty, delays in implementation of reforms because of possible local elections planned for 2016, deficiency of timely and adjusted adopting and enforcement of laws in both entities, and the like. New Stand-By Arragnement that is still being discussed with the IMF will certainly still serve as an important source of external financial support. Since further improvement of economies of main trade partners is expected in the following year, the positive impact on the economy in Bosnia and Herzegovina may be expected as well. Further improvement of labour market is also expected in 2016, but it is still far away from forming solid foundations for growth. The opportunity to be exploited is the utilisation of EU funds in accordance with Indicative strategic document drafted in 2015 and the corresponding sector strategies necessary for access to the funds.

Banking Sector in 2015

The banking sector in Bosnia and Herzegovina went through long and large consolidation phases throughout its not so long history. In the last 18 years the number of banks was reduced by 29. The complexity of following operations and reporting indicates the importance of further consolidation of banking sector, and regulatory and legal frameworks among entities. Structural weaknesses of the banking sector in combination with weak business growth are becoming even more prominent.

Key macroeconomic indicators in Bosnia and Herzegovina	2012	2013	2014	2015F
Nominal GDP (BAM billion)	26,2	26,7	27,3	27,6
Population (in thousand)	3,836	3,832	3,827	3,822
GDP per capita (in BAM)	6,828	6,980	7,122	7,209
Real GDP (annual change, %)	-0.9	2.4	1.1	2.0
Consumer prices (annual change, %)	1.8	-1.2	-0.4	-0.7
average	2.1	-0.1	-0.9	-0.9
Monthly salary (annual change, %)	1.5	0.2	-0.2	0.1
Unemployment rate (registered, %)	44.1	44.6	43.9	43.2
Balance of state budget (in % of GDP)	-1.9	-2.2	-3.0	-2.0
Balance of the current account of balance of payments (in % of GDP)	-8.8	-5.5	-7.8	-7.3
Foreign direct investments (in % of GDP)	1.9	1.4	2.6	3.6
Foreign currency reserves (in BAM billion)	6,5	7,1	7,8	8,1
FX rate EUR/BAM	1.96	1.96	1.96	1.96
1M EURIBOR, end of the period	0.1	0.2	-	-0.2
average	0.3	0.1	0.1	-0.1

Bosnia and Herzegovina is in early phases of banking system development according to European standards, even though a certain progress has been achieved in certain areas. For example, the Cooperation Agreement was signed in 2015 by the European Banking Authority (EBA) and the banking agencies in BiH, with which the signatories obtain the status of equal participation in information exchange with European Union (EU) members in the area of operations and supervision of the country's banking system.

According to that Agreement, Bosnia and Herzegovina is commited to adjusting laws, supervisory standards and institutional regulations in accordance with the European Union.

In 2015, the following drafts of decisions have been delivered: Decision on calculation of banks' equity – Pillar 1; Decision on risk management in banks – Pillar 2; Decision on process of internal capital adequacy assessment in banks with the corresponding Report on the application of ICAAP – Pillar 2; Decision on large exposures – Pillar 2; and the Decision on interest risk management in banking books – Pillar 2. The application is expected in 2017, yet with the obligation for parallel reporting from the middle of the following year.

Upon observation of the structure of banking sector in 2015, of total 26 banks, only four banks achieved volumes of loans and deposits of over BAM 1 billion, while 9 banks on the market have less than BAM 200 million in their balances. It is important to note in the balance structure that the share of foreign resources on resources side is proceeding to decrease with the growth of clients' deposits share, while monetary assets and securities comprise over 30% of total assets in banks in BiH. Banking sector liquidity is significantly higher than prescribed limits, mainly deposited in accounts in the Central Bank.

Capital adequacy of the banking sector is maintained significantly above the prescribed limit of 12% and it amounts to 16%, albeit with significant discrepancies among banks. Four banks in FBiH and three Banks in RS were recapitalised until the third quarter of 2015.

In void of more significant investment cycle, the main driver of loan growth is the Retail segment with the annual growth rate of 4.8%, while Corporate clients achieved growth of only 0.4%, given that in the last months of the year there was visible recovery on the side of long-term loans as well. Loan growth rates are still low and lower than deposit growth. Annual loan growth is additionally slowed down by the fact that one liquidated bank was excluded since January 2015 from consolidated data for the banking sector, whose exclusion was reflected mainly in Corporate clients' segment.

The level of share of non-performing loans (NPL) portfolio indicates issues in repayment on the one hand, while on the other indicates non-existence of adequate regulatory and legal framework for their resolution. The share of NPL portfolio in total loans in the third quarter of 2015 was 13.8%. The latest significant change of this indicator for the banking sector was recorded in the fourth quarter of 2014 as an effect of sale of NPL portfolio of one banking group and liquidation of one bank, which affected the visible ratio improvement. During 2015 there were neither major departures nor one-time effects, except for recorded slight improvement of loan portfolio structure in FBiH, while even certain degradations were recorded in RS.

Banking sector deposits recorded growth of 7.5% compared to the previous year. Retail sector has recorded steady upward trend from the very beginning of the year, reaching the groth rate of 9.1%. Channeling individuals' savings and transfers through formal financial channels should still remain recognised as the potential for further strengthening of this segment on BiH market. Corporate clients started 2015 with somewhat weaker intensity, primarily fostered by the exclusion of the liquidated bank from consolidated numbers of the sector and complete absence of IMF's funds from IV SBA in 2015. However, the growth rate of 5.3% and successfully recovered arrears from the beginning of the year was mainly driven by the inflow of avista funds of the central government through more intensive issuing of securities in accordance with the plan for redeeming missing funds in the budget, incorporated in the last Budget amendment for 2015. Sufficient level of local sources (mainly from Retail) and weaker loan growth resulted in the loan to deposit ratio of 102%.

The more intensive issuing of securities by the governments of both entities compared to last year was recorded in 2015. Total of BAM 463 million in treasury bills and BAM 552 million in bonds was issued. The Government of FBiH issued total of BAM 298 million in treasury bills and BAM 310 million in bonds. The Government of RS issued total of BAM 165 million in treasury bills and BAM 242 million in bonds. Even though the banking sector is still the main buyer of securities, the share of that portfolio in the total assets of the sector is still far below the average in other countries in Central and Eastern Europe.

Record low level of market rates in 2015 affected further pressure on net interest margins. While interest income continued to decrease in such an unfavourable market environment, savings in interest expense caused by a still significant return of foreign funding are

Macroeconomic review in 2015 (CONTINUED)

managing to mitigate, at least partially, the decline of total net interest income.

The banking sector outlook anticipates that a significant reversal in the banking sector will not occure soon. Since the share of NPLs is still high, an adequate strategy for maintaining sector profitability in mid-term will be required. The lack of quality demand, together with capital requirements and non-recoverability of loans, will be the largest challenge in financial systems in the mid-term period.

Significant influence on the financial system, smaller banks in particular, is expected from the harmonisation of statutory and regulatory frameworks in both entities, based on the best practice in EU directives. Banking sector profitability will remain in the focus primarily because of the fact that the provisions costs are still the ones that determine the course of sector profitability movement. Announced activities in the Reform Agenda should also positively form further development of real and financial sectors in the country.

Look, I just made a mess!

Let's talk about everyday challenges.

Who said that everyday life is boring? It certainly isn't if you're dealing with a rascal like Agata. Around her, simple things like getting to school on time, managing the family budget or walking the puppy become far more complicated. Agata's mom and dad – and countless other parents – face more complications every day. Clearly they could use our help.

For Agata's parents we have designed dozens of new services that simplify life. Take, for example, what Zagrebačka banka is doing in Croatia. Its two-in-one web token enables customers to not only to do their banking online, but also have access to their public administration documents.

This means you can check your account balance or transfer funds online in the same place where you can get your child's school grades, see an electronic copy of your birth or marriage certificate or order your European Health Insurance card.

Now with a bit more time for cleaning up her messes, maybe Agata's parents can laugh a little more too.

I’d rather play basketball.

Let’s talk about making the right investments.

Nina’s father thinks she has a future as a dancer, but she has other plans. What exactly? Well, actually, she changes her mind every day … basketball player, pop singer, pianist, actress. Right now, she’s probably just not mature enough to invest seriously in her future. But Nina’s father doesn’t see that. He could use some wise advice.

Everyone has different goals and needs – and everyone can use a good consultant to help meet them. That’s why we take care of each of our customers by tailoring our solutions to their individual needs.

This premium approach is especially popular with our clients in Germany, thanks to the FinanzKonzept project, which provides an interactive consulting platform for integrated advice.

This is financial counseling 2.0: Smart, transparent, available via video and telephone, from advisors with the right skills. We are doing this because, in a world of data and numbers, it makes a difference to have a personal relationship with clients and figure out together what to expect from the future.

Business segments Review

UniCredit Bank a.d. Banja Luka (hereafter the "Bank") is a licensed commercial bank headquartered in Banja Luka, Bosnia and Herzegovina.

As a successor of the first bank built in this area "Privileged Land Bank for Bosnia and Herzegovina - Branch Banja Luka" established in 1910, UniCredit Bank Banja Luka holds the longest tradition of banking operations in Bosnia and Herzegovina. In more than 105-years long history, this Bank went through most different transformations and worked successfully in different legal and organizational forms.

The Bank provides full range of financial services to companies and individuals in Republic of Srpska, one of the two entities of Bosnia and Herzegovina. The full set of banking services provided by the Bank, includes corporate banking, retail banking, financial institutions, international operations and investment banking.

The Bank readily and actively participates in the implementation of new developments in the banking sector and contributes through its active engagement to the promotion of an innovative approach in the form of more transparent communication, reporting, application of standards and sharing of know-how gained from the rich pool of experience of the Group the Bank belongs to.

Map of the Branch Network

Retail segment

Organization

The retail segment offers a wide range of products and services to clients of private, family and small business banking, and manages the branch network and direct channels of distribution. The business network is divided into 7 regions, which are further split into branches and agencies located throughout Republic of Srpska, with 36 organizational units at the end of 2015. Retail Banking has a portfolio of more than 294 thousand clients within individual clients and SME segment.

Commercial activities in 2015

The retail segment business is completely client oriented, so that client's needs are recognised in a unique way, where continuous improvement of processes and services differentiate the Bank from its competitors. Such a business model results in a more efficient and simple management of business relations, development of client business consulting through an individualised approach and a full range of Bank's products and services.

Client recognise the Bank as a reliable partner and during 2015, Bank recorded growth in the market shares, both in Retail loans and deposits. Volume of loans to individuals amounted to BAM 401 mln, and deposits of individuals increased to BAM 315 mln.

On the credit side, Bank recorded a growth in amount of BAM 35 mln or 9%, compared to the end of 2014. It is important to note that this growth is rated as healthy, since no deterioration of portfolio quality has been identified. Moreover, all key indicators of the portfolio quality have been improved. The main driver of this growth were new non purpose loans secured by the insurance policy to a maximum amount of BAM 60 thousand.

Due to strengthening of customers' trust in the Bank, and resulting from improving markets reputation, the growth was also made on the deposit side in amount of BAM 61 mln or 24% vs. the end of 2014.

Bank product development continued in 2015 primarily in the area of credit card products and direct channel products, which is a prerequisite for migration of operations to modern sales channels (e-banking, ATM's, POS etc). We continued with the development of new applicative solutions that will enable us to provide service in a faster and simpler way to our customers, in accordance with the needs of the modern era, such as m-bank.

As a confirmation of our commitment to always be closer to the needs of clients, we would also like to mention improving results of the customer satisfaction survey, led by an independent agency and measured by TRI*M index, which has upward trend year after year and classifies our Bank among the best rated banks in the market.

At the same time, it is important to point out that in sales segment we remained committed to increase the quality of human resources, as one of the key preconditions for growth and long term sustainability and stability of the Bank.

Corporate and Investment Banking Sector

Organization

The segment of Corporate and investment banking deals with clients from large and medium-sized enterprises to whom, in addition to product financing, it also offers products from the domain of global transaction banking and financial markets.

Through business centers, the Bank covers entire area of Republic of Srpska, entity of Bosnia and Herzegovina, and leads business relations with more than one thousand large and medium sized clients, including public and financial institutions.

Commercial activities in 2015

During 2015 key, focus of Corporate and Investment banking was on business relationship with stable and perspective private companies, as well as public sector and the RS Government. Strategy directed to specified customer groups resulted in significant commercial activity, both in loan and deposit area.

Despite the challenging environment, the Bank has increased lending to corporate clients,with total amount of loans at the end of 2015 being BAM 457 mln, while deposits of corporate clients amounted to BAM 397 mln BAM.

During 2015 UniCredit Bank Banja Luka has participated in all significant and major transactions in the private sector in the country that are related to corporate banking clients, and represented an important business partner of the local Government and public institutions.

The Bank has also provided support to SMEs, through projects in area of renewable energy and improvement of energy efficiency (GGF) and other credit lines in cooperation with international partners, out of which the EBRD is one of the very important.

In the previous period our efforts were focused on strengthening and promotion of International Clients Centre, both through service model development and through action plans implementation for acquisition of new, and building a holistic business relationship with existing clients.

Focus on international clients coincides with activities in the entire UniCredit Group, enabling the Bank to strongly leverage on the Group support using their know-how, but also give own contribution to the development of its own model and relationship with international clients.

It is important to mention that we constantly work on improvement of the customer satisfaction index, which is one of the important indicators that strengthens our self-confidence and reinforces the belief that our goals with customer in focus were well set, realistic and ultimately successful.

By constant improving of our business model and our products, we want to stay dedicated and close to our customers, in order to mutually accomplish our goals. Leveraging on the strength of UniCredit Group and taking into account the specifics of the local market, we provide an integrated approach to solutions, improve our quality of products and services, raise efficiency and provide ease of operation.

Financial and Business Review

Financial Indicators (000 BAM)	2015	2014
Total net income	59,783	57,261
Profit before provisions	30,036	28,694
Profit before tax	23,304	19,629
Profit after tax	21,376	17,702
Loans given to clients	840,401	704,956
Deposits and taken loans	754,151	662,529
Share capital and reserves	174,515	161,764
Total assets	1,255,022	1,093,722
Performance Indicators (%)		
Capital Adequacy	18.3	19.9
Cost / income ratio	49.8	49.9
Return after tax on average equity and reserves (ROE)	12.4	11.5
Return after tax on average net assets (ROA)	1.9	1.9

Profit and loss

In 2015 Bank generated profit in amount of BAM 21,4 mln, which is by 20.8% or BAM 3,7 mln better than the previous year result.

Main profitability and efficiency indicators either improved compared to previous year results or maintained at already high level, including C/I ratio being at 49.8%, return on average equity (ROE) at 12.4% and return on average assets (ROA) at 1.9%.

Net interest income

Net interest income amounted to BAM 46,5 mln, growing by 6.4% or BAM 2,8 mln compared to previous year level.

Interest income increased by BAM 4,9 mln or 9% vs. previous year, with additional revenues being generated by strong loan volume growth. Interest expense is higher by BAM 2,1 mln or 15%, as the result of strong increase in customers' deposits in both segments.

Net fees and commissions income

Net fees and commissions income in amount of BAM 11,9 mln (lower by 2% or BAM 260 ths y/y) impacted by increased card business expenses. Positive development was noted in guarantee and payment service fees.

Other income

Other income includes net gains from FX transactions and FX differences on conversion of monetary assets and liabilities and other income. In 2015 it amounted to BAM 1,3 mln, being at the same level as in previous year.

Operating expenses

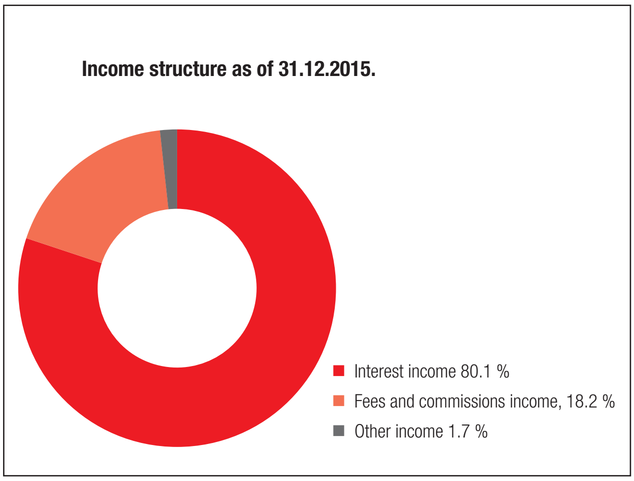
Operating expenses in 2015 amounted to BAM 29,7 mln and are by 4.1% or BAM 1,2 mln higher vs. previous year. HR expenses in amount of BAM 15,1 mln increased by 8.3% vs. 2014 mainly due to higher severance expenses and salary payments. Other administrative expenses increased by 5.6% or BAM 614 ths to BAM 11,6 mln mainly due to higher ICT expenses, marketing and deposit insurance expense. Depreciation expenses in amount of BAM 3,1 mln decreased by 16.3% or BAM 596 ths vs. previous year due to lower investment activities during 2015 compared to previous year.

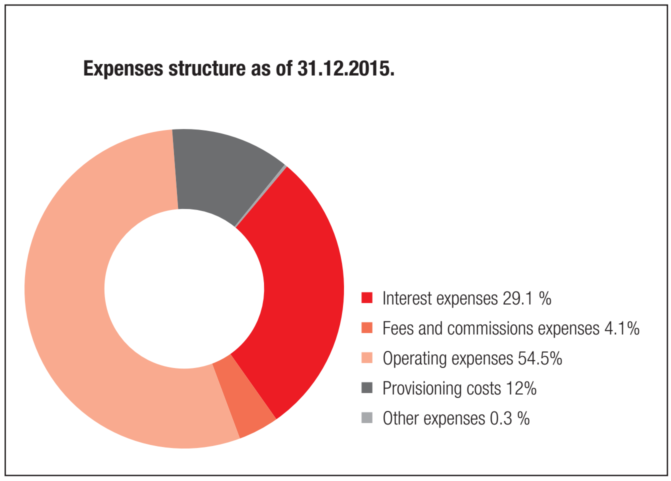
Impairment and provisions costs

During 2015 the bank allocated BAM 6,2 mln for credit risk impairment and provisions, which is by BAM 2,0 mln or 23.9% lower compared to the previous year. Lower loan loss provisions are mainly resulting from good collection result during 2015.

Out of total amount of impairment and provisions costs, provisioning on performing loans amounted to BAM 1,16 mln, while impairement costs on non performing loans amounted to BAM 5,07 mln.

Income and expenses structure as of 2015





Balance Sheet

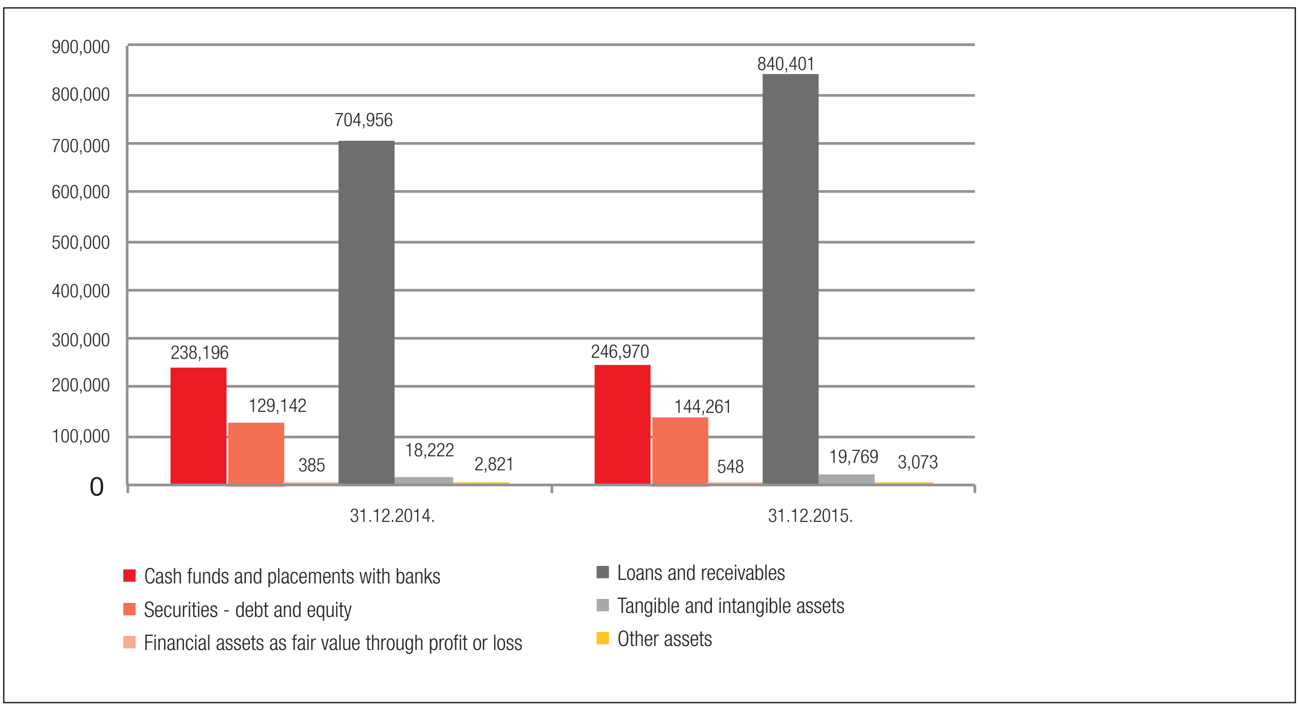
Assets

Total assets as at December 31, 2015 amounted to BAM 1,255 mln which is by BAM 161,3 mln or 14.8% higher vs. the end of the previous year.

Increase in total assets was mostly driven by increase in loans to customers in amount of BAM 135,4 mln.

In the balance sheet structure, loans and due receivables participate with 67.0% (2014: 64.5%), cash funds and placements with banks participate with 19.7% (2014: 21.8%), securities – equity and debt with 11.5% (2014: 11.8%), and tangible and intangible assets and other assets with 1.8% (2014: 1.9%).

Assets structure in BAM 000



Cash and placements with banks

Cash and placements with banks in amount of BAM 247 mln increased by BAM 8,8 mln or 3.7% vs. the end of the previous year, mostly as a result of increase in placements with the Central Bank. Obligatory reserve with the CB BiH at the end of 2015 increased by BAM 6,6 mln, based on higher customer deposits base. Placements with banks decreased by BAM 5,8 mln due to decrease of placements with foreign banks by BAM 8,6 mln, while placements with domestic banks increased by BAM 2,8 mln.

ALM assets structure BAM 000	2015	2014
Cash and funds with CBBiH	77,8	69,9
Statutory reserve	57,8	51,2
Placements and loans to other banks	111,4	117,1
Total	247,0	238,2

Loans to customers

Gross loans to customers as of December 31, 2015 amounted to BAM 904,9 mln and are higher by BAM 137,5 mln or 17.9% vs. the end of previous year, while net loans amounted to BAM 840,9 mln and are higher by BAM 135,1 mln or 19.1% vs. the end of previous year.

Loans to clients	31.12.2015.	31.12.2014.	Change	Change %
Gross loans				
Legal entities	503,985	400,797	103,201	25.7
Individuals	400,939	366,600	34,326	9.4
Total:	904,924	767,397	137,527	17.9
Provisions				
Legal entities	40,315	41,765	-1,450	-3.5
Individuals	23,757	19,892	3,865	19.4
Total:	64,072	61,657	2,415	3.9
Net loans*				
Legal entities	463,670	359,032	104,651	29.1
Individuals	377,182	346,708	30,461	8.8
Total:	840,852	705,740	135,112	19.1

* The figure for net loans does not include net interest receivables matured and collected fee not included in income. The total difference was BAM 0,5 mln in 2015 and BAM 0,8 mln in 2014.

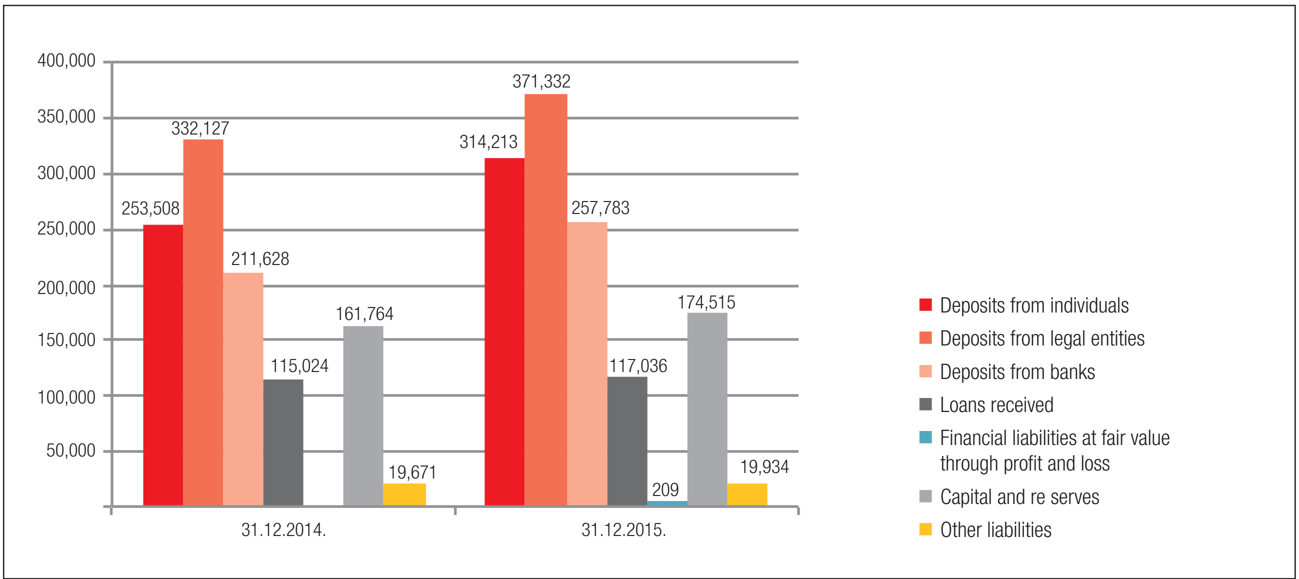
In total net loans structure, 55.1% relate to loans to legal entities (2014: 50.9%), and 44.9% to loans to individuals (2014: 49.1%).

Loans disbursed to legal entities increased by BAM 104,7 mln or 29.1% vs. the end of previous year, while loans disbursed to individuals grew by BAM 30,5 mln or 8.8% compared to previous year.

Liabilities

Banks' liabilities structure as at December 31, 2015 vs. the end of 2014 is shown below:

Liabilities structure in BAM 000



Deposits and loans taken from banks and customers

Total deposits and loans from banks and customers as at December 31, 2015 amounted to BAM 1 060,4 mln (2014: BAM 912,3 mln), which is by BAM 148,1 mln or 16.2% more than the balance at the end of the previous year.

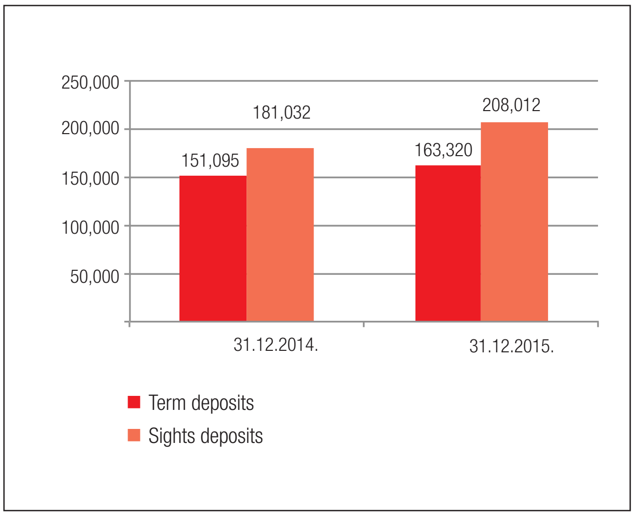
Deposits from banks amounted to BAM 258 mln, and increased by 21.8% or BAM 46,3 mln vs. the end of previous year.

Deposits from customers amount to BAM 686 mln and increased by 17.1% or BAM 100 mln compared to previous year level.

Deposits from legal entities at the end of 2015 amounted to BAM 371,3 mln, which is by 11.8% or BAM 39,2 mln higher y/y. Share of legal entities deposits in total customers deposits was 54,2%.

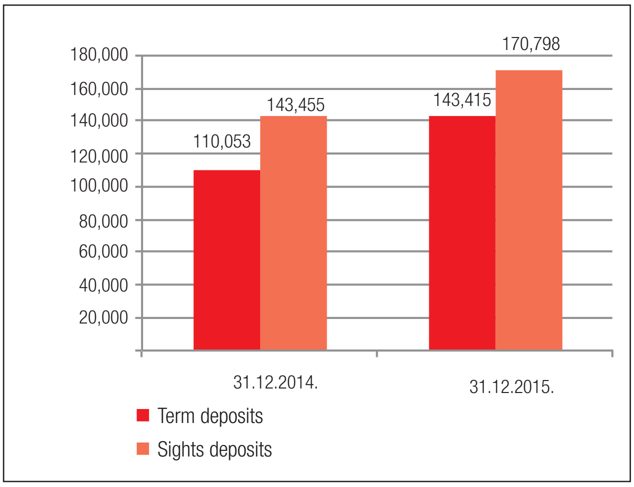
Sight deposits from legal entities make up 56%, while term deposits account for 44% of total legal entities deposits.

Deposits from legal entities in BAM 000



Deposits from individuals amounted to BAM 314,2 mln, increasing by 23.9% or BAM 60,7 mln compared to previous year, with 45.8% share in total customer deposits. Regarding their term structure, sight deposits make up 54.4% of total deposits from individuals, while 45.6% is in the form of term deposits.

Deposits from individuals in BAM 000



Liabilities on the basis of loans received from customers at the end of 2015 amounted to BAM 68,6 mln which is by BAM 8,3 mln or 10.8% lower vs. the end of previous year, while liabilities based on loans received from banks amounted to BAM 48,4 mln which is by BAM 10,3 mln or 27.0% higher vs. the end of 2014.

Share capital and reserves

Bank's equity amounted to BAM 174,5 mln and increased by BAM 12.7 mln or 8% compared to previous year. Change in capital is the result of including current year net profit in amount of BAM 21,4 mln and dividend payout in amount of BAM 8,9 mln.

Capital adequacy ratio was at 18.3% (2014: 19.9 %), well above regulatory minimum of 12%.

Bank Management and Governance Organization

Shareholders' Meeting of the Bank

The Shareholders' Meeting of the Bank is the Bank's supreme managing body. The Shareholders' Meeting of the Bank consists of the Bank's shareholders.

The Shareholders' Meeting method of functioning and decision-making is regulated by the Rules of Procedure of the Shareholders' Meeting of the Bank.

Annual Report on Business Operations will be submitted to the Shareholders' Meeting of the Bank.

As of 31 December 2015, the Bank had 66 shareholders; the majority shareholder is UniCredit Bank Austria AG with 136.469 shares, which represents an equity stake of 98.43%.

Bank's share capital amounts to BAM 97,055,000.00 and it is divided into 138.650 ordinary "B" class shares (with nominal value of BAM 700.00 per share).

An ordinary share gives its holder inter alia the right to participate and vote in the Shareholders' Meeting of the Bank, so that one share always entitles to one vote, right to dividend payment, right to dispose with shares in compliance with law and other rights defined by law which define operations of companies and decision on issue of shares.

Supervisory Board

The Supervisory Board supervises the Bank's operations and work of the Management, it shapes business policy, passes Bank's general by-laws, issues business and other policies and procedures, and decides on the issues defined by law, Articles of Association and Bank's other rules and regulations.

The Supervisory Board of the Bank consists of seven members elected to a four-year term by shareholders at the Shareholders' Meeting.

The Supervisory Board method of functioning and decision-making is regulated by the Rules of Procedure of the Supervisory Board of the Bank.

As of 31 December 2015 members of the Supervisory Board of the Bank are:

1.	Mr. Miljenko Živaljić	President	Zagrebačka banka d.d., Zagreb, Croatia
2.	Mr. Romeo Collina	Deputy President	Zagrebačka banka d.d., Zagreb, Croatia
3.	Ms. Dijana Hrastović	Member	Zagrebačka banka d.d., Zagreb, Croatia
4.	Ms. Jasna Mandac	Member	Zagrebačka banka d.d., Zagreb, Croatia
5.	Mr. Helmut Haller	Member	UniCredit Bank Austria AG, Vienna, Austria
6.	Mr. Martin Klauzer	Member	UniCredit Bank Austria AG, Vienna, Austria
7.	Mr. Heinz Karl Tschiltsch	Member	UniCredit Bank Austria AG, Vienna, Austria

Management of the Bank

The Management of the Bank organizes, works and manages operations of the Bank.

The Management of the Bank is composed of the Managing Director (CEO) and Executive Directors, appointed by the Supervisory Board of the Bank to a four-year term, with prior consent of the Banking Agency of Republika Srpska.

The CEO chairs the Management of the Bank, is in charge of the Bank`s business operations, represents and acts on behalf of the Bank and is liable for compliance of the Bank`s business operations with the applicable laws.

The Management method of functioning and decision-making is regulated by the Rules of Procedure of the Management of the Bank.

As of 31 December 2015 members of the Management of the Bank are:

1. Mr. Dalibor Ćubela	CEO
2. Mr. Slaven Rukavina	Executive Director for Retail Banking
3. Mr. Siniša Adžić	Executive Director for Corporate and Investment Banking
4. Ms. Sandra Vojnović	Executive Director for Finance management/CFO

Audit Committee of the Bank

The Audit Committee of the Bank is responsible to oversee the implementation and hiring of an external audit house which perform audit of financial reports as well as to oversee the operations of the internal audit including control of the annual statement of accounts. The Audit Committee consists of 5 members who are appointed by the Supervisory Board for a period of 4 years.

The Audit Committee method of functioning is regulated by the Rules of Procedure of the Audit Committee of the Bank.

As of 31 December 2015 members of the Audit Committee of the Bank are:

1.	Mr. Danimir Gulin	President
2.	Ms. Marijana Brcko	Deputy President
3.	Mr. Hrvoje Matovina	Member
4.	Mr. Christian Pieschel	Member
5.	Ms. Angelika Glavanovits	Member

Employees

At the end of 2015, the Bank had 410,3 FTE (427 HC). The recruitment procedures are in place, which define the process, standards and criteria for employment in the Bank. The Bank is constantly working on improving the knowledge and competences of all employees, through the planning and implementation of training and other types of development activities, using all available resources: e-learning, knowledge sharing (within the group), mentoring, coaching. In developmental activities focus is on the sales staff, managers and young, high potential employees, identified as talents. Through the system of performance appraisal management, Bank promotes the culture of communication and feedback, all with the aim of improving individual performance and the overall performance of the Bank. We are aware of fast and frequent changes in the market, and through these development activities we are trying to adapt to changes, competition and technological innovation. We are interested in employee satisfaction, and through regular survey we get feedback from all employees, based on which we are planning activities for improvement. We promote a culture of equal opportunities for all, and regularly publish internal vacancies through which we encourage internal mobility, and provide opportunities for personal growth and development.

Rewarding employee performance

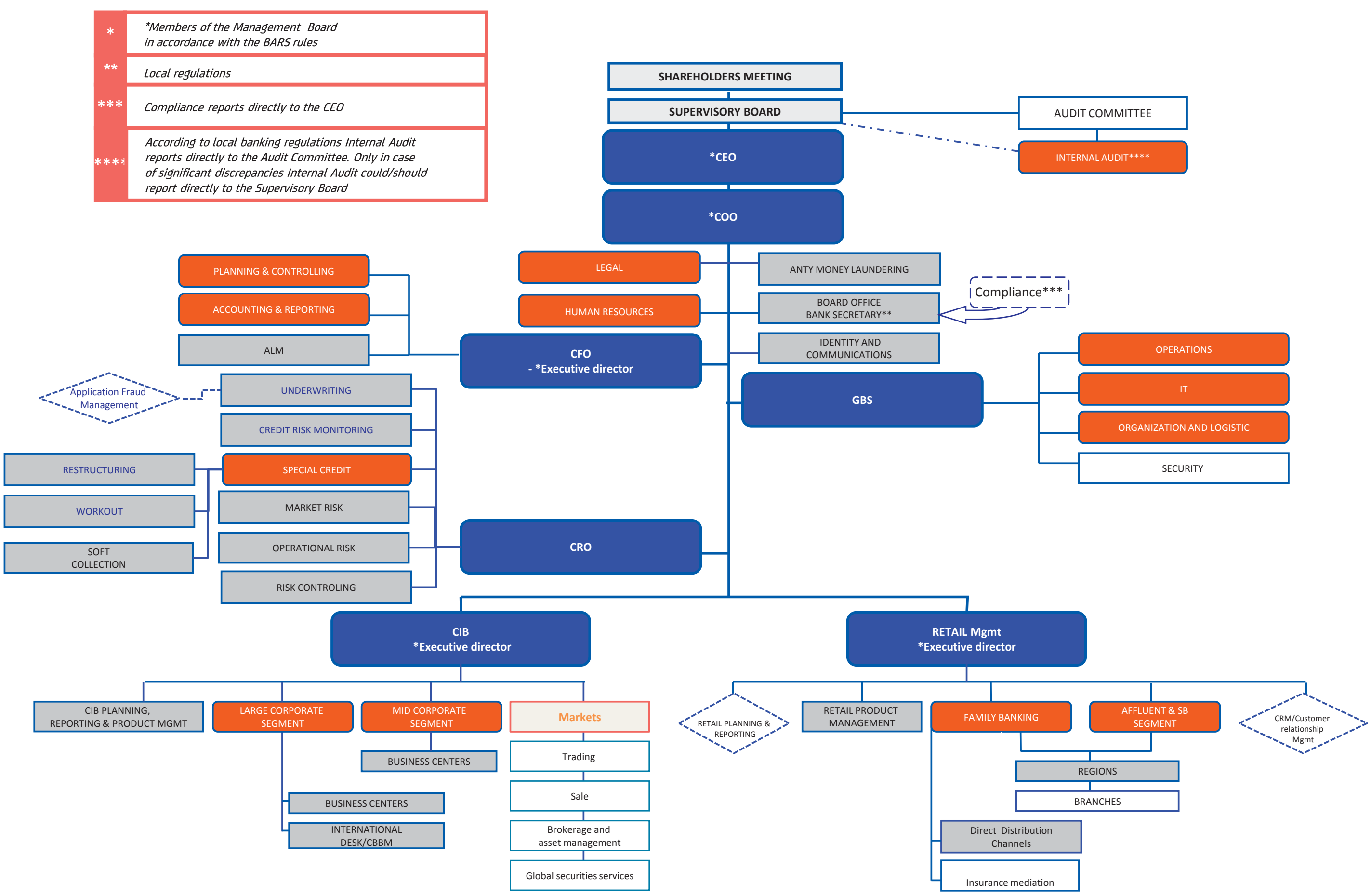
The Bank compensation approach is performance-oriented, market-aware and aligned with business strategy and stakeholder interests. It includes financial but also non financial rewards and motivation, such as Learning and Career Opportunities

The Bank insures that fixed compensation remunerates the role covered and scope of responsibilities, reflecting the experience and skills required for each position and the level of excellence demonstrated. Approach of equal pay for equal job is cultivated, so there is no gender pay gap, or gap based on age differences.

Variable compensation remunerates achievements by linking pay to performance outcomes in the short and long term, strengthening the alignment of shareholders interest and the interest of management and employees. Bonus pool is directly linked to business performance.

Compensation System is continuously revised, updated and adjusted with applicable regulatory requirements that limit risk taking to a level that does not exceed a level acceptable to the Bank.

Organisational structure of the Bank as of 31 December 2015



I know it's not the best time, but I need to check my finances.

Let's talk about financial advice anywhere, anytime.

Imagine you are in the middle of a ski holiday. Everything is beautiful and the conditions are just right. You feel like you don't have a single worry in the world. But suddenly a thought comes along to disturb your peace: Did you forget to settle your financial business last week?

That's exactly what happened to Nico. During his first romantic holiday with Emma, he realized that this little banking detail was driving him crazy, and spoiling the fun. And he thought to himself: "You know what would be really useful right now? A bank manager I can call or, even better, text."

No sooner said than done.

Thanks to SmartBanking in Austria, it's possible to bring the branch to you. Whether at home with your laptop or on the go with your mobile phone, SmartBanking enables you to manage your finances in the most convenient way for you.

Relationship managers will give advice quickly and conveniently, by any possible method you want, from SMS to video chat. So now answers that you need on every possible financial topic, from taking out a loan to explaining your banking transactions, are at your fingertips.

That means we can help you save for your holiday, and save your holiday.

Deloitte.

Deloitte d.o.o. Banja Luka
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78000 Banja Luka
Republic of Srpska
Bosnia and Herzegovina

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Fax: +387 (0) 51 224 990
www.deloitte.com

Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements (page 2 to 68) of UniCredit Bank a.d., Banja Luka (hereinafter the "Bank"), which comprise the statement of financial position as of December 31, 2015 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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, 2015, 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 11, 2016

Financial Statements

Financial Statements for the Year Ended December 31, 2015

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year Ended December 31, 2015 BAM '000	2014 BAM '000
Interest income	6	62,426	57,514
Interest expenses	7	(15,901)	(13,797)
Net interest income		46,525	43,717
Fee and commission income	8	14,167	13,834
Fee and commission expenses	9	(2,252)	(1,659)
Net fee and commission income		11,915	12,175
Dividend and profit sharing income	10	10	7
Net foreign exchange gains upon translation of monetary assets and liabilities	11	1,324	1,370
Gains/(losses) on investments		9	(8)
Total operating income		59,783	57,261
Personnel expenses	12	(15,115)	(13,953)
Depreciation/amortization charge	22,23	(3,068)	(3,664)
Other expenses	13	(11,564)	(10,950)
Total operating expenses		(29,747)	(28,567)
Profit before impairment and provisions		30,036	28,694
Net impairment losses and provisions for credit risks	14	(6,236)	(8,191)
Provisions for risks and expenses	15	(346)	(619)
Other expenses		(150)	(255)
Profit before taxes		23,304	19,629
Income tax expense	16	(1,928)	(1,927)
Profit for the year		21,376	17,702
Other comprehensive income, net of income tax			
Items that may subsequently be reclassified to profit and loss			
- Gains / (losses) on the financial assets available for sale		226	(252)
Total comprehensive income for the year		21,602	17,450
Basic and diluted earnings per share (in BAM)	31	154,17	127,68

These financial statements were approved by the Bank's Management as at February 9, 2016.

Signed on behalf of UniCredit Bank a.d., Banja Luka by:

Dalibor Ćubela

CEO

Sandra Vojnović

CFO

STATEMENT OF FINANCIAL POSITION
as of

	Note	December 31, 2015 BAM '000	December 31, 2014 BAM '000
Assets			
Cash and cash equivalents	17	77,768	69,883
Obligatory reserve held with the Central Bank	18	57,816	51,174
Loans and receivables due from banks	19	111,386	117,139
Financial assets available for sale	21a	144,261	129,106
Financial assets at fair value through profit or loss		548	385
Loans and receivables due from customers	20	840,401	704,956
Financial assets held to maturity	21b	0	36
Property and equipment	22	16,345	16,265
Intangible assets	23	3,424	1,957
Other assets	24	3,012	2,733
Deferred tax assets	29	61	88
Total assets		1,255,022	1,093,722
Liabilities			
Deposits and borrowings due to banks	25	306,213	249,758
Deposits and loans due to customers	26	754,151	662,529
Financial liabilities at fair value through profit or loss		209	-
Other liabilities	27	17,726	17,097
Provisions for liabilities and expenses	28	2,207	2,546
Income tax payable		1	28
Total liabilities		1,080,507	931,958
Equity and reserves			
Share capital	30	97,055	97,055
Share premium		373	373
Regulatory reserve for credit losses	4a	3,496	3,496
Fair value reserve		(441)	(667)
Legal reserve		9,706	9,706
Other reserves from profit		17,362	8,511
Retained earnings		25,588	25,588
Net profit for the year		21,376	17,702
Total equity and reserves		174,515	161,764
Total liabilities, equity and reserves		1,255,022	1,093,722

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	**Regulatory reserve** for credit losses	**Fair value reserve**	Legal **reserve**	Other **reserves from profit**	Retained earnings	**Net profit** for the **year**	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Balance as at January 1, 2014	97,055	373	12,007	(415)	5,854	-	12,622	16,817	144,313
Share capital increase	-	-	-	-	3,852	-	12,966	(16,817)	1
Profit distribution	-	-	(8,511)	-	-	8,511	-	-	-
Net profit for the year	-	-	-	-	-	-	-	17,702	17,702
Other comprehensive income									
Net losses from changes in fair value of financial assets available for sale	-	-	-	(252)	-	-	-	-	(252)
Total other comprehensive income	-	-	-	(252)	-	-	-	-	(252)
Total comprehensive income	-	-	-	(252)	-	-	-	17,702	17,450
Balance as at 31 **December 2014**	97,055	373	3,496	(667)	9,706	8,511	25,588	17,702	161,764
Balance as at January 1, 2015	97,055	373	3,496	(667)	9,706	8,851	25,588	17,702	161,764
Profit distribution	-	-	-	-	-	8,851	8,851	(17,702)	-
Dividend payment (note 31)	-	-	-	-	-	-	(8,851)	-	(8,851)
Net profit for the year	-	-	-	-	-	-	-	21,376	21,376
Other comprehensive income									
Net gains on changes in fair value of financial assets available for sale	-	-	-	226	-	-	-	-	226
Total other comprehensive income	-	-	-	226	-	-	-	-	226
Total comprehensive income	-	-	-	226	-	-	-	21,376	21,602
Balance as at **December 31, 2015**	97,055	373	3,496	(441)	9,706	17,362	25,588	21,376	174,515

STATEMENT OF CASH FLOWS
for the year

		Year Ended December 31,	
	Note	2015 BAM '000	2014 BAM '000
Cash flows from operating activities			
Profit before taxes		23,304	19,629
Adjustments:			
- depreciation and amortization	22,23	3,068	3,695
- net impairment losses and provisions for credit risks	14	6,236	8,191
- net increases in provisions for liabilities and expenses	15	346	619
- net foreign exchange gains	11	(1,324)	(1,370)
- losses on investments		9	213
Changes in operating assets and liabilities			
Increase / (decrease) in loans and receivables due from banks		5,753	(19,480)
Increase in loans and receivables due from customers		(141,329)	(40,043)
Increase in accrued interest and other assets		(333)	(1,669)
Increase in obligatory reserve held with the Central Bank		(6,642)	(10,199)
Increase / (decrease) in deposits due to banks		56,455	(2,270)
Increase in deposits due to customers		91,622	129,648
Increase in other liabilities		1,382	4,681
Net cash generated by operating activities before taxes		38,547	91,645
Income taxes paid		(1,927)	(2,163)
Net cash generated by operating activities		36,620	89,482
Cash flows from investing activities			
Purchases of property, equipment and intangible assets	22,23	(4,794)	(2,416)
Increase in financial assets available for sale		(15,155)	(58,664)
Decrease in financial assets held to maturity		36	69
Capital decrease - dividend payment		(8,822)	-
Net cash used in investing activities		(28,735)	(61,011)
Net increase in cash and cash equivalents		7,885	28,471
Cash and cash equivalents at the beginning of year	17	69,883	41,412
Cash and cash equivalents at the end of year	17	77,768	69,883

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 1911 and establishment of the Monetary Institute which subsequently developed into the Bank for Trade and Crafts. In the following 60 years, numerous transformations and changes of names under which the Bank operated were made: in 1956, District – Communal Bank [Sreska komunalna banka], in 1961, Municipal Bank [Komunalna banka], and in 1966, Credit Bank. By the reform of the banking system in 1971, the Credit Bank was merged by the Commerce Bank Sarajevo as its branch, and in 1976 it obtained a high degree of autonomy and was registered as the Basic Bank. Under the Decision of the Founder Assembly in December 1989 the Bank was spun off from the Commerce Bank Sarajevo system into an independent bank, under the name 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. Having purchased a package of shares at the end of 2005, Bank Austria Creditanstalt AG Vienna became the majority owner of the Bank with an 83.3% equity interest. By further purchases of shares and increase in share capital, Bank Austria increased its equity interest to 98.43 % of the total capital of the Bank.

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 had the name UniCredit Bank a.d. Banja Luka.

As at December 31, 2015, the Bank consisted of the Head Office in Banja Luka with the registered address at no. 7, Marije Bursać Street, 31 branch offices and 5 agencies (December 31, 2014: 32 branch offices and 5 agencies). As at December 31, 2015, the Bank had 431 employees (2014: 442 employees).

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

2. BASIS OF PREPARATION AND PRESENTATION OF THE SEPARATE 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

New amendments to the existing Standards effective for current financial period

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) have been effective over the current period:

- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after January 1, 2014);
- Amendments resulting from Annual Improvements 2010-2012 Cycle issued in December 2013 (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014); and
- Amendments resulting from Annual Improvements 2011-2013 Cycle issued in December 2013 (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014).

2. BASIS OF PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

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

New amendments to the existing Standards effective for current financial period (Continued)

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 existing Standards in issue not yet adopted

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016),
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018),
- 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 was deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),

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

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

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 the revaluation of certain fixed assets and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained 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.

2. BASIS OF PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.3. Basis of Preparation and Presentation of the Financial Statements (Continued)

In preparing the statement of cash flows for the year ended December 31, 2015, 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 fix pegged to EUR at the rate of BAM 1 = EUR 0.51129, which was used for 2015 and 2014.

2.5. Comparative Financial Information

In order to achieve consistency with the current period presentation, the Bank made certain reclassifications of comparative financial information for 2014, as explained hereafter. The aforesaid reclassifications have no impact on the Bank's result or equity.

Statement of Profit and Loss and Other Comprehensive Income

- Depreciation/amortization charge for leasehold improvements in the amount of BAM 31 thousand was reclassified from the item of depreciation/amortization charge (Note 22.23) to the item of other charges
- Other expenses, rental income, the cost of office supplies - drafts and expenses from direct write-off of receivables reclassified the item of other expenses (Note 13) to the item of other charges

Statement of financial position

- Prepayments – daily accrual of interest on securities in the amount of BAM 1,252 thousand was reclassified from the item of other assets (Note 24) to the item of assets available for sale (Note 21a).
- Other receivables and other liabilities – forward and swap transactions in the amount of BAM 385 thousand were reclassified from the item of other assets (Note 24) to the item of financial assets held for trading.
- Leasehold improvements in the amount of BAM 126 thousand were reclassified from property and equipment (Note 22) to other assets (Note 24)

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 and 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 disbursement or payment 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1. Interest Income and Expenses (continued)

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 Expense

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 and loss and other comprehensive income upon performance of the relevant service.

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

Net FX gains and losses arising on translation of monetary assets and liabilities include unrealized and realized 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 profit and loss, except in the case of FX gains and losses arising on non-monetary available-for-sale financial assets, which are recognized in 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.

3.5. 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 reconciling income and expenses 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 base of assets and liabilities and their carrying value 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 value of the assets or liabilities is expected, based on the tax rate 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 carrying value 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 value of recognized deferred tax assets for impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 profit or loss (FVTPL), and other financial liabilities. Management determines the classification of financial instruments at the moment of initial recognition and reviews initial classification at each reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payment 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 due 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 of time, 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.

Financial assets and financial liabilities at fair value through the 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 held for trading or designated at fair value through profit or loss 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 profit or loss are recognized as at the trading date.

Financial assets and liabilities are initially recognized at fair value increased by financial assets and financial liabilities other than classified as at fair value through profit or loss and transaction costs that are directly attributable to the acquisition or issue of the financial instruments.

(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 the 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 the Bank performs revaluation of all securities in its portfolio thereby adjusting the balances of securities to their fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

Measurement (Continued)

(b) Available-for-Sale Financial Assets (Continued)

Special attention upon revaluation is paid to debt securities portfolio, which comprises a significant portion of the Bank's assets as of December 31, 2015 and revaluation is calculated based on two grounds:

- based on interest risk, i.e. risk of change to the market interest rate (IR-delta) which is more manifest in instruments with fixed yield, and
- based on liquidity risk, i.e. risk of inability to efficiently liquidate securities portfolio at quoted market prices and within reasonable time period (liquidity adjustment), which is more manifest in smaller and insufficiently developed markets.

(c) Financial Assets and Financial Liabilities at Fair Value through Profit or Loss

Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value. All transaction costs are immediately expensed within profit or loss. Subsequent measurement is also at fair value.

(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.

Recognition of Gains and Losses on Subsequent Measurement of Financial Instruments

Interest accrued using effective interest rate is recognized in profit or loss.

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognized in profit or loss. Gains and losses arising from changes in the fair value of available-for-sale monetary 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 effect of change in fair market value, 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 in equity. Impairment losses, interest income and amortization of premium or discount using the effective interest method on AFS debt securities are recognized in profit or loss. Dividend income on AFS equity securities is recognized in the statement of comprehensive income 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 the 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 of loans as a result of one or more events which took place after the assets recognition (loss implying event), with the event(s) also affecting the estimated future cash flows, which can be reliably estimated.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

Impairment of Financial Assets (Continued)

1) Loans and Receivables (Continued)

Objective evidence of impairment can include the following:

- Significant financial difficulties of a client,
- Irregular settlement of obligations for principal and interest past due, 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,
- Possibility of bankruptcy, liquidation or any other form of financial reorganization,
- Data available which implicate measurable decrease in estimated future cash flows for a group of financial assets after their initial recognition, even though the decrease has not yet been identified for certain assets within the group.

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 assets. The carrying value of the assets is decreased by the amount of credit loss provision, and the amount of the loss is recognized in profit or loss. If loans and receivables have a variable interest rate, the discount rate represents the current effective interest rate determined by an agreement at the moment when impairment has occurred.

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

In November 2015 the Bank implemented a client-centered approach for retail loans where the manner of determining the default status was changed from the transaction-centered approach to the debtor level approach, which resulted in increase in impairment allowance of the retail portfolio and provisions per off-balance sheet items against provisions for risks for the current year in the amount of BAM 2,510 thousand. This change to the aforesaid accounting estimate is immaterial and we cannot anticipate effects thereof on the future accounting periods.

If a loan cannot be collected and all 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 profit or loss. 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 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 and provisions calculated in compliance with IFRS requirements and initial balance of regulatory reserves, such difference represents shortfall regulatory reserves for credit losses by which net capital is decreased at calculation of capital adequacy ratio.

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 exist 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 profit or loss, is removed from other comprehensive income and recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

Impairment of Financial Assets (Continued)

2) Available-for-Sale Financial Assets (Continued)

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 in profit or loss, the impairment loss is reversed through the statement of comprehensive income. However, any additional increase of the fair value of debt instruments available for sale, whose value was previously impaired, is recognized directly in other comprehensive income.

3) Financial Assets Held to Maturity

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

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 / ceded by the Bank or when the liability ceases to exist.

The Bank derecognizes financial liabilities only when the 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 estimation (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, prices of indices and modifications and 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 estimated 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 Estimation 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.

Instruments classified in this category rely on factors unavailable at the market yet significantly affecting the instruments' fair values.

3.SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

Fair Value Measurement Principles (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 to hedge economically its exposure 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 17).

d) Loans and Receivables due from Banks

Loans and advances to 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.

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 liabilities and are recognized initially at fair value less transaction costs and subsequently stated at amortized cost using the effective interest method.

3.SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

Specific Instruments (Continued)

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 comprehensive income during the period in which they are incurred.

(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 life are reviewed at each reporting date.

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

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

	2015	2014
Buildings	2% - 5%	2% - 5%
Electronic equipment	12.5% - 25%	12.5% - 25%
Office furniture and equipment	12.5% - 20%	12.5% - 20%
Other	12.5% - 25%	12.5% - 25%
Leasehold improvements	20%	20%

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

	2015	2014
Intangible assets – software and licenses	20% - 25%	20% - 25%

3.9. Impairment of Non-Financial Assets

The net carrying values of intangible assets in progress and intangible assets with an 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 profit and loss whenever the carrying amount of an asset exceeds its recoverable amount.

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 cash generating assets, 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, considering amortization, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Equity (Continued)

Reserves from Profit

Reserves from profit were formed through the distribution of net profit 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 a minimum of 5% of their annual profit to reserves from profit until the amount of such reserves reaches the level of 10% of the shareholding company's share capital. The Law does not define the deadline up to which the shareholding companies are required to form the amount of reserves of at least 10% of the share 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, in the future, 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.

Fair Value Reserve

The fair value reserve represents the change 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.

Retained Earnings

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

3.12. Commitments and Contingent Liabilities

In the regular course of business the Bank enters into commitments which are recorded off-balance sheet and primarily comprise guarantees, letters of credit, undrawn frame loan facilities commitments 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

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 which are subject to risks and benefits different from those operating in other economic environments.

The Bank has identified three main segments: Retail, Corporate and Investment Banking 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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Employee Benefits

a) Employee Salaries

Gross salary costs and mandatory social security contributions are charged to 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 as personnel costs in profit or loss upon payroll calculation.

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 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 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 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 evaluated 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 represents 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.

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 value of loans to corporate and 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 (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 exposures where there is objective evidence of impairment. Assets which are not significant are assessed on a group (portfolio) basis for impairment.

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 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 corporate and retail exposures, the Bank determines the default status at the debtor level taking into account all the debtor's exposures and the defined materiality threshold.

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.

The Bank estimates impairment losses in cases where it estimates 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.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Impairment Losses on Loans and Receivables (Continued)

	Note	December 31, 2015 BAM '000	December 31, 2014 BAM '000
Breakdown of impairment allowances (IFRS)			
Impairment allowance for loans to customers	20b	64,072	61,657
Provisions for off-balance sheet contingent liabilities	27	1,512	1,381
		65,584	63,038
Impairment allowance for interest and fee receivables	20a	3,350	3,371
Impairment allowance for other assets	24	521	520
Impairment of available-for-sale financial assets		699	965
Total loans and receivables		70,154	67,894

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 and included in the capital adequacy calculation.

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

	December 31, 2015 BAM '000	December 31, 2014 BAM '000
Breakdown of impairment allowances (BARS)		
Impairment allowance for loans to customers	72,891	76,009
Provisions for off-balance sheet contingent liabilities	3,755	3,162
	76,646	79,171
Impairment allowance for interest and fee receivables	3,393	3,451
Impairment allowance for other assets	750	670
Total loans and receivables	80,789	83,292

Regulatory reserve for credit losses:

	December 31, 2015 BAM '000	December 31, 2014 BAM '000
Impairment allowances under BARS	80,789	83,292
Impairment allowances under IFRS	(70,154)	(67,894)
Opening balance of regulatory reserve	(3,496)	(3,496)
Shortfall regulatory reserve for capital adequacy calculation	7,139	11,902

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 are data required to estimate impairment is limited.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

a) Impairment Losses on Loans and Receivables (Continued)

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, 2015 BAM '000			**December 31, 2014** BAM '000
	Corporate	Retail	Total	Corporate	Retail	Total
Gross exposure	47,273	26,092	73,365	56,090	21,093	77,183
Impairment	34,311	20,651	54,962	35,795	17,636	53,431
Impairment rate	72.6%	79.1%	74.9%	63.8%	83.6%	69.2%

Each additional increase in the impairment rate of 1 percentage point of the gross non-performing exposure presented above as at December 31, 2015, would have resulted in the recognition of an additional impairment loss of BAM 734 thousand (2014: BAM 772 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 which are known to exist at the reporting date, but which have not yet been specifically recognized (IBNR, portfolio impairment).

The amount of IBNR as at December 31, 2015 assessed on a portfolio basis amounted to BAM 9,110 thousand (2014: BAM 8,226 thousand) of the relevant on and off-balance sheet exposure. Total IBNR provision amounted to 1.1 % (2014: 1.2%) 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.

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 Workout Department. Proposals for provisions after the assessment are verified by the managers of Legal Affairs and Risk Management, and the decision on creating the provisions is made by the Bank's Management Board.

There are 25 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 1,956 thousand (2014: BAM 2,291 thousand) , out of which the amount of BAM 295 thousand (2014: BAM 339 thousand) relates to labor suits, and BAM 1,661 thousand (2014: BAM 1,952 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 business results 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.

Statement of Profit and Loss and Other Comprehensive Income by Segment

	Corporate & Investment Banking	Retail	Other	Total	Adjustments	Total Notes
Year Ended December 31, 2015	BAM ’000	BAM ’000	BAM ’000	BAM ’000	BAM ’000	BAM ’000
Net interest income	18,877	22,610	5,038	46,525	-	46,525
Net fee and commission income	3,249	9,091	(425)	11,915	-	11,915
Dividend and profit sharing income	-	-	10	10	-	10
Net foreign gains / losses on translation of monetary assets and liabilities	623	702	9	1,334	(10)	1,324
Other operating income/charges*	(87)	21	(21)	(87)	87	-
Gains/losses on investments	-	-	-	-	9	9
Total operating income	22,662	32,424	4,611	59,697	86	59,783
Total operating expenses	(5,027)	(23,360)	-	(28,387)	(1,360)	(29,747)
Profit before impairment and provisions	17,635	9,064	4,611	31,310	(1,274)	30,036
Net impairment losses / gains and provisions for credit risk	(1,423)	(4,809)	-	(6,232)	(4)	(6,236)
Provisions for risks and costs	(780)	(977)	-	(1,757)	1,411	(346)
Impairment losses on property and equipment	-	-	(17)	(17)	17	-
Other charges	-	-	-	-	(150)	(150)
Profit before tax	15,432	3,278	4,594	23,304	-	23,304
Income tax expense	(1,277)	(271)	(380)	(1,928)	-	(1,928)
Profit for the year	14,155	3,007	4,214	21,376	-	21,376
Other comprehensive income, net of income tax						
Net changes in fair value reserves	-	-	226	226	-	226
Total comprehensive income for the year	14,155	3,007	4,440	21,602	-	21,602

5. SEGMENT REPORTING (Continued)

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

	Corporate & **Investment** Banking	Retail	Other	Total	Adjustments	Total Notes
Year Ended December 31, 2014	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Net interest income	15,414	21,239	7,064	43,717	-	43,717
Net fee and commission income	3,084	9,460	(368)	12,176	(1)	12,175
Dividend and profit sharing income	-	-	7	7	-	7
Net foreign gains / losses on translation of monetary assets and liabilities	707	663	-	1,370	-	1,370
Other operating income/charges*	-	-	-	-	-	-
Gains/losses on investments	-	-	-	-	(8)	(8)
Total operating income	19,205	31,362	6,703	57,270	(9)	57,261
Total operating expenses	(5,358)	(23,222)	(38)	(28,618)	51	(28,567)
Profit before impairment and provisions	13,847	8,140	6,665	28,652	42	28,694
Net impairment losses / gains and provisions for credit risk	(5,467)	(2,724)	-	(8,191)	-	(8,191)
Provisions for risks and costs	(545)	(74)	-	(619)	-	(619)
Impairment losses on property and equipment	-	-	-	-	-	-
Other charges	-	-	(213)	(213)	(42)	(255)
Profit before tax	7,835	5,342	6,452	19,629	-	19,629
Income tax expense	(788)	(513)	(626)	(1,927)	-	(1,927)
Profit for the year	7,047	4,829	5,826	17,702	-	17,702
Other comprehensive income, net of income tax						
Net changes in fair value reserves	-	-	(252)	(252)	-	(252)
Total comprehensive income for the year	7,047	4,829	5,574	17,450	-	17,450

*Segment report line item

Income and results per segment presented in the tables above (for the years ending December 31, 2015 and 2014) 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, 2015	Corporate & **Investment** Banking BAM '000	Retail BAM '000	Other BAM '000	Total BAM '000	Adjustments BAM '000	Total Notes BAM '000
Assets						
Cash and cash equivalents	-	-	77,768	77,768	-	77,768
Obligatory reserve with the Central Bank	-	-	57,816	57,816	-	57,816
Loans and receivables due from banks	-	-	111,386	111,386	-	111,386
Financial assets available for sale	100,927	-	43,334	144,261	-	144,261
Financial assets at fair value through profit or loss	-	-	548	548	-	548
Loans and receivables due from customers	431,006	409,395	-	840,401	-	840,401
Financial assets held to maturity	-	-	-	-	-	-
Property and equipment	-	-	16,345	16,345	-	16,345
Intangible assets	-	-	3,424	3,424	-	3,424
Other assets	-	-	3,012	3,012	-	3,012
Deferred tax assets	-	-	61	61	-	61
Total assets	531,933	409,395	313,694	1,255,022	-	1,255,022
Liabilities						
Deposits and loans due to banks	-	-	306,213	306,213	-	306,213
Deposits and loans due to customers	397,137	357,014	-	754,151	-	754,151
Financial liabilities at fair value through profit or loss	-	-	209	209	-	209
Other liabilities	-	-	17,726	17,726	-	17,726
Provisions for liabilities and costs	-	-	2,207	2,207	-	2,207
Current income tax expense	-	-	1	1	-	1
Deferred income tax expense	-	-	-	-	-	-
Total liabilities	397,137	357,014	326,356	1,080,507	-	1,080,507
Share capital and reserves	-	-	153,139	153,139	-	153,139
Net profit for the year	14,155	3,007	4,214	21,376	-	21,376
Total equity and reserves	14,155	3,007	157,353	174,515	-	174,515
Total liabilities, equity and reserves	411,292	360,021	483,709	1,255,022	-	1,255,022

5. SEGMENT REPORTING (Continued)

Statement of Financial Position by Segment (Continued)

As of December 31, 2014	Corporate & **Investment** Banking BAM '000	Retail BAM '000	Other BAM '000	Total BAM '000	Adjustments BAM '000	Total Notes BAM '000
Assets						
Cash and cash equivalents	-	-	69,883	69,883	-	69,883
Obligatory reserve with the Central Bank	-	-	51,174	51,174	-	51,174
Loans and receivables due from banks	-	-	117,139	117,139	-	117,139
Financial assets available for sale	111,518	-	16,336	127,854	1,252	129,106
Financial assets at fair value through profit or loss	-	-	-	-	385	385
Loans and receivables due from customers	317,727	387,229	-	704,956	-	704,956
Financial assets held to maturity	36	-	-	36	-	36
Property and equipment	-	-	16,391	16,391	(126)	16,265
Intangible assets	-	-	1,957	1,957	-	1,957
Other assets	-	-	4,244	4,244	(1,511)	2,733
Deferred tax assets	-	-	88	88	-	88
Total assets	429,281	387,229	277,212	1,093,722	-	1,093,722
Liabilities						
Deposits and loans due to banks	-	-	249,758	249,758	-	249,758
Deposits and loans due to customers	372,133	290,396	-	662,529	-	662,529
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Other liabilities	-	-	17,097	17,097	-	17,097
Provisions for liabilities and costs	-	-	2,546	2,546	-	2,546
Current income tax expense	-	-	28	28	-	28
Deferred income tax expense	-	-	-	-	-	-
Total liabilities	372,133	290,396	269,429	931,958	-	931,958
Share capital and reserves	-	-	144,062	144,062	-	144,062
Net profit for the year	7,047	4,829	5,826	17,702	-	17,702
Total equity and reserves	7,047	4,829	149,888	161,764	-	161,764
Total liabilities, equity and reserves	379,180	295,225	419,317	1,093,722	-	1,093,722

6. INTEREST INCOME

a) Breakdown by source:

	Year Ended December 31,	
	2015 BAM ’000	2014 BAM ’000
Retail customers	28,464	27,400
Corporate customers and entrepreneurs	15,825	13,157
Banks and financial institutions	218	105
Public sector	17,919	16,852
	62,426	57,514

b) Breakdown by product/banking operation

	Year Ended December 31,	
	2015 BAM ’000	2014 BAM ’000
Loans and receivables due from customers	55,196	52,052
Loans and receivables due from banks	218	51
Obligatory reserve with the Central Bank	-	54
Debt securities	7,012	5,357
	62,426	57,514

7. INTEREST EXPENSES

a) Breakdown by recipient:

	Year Ended December 31,	
	2015 BAM ’000	2014 BAM ’000
Retail customers	4,859	3,991
Corporate customers and entrepreneurs	3,598	3,394
Banks and other financial institutions	4,021	2,331
Public sector	651	1,481
Other organizations	2,772	2,600
	15,901	13,797

b) Breakdown by product/banking operation

	Year Ended December 31,	
	2015 BAM ’000	2014 BAM ’000
Current accounts and deposits - retail	4,859	3,991
Current accounts and deposits - corporate	3,054	3,569
Current accounts and deposits - banks	3,500	1,849
Borrowings	1,716	1,788
Other	2,772	2,600
	15,901	13,797

8. FEE AND COMMISSION INCOME

	Year Ended December 31,	
	2015 BAM '000	2014 BAM '000
Domestic payment transactions	5,330	5,225
Foreign payment transactions	1,778	1,704
Payment of foreign pensions and remittances of individuals	1,550	1,625
Issuance of guarantees and other sureties	1,357	1,246
Card operations	1,302	1,183
Loan origination fees	995	1,052
Foreign exchange spot trading gains and cash operations	545	593
Other fees and commissions	1,310	1,206
	14,167	13,834

9. FEE AND COMMISSION EXPENSES

	Year Ended December 31,	
	2015 BAM '000	2014 BAM '000
Domestic payment transactions	453	394
Foreign payment transactions	148	129
Guarantees and other sureties received	43	17
Card operations	1,120	631
Cash operations	393	401
Loan origination/processing fees	47	26
Other fees and commissions	48	61
	2,252	1,659

10. DIVIDEND AND PROFIT SHARING INCOME

	Year Ended December 31,	
	2015 BAM '000	2014 BAM '000
Dividend income	10	7
	10	7

11. NET FOREIGN EXCHANGE GAINS UPON TRANSLATION OF MONETARY ASSETS AND LIABILITIES

	Year Ended December 31,	
	2015 BAM '000	2014 BAM '000
Foreign exchange gains	1,324	1,370
	1,324	1,370

12. PERSONNEL EXPENSES

	Year Ended December 31,	
	2015 BAM '000	2014 BAM '000
Fixed payments – gross salaries	12,446	11,789
Variable payments - bonuses	1,232	1,235
Other personnel costs	645	530
Severance pays and retirement benefits	632	312
Other costs (service contracts)	160	87
Total personnel expenses	15,115	13,953

Personnel expenses include contributions for pension and disability insurance paid in 2015 in the amount of BAM 2,690 thousand (2014: BAM 2,520 thousand).

13. OTHER EXPENSES

	Year Ended December 31,	
	2015 BAM '000	2014 BAM '000
Information & communication technology expenses	2,937	2,674
Sundry operational expenses	2,366	2,226
Real estate expenses	1,680	1,826
Consulting & professional services	1,255	1,125
Security and cash management	1,286	1,211
Advertising & marketing expenses	810	663
Back office expenses	638	558
Expenses related to personnel	312	350
Indirect taxes and duties	267	260
Credit risk expenses	13	57
	11,564	10,950

14. NET IMPAIRMENT LOSSES AND PROVISIONS FOR CREDIT RISK

	Year Ended December 31,	
	2015 BAM '000	2014 BAM '000
Loans and receivables due from customers (Note 20)	6,105	7,520
Off-balance sheet items (Note 27)	131	671
	6,236	8,191

15. PROVISIONS FOR RISKS AND EXPENSES

	Year Ended December 31,	
	2015 BAM '000	2014 BAM '000
Provisions for litigations	346	619
	346	619

16. INCOME TAXES

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

a) Income tax expense recognized within profit and loss

	Year Ended December 31,	
	2015 BAM '000	2014 BAM '000
Current income tax expense	1,928	1,927
Total	1,928	1,927

b) Reconciliation of income tax expense

	Year Ended December 31,	
	2015 BAM '000	2014 BAM '000
Profit before tax	23,303	19,629
Income tax at the rate of 10%	2,330	1,963
Income not subject to taxation	(786)	(570)
Impairment losses on loans and other assets and other expenses not deductible for tax purposes	770	919
Incremental effect of impairment losses on loans and other assets deductible for tax purposes (up to 20% of the adjusted tax base)	(386)	(385)
Income tax expense	1,928	1,927
Average effective income tax rate	8.27%	9.82%

Tax regulations stipulate that for the purpose of calculation of the tax base, a maximum of 20% of the adjusted tax base (profit for the period), which represents the difference between adjusted income and expenses before impairment of loans and other assets, may be taken as a taxable deductible expense in respect of charges for the impairment of loans and other assets.

Tax liabilities are recognized in accordance with the tax return prepared by the Bank. However, the Bank is 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, 2015 BAM '000	**December 31, 2014** BAM '000
Cash in domestic currency	11,748	9,308
Funds with the Central Bank – gyro account	61,263	53,169
Cash in foreign currencies	4,757	7,406
	77,768	69,883

18. OBLIGATORY RESERVE WITH THE CENTRAL BANK

	December 31, 2015 BAM '000	December 31, 2014 BAM '000
Obligatory reserve with the Central Bank in domestic currency	57,816	51,174
	57,816	51,174

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 valid over the calculation period).

The basis for calculation of obligatory reserve excludes:

- borrowed funds from non-residents,
- deposits and loans from governments and entities (residents) intended for development projects.

The Bank is 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.

In 2015, the Central Bank did not perform calculation and payment of interest on the funds the banks held on their reserve accounts as mandatory reserve or funds in excess of the mandatory reserve.

In the previous year the Central Bank paid interest on mandatory reserves at the interest rate which ranged from 0.007% to 0.147%; for the funds in excess of the mandatory reserves the interest rate ranged from 0.009% to 0.189%.

19. LOANS AND RECEIVABLES DUE FROM BANKS

	December 31, 2015 BAM '000	December 31, 2014 BAM '000
- foreign banks	104,930	113,504
- domestic banks	6,456	3,635
	111,386	117,139

Loans to and receivables from banks include the amount of BAM 39,095 thousand (2014: BAM 81,666 thousand) of loans to and receivables from related banks.

Loans and receivables from related banks include BAM 6,400 thousand which refers to the funds given as cash collaterals (2014: BAM 3,600 thousand).

20. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

a) Breakdown by product

	December 31, 2015 BAM '000	December 31, 2014 BAM '000
Corporate		
- in BAM	228,074	173,385
- in foreign currencies	128,233	121,131
- with foreign currency clause	147,678	106,281
Total gross	503,985	400,797
Impairment of loan principal amounts	(40,315)	(41,765)
	463,670	359,032
Retail		
- in BAM	152,048	132,004
- in foreign currencies	72	83
- with foreign currency clause	248,819	234,513
Total gross	400,939	366,600
Impairment of loan principal amounts	(23,757)	(19,892)
	377,182	346,708
Net loans	840,852	705,740
Interest receivables matured	4,825	4,714
Impairment of interest receivables	(3,350)	(3,371)
Collected fee not included into income	(1,926)	(2,127)
Loans and receivables due from customers	840,401	704,956

b) Movements on impairment allowance of loans

	Loans - corporate	Loans - retail	Total loans
	BAM '000	BAM '000	BAM '000
Balance as at January 1, 2014	35,915	18,635	54,550
Net loss recognized in the profit or loss (Note 14)	6,208	1,313	7,521
Write-offs	(358)	(56)	(414)
Balance as at December 31, 2014	41,765	19,892	61,657
Net loss recognized in the profit or loss (Note 14)	2,103	4,002	6,105
Write-offs	(3,553)	(137)	(3,690)
Balance as at December 31, 2015	40,315	23,757	64,072

c) Geographic concentration of credit risk

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

20. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

e) Concentration of credit risk by industry

Breakdown of the Bank's loan portfolio as at December 31, 2015 per industry is provided in the table below:

	December 31, 2015 BAM '000	December 31, 2014 BAM '000
Loans to corporate customers		
Mining and energy	23,570	4,174
Agriculture	9,581	17,677
Construction industry	31,293	27,445
Industry	155,005	67,105
Trade	111,615	86,756
Services	3,001	3,685
Transport	10,395	13,529
Finance	2,740	2,221
Public Sector (central institutions)	105,030	117,632
Local self-government	47,851	54,694
Non-profit institutions	3,904	5,879
	503,985	400,797
Retail loans	400,939	366,600
Total gross loans	904,924	767,397
Impairment allowance	(64,072)	(61,657)
Total net loans	840,852	705,740

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, mitigate the Bank's exposure to certain industry sectors.

21. FINANCIAL ASSETS

a) Financial assets available for sale

	December 31, 2015	December 31, 2014
	BAM ’000	BAM ’000
Equity securities		
Domestic insurance companies	8	26
Other domestic companies	338	338
Foreign companies	8	8
	354	372
Quoted	8	26
Unquoted	346	346
	354	372
Debt securities		
Municipal bonds	6	9
Bonds of the Republic of Srpska	125,949	114.572
Treasury Bills of the Republic of Srpska	17.952	14.153
	143,907	128.734
Quoted	143,907	128,734
Unquoted	-	-
	143,907	129,734
Total financial assets available for sale	144,261	129,106

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

	Level 1	Level 2	Level 3	Total
December 31, 2015	BAM 000	BAM 000	BAM 000	BAM 000
Equity securities	-	-	354	354
Municipal bonds	-	-	6	6
Bonds of the Republic of Srpska	-	-	125,949	125,949
Treasury Bills of the Republic of Srpska	-	-	17,952	17,952
Tota l	-	-	144,261	144,261
December 31, 2014				
Equity securities	-	-	372	372
Municipal bonds	-	9	-	9
Bonds of the Republic of Srpska		114,572	-	114,572
Treasury Bills of the Republic of Srpska	-	14,153	-	14,153
Total	-	128,734	372	129,106

Transfers among the hierarchy levels of the fair value of debt securities in 2015 were made for reconciliation of the levels through the process of independent price verification established on the level of UniCredit Group. The independent price verification process has access to various markets and inputs on which the methodology is based and represents improvement in the classification process.

21. FINANCIAL ASSETS (Continued)

a) Financial assets available for sale (Continued)

External rating of debt securities

To 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 it was "B 3 / stable ."

b) Financial assets held to maturity

	December 31, 2015	December 31, 2014
	BAM '000	BAM '000
Bonds of domestic corporate issuers, quoted	-	36
Total financial assets held to maturity	-	36

22. PROPERTY AND EQUIPMENT

	Land and buildings	Equipment and other assets	Investment in progress	Total property and equipment
	BAM '000	BAM '000	BAM '000	BAM '000
Cost				
Balance as at January 1, 2014	26,544	17,722	333	44,599
Additions	-	-	1,401	1,401
Transfers	335	661	(1,024)	(28)
Disposals and write-offs	(914)	(729)	-	(1,643)
Balance as at				
December 31, 2014	25,965	17,654	710	44,329
Balance as at January 1, 2015	25,965	17,654	710	44,329
Additions	-	2	1,970	1,972
Transfers	107	2,082	(2,298)	(109)
Disposals and write-offs	-	(240)	-	(240)
Balance as at				
December 31, 2015	26,072	19,498	382	45,952
Accumulated depreciation				
Balance as at January 1, 2014	12,187	15,492	-	27,679
Charge for the year	596	971	-	1,567
Disposals and write-offs	(469)	(713)	-	(1,182)
Balance as at December 31, 2014	12,314	15,750	-	28,064
Balance as at January 1, 2015	12,314	15,750	-	28,064
Charge for the year	596	1,114	-	1,710
Disposals and write-offs	-	(167)	-	(167)
Balance as at December 31, 2015	12,910	16,697	-	29,607
Net book value:				
Balance as at December 31, 2014	13,651	1,904	710	16,265
Balance as at December 31, 2015	13,162	2,801	382	16,345

22. PROPERTY AND EQUIPMENT (Continued)

The carrying value of non-depreciable property within buildings and lands amounts to BAM 3,253 thousand (2014: BAM 3,253 thousand).

Investments in progress in the amount of BAM 382 thousand as of December 31, 2015 (2014: BAM 710 thousand) relate to the equipment not yet placed into use.

During 2015 there were no mortgage or pledge liens instituted over the Bank's property and equipment.

The Bank tested property for impairment as of 31 December 2015, based on which it was deduced that there was no need for impairment.

23. INTANGIBLE ASSETS

	Software	Other	**Investments in** progress	Total
	BAM '000	BAM '000	BAM '000	BAM '000
Cost				
Balance as at January 1, 2014	14,075	4,473	1,050	19,598
Additions	-	-	1,015	1,015
Transfers	1,293	295	(1,588)	-
Sales and write-offs	(1)	1	-	-
Balance as at December 31, 2014	15,367	4,769	477	20,613
Balance as at January 1, 2015	15,367	4,769	477	20,613
Additions	-	-	2,825	2,825
Transfers	1,366	546	(1,912)	-
Sales and write-offs	-	-	-	-
Balance as at December 31, 2015	16,732	5,315	1,390	23,438
Accumulated amortization				
Balance as at January 1, 2014	12,447	4,112	-	16,559
Charge for the year	1,843	254	-	2,097
Write-offs	-	-	-	-
Balance as at December 31, 2014	14,290	4,366	-	18,656
Balance as at January 1, 2015	14,290	4,366	-	18,656
Charge for the year	878	480	-	1,358
Write-offs	-	-	-	-
Balance as at December 31, 2015	15,168	4,846	-	20,014
Net book value:				
Balance as at December 31, 2014	1,077	403	477	1,957
Balance as at December 31, 2015	1,565	469	1,390	3,424

Investment in progress in the amount of BAM 1,391 thousand as of December 31, 2015 (2014: BAM 477 thousand) relate to software and other intangible assets not yet placed into use.

As of December 31, 2015, the Bank had no internally generated intangible assets.

24. OTHER ASSETS

	December 31, 2015 BAM '000	December 31, 2014 BAM '000
Accrued interest not matured	373	260
Receivables for fees in local currency	187	198
Receivables for salaries of employees	818	997
Receivables from card operations	691	721
Receivables based on cheque payments	114	125
Leasehold improvements	185	127
Receivables from operating activities	435	435
Tangible assets acquired in lieu of debt collection	458	27
Other receivables	272	363
Impairment allowance	(521)	(520)
Total other assets	3,012	2,733

Movements on impairment allowance for other assets:

	Total
	BAM '000
Balance as at January 1, 2014	827
Net gains / losses recognized in profit or loss (Note 14)	-
Write-offs and transfers	(307)
Balance as at December 31, 2014	520
Net gains / losses recognized in profit or loss (Note 14)	-
Write-offs and transfers	(1)
Balance as at December 31, 2015	521

25. DEPOSITS AND LOANS DUE TO BANKS

	December 31, 2015 BAM '000	December 31, 2014 BAM '000
Demand deposits		
- in BAM	2	133
	2	133
Term deposits		
- in BAM	41,400	38,600
- in foreign currencies	216,381	172,895
	257,781	211,495
Total deposits	257,783	211,628
Loans obtained		
- in foreign currencies	48.430	38,130
Total loans	48,430	38,130
Total deposits and loans due to banks	306,213	249,758

Deposits and loans due to banks include the amount of BAM 257,783 thousand due to related parties (2014: BAM 211,598 thousand).

26. DEPOSITS AND LOANS DUE TO CUSTOMERS

	December 31, 2015 BAM '000	December 31, 2014 BAM '000
Corporate customers and entrepreneurs		
Demand deposits		
- in BAM	157,799	116,869
- in foreign currencies	50,213	64,163
	208,012	181,032
Term deposits		
- in BAM	50,671	22,011
- with foreign currency clause	96,374	102,922
- in foreign currencies	16,275	26,162
	163,320	151,095
Total corporate	371,332	332,127
Retail		
Demand deposits		
- in BAM	106,093	88,397
- in foreign currencies	64,705	55,058
	170,798	143,455
Term deposits		
- in BAM	35,705	22,527
- with foreign currency clause	3	4
- in foreign currencies	107,707	87,522
	143,415	110,053
Total retail	314,213	253,508
Total deposits	685,545	585,635
Loans from customers		
- in BAM	-	-
- with foreign currency clause	53,566	58,842
- in foreign currencies	15,040	18,052
Total loans from customers	68,606	76,894
Total deposits and loans from customers	754,151	662,529

Deposits and loans from customers include the amount of BAM 555 thousand (2014: BAM 558 thousand) due to related parties (deposits from Bank's Supervisory Board and key management members).

27. OTHER LIABILITIES

	December 31, 2015 BAM '000	December 31, 2014 BAM '000
Accrued interest, not matured	6,670	5,471
Liabilities to employees	1,825	1,628
Advances received for foreclosure of assets - NPL	-	3,390
Liabilities to suppliers – trade payables	2,068	1,172
Provisions for off-balance-sheet contingent liabilities	1,512	1,381
Provisions for jubilee awards	208	210
Liabilities for realization of payment orders in the country	24	778
Liabilities based on brokerage operations	176	118
Liabilities based on non-nominated deposits	659	915
Accruals and deferred income	948	480
Liabilities for insured unpaid deposits	1,647	-
Other liabilities	1,989	1,554
	17,726	17,097

Movements on provisions were as follows:

	Off-balance-sheet contingent liabilities	Jubilee awards	Total
	BAM '000	BAM '000	BAM '000
Balance as at January 1, 2014	711	170	881
Net gain / loss recognized in profit or loss	670	40	710
Provisions released during the period and transfers	-	-	-
Balance as at December 31, 2014	1,381	210	1,591
Net gain / loss recognized in profit or loss	131	(2)	129
Provisions released during the period and transfers	-	-	-
Balance as at December 31, 2015	1,512	208	1,720

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, 2015 BAM '000	December 31, 2014 BAM '000
Provisions for retirement benefits	251	255
Provisions for litigations	1,956	2,291
	2,207	2,546

28. PROVISIONS FOR LIABILITIES AND EXPENSES (Continued)

Movements on provisions were as follows:

	Litigations	**Retirement benefits**	Total
	BAM '000	BAM '000	BAM '000
Balance as at January 1, 2014	1,796	292	2,088
Net gain / loss recognized in profit or loss (Note 15)	619	-	619
Provisions released during the period and transfers	(124)	(37)	(161)
Balance as at December 31, 2014	2,291	255	2,546
Net gain / loss recognized in profit or loss (Note 15)	346	-	346
Provisions released during the period and transfers	(681)	(4)	(685)
Balance as at December 31, 2015	1,956	251	2,207

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% (2014: 10%).

	December 31, 2015 BAM '000	**December 31, 2014** BAM '000
Deferred tax assets		
Fair value reserve	61	88
Net deferred tax assets	61	88

Movements on deferred taxes were as follows:

	Deferred tax assets	**Deferred tax liabilities**	Net deferred tax assets
	BAM '000	BAM '000	BAM '000
Balance as at January 1, 2014	54	-	54
Decrease in deferred tax liabilities	-	-	-
Changes in fair value of financial assets available for sale recognized in equity and reserves	34	-	34
Balance as at December 31, 2014	88	-	88
Balance as at January 1, 2015			
Decrease in deferred tax liabilities	(27)	-	(27)
Changes in fair value of financial assets available for sale recognized in equity and reserves	-	-	-
Balance as at December 31, 2015	61	-	61

30. SHARE CAPITAL

	Ordinary shares
	BAM '000
Balance as at January 1, 2014	97,055
Increase in share capital through the issue of shares	-
Balance as at December 31, 2014	97,055
Balance as at December 31, 2015	97,055
Nominal value (BAM)	700
Number of shares	138,650

As at December 31, 2015 the shareholders of the Bank comprised a single major and 65 minor shareholders; both domestic and foreign legal entities and individuals with the following equity interests:

	% of equity interest
UniCredit Bank Austria AG, Vienna	98.43%
Other shareholders	1.57%
	100.00%

As at December 31, 2015, members of 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 2015, the price on the last trading day at Banjaluka Stock Exchange amounted to BAM 901 (December 31, 2014: BAM 750).

31. EARNINGS PER SHARE

	2015	2014
Total number of shares	138,650	138,650
Weighted average number of shares outstanding	138,650	138,650
Net profit in BAM '000	21,376	17,702
Basic and diluted earnings per share in BAM	154.17	127.68

In the Q4 2015 the Bank paid dividend to the shareholders in the amount of BAM 8,851 thousand or 50% of the net profit for the year 2014. 67 shareholders were entitled to dividend payment, and dividend per share amounted BAM 63.848.

32. COMMITMENTS AND CONTINGENT LIABILITIES

	December 31, 2015 BAM '000	December 31, 2014 BAM '000
Payment guarantees:		
- in BAM	10,203	14,247
- in foreign currencies	17,204	20,123
Performance guarantees:		
- in BAM	34,196	26,128
- in foreign currencies	9,253	10,483
Contingent liabilities based on undrawn loans and guarantees :		
- in BAM	110,552	78,398
- in foreign currencies	1,033	972
Letters of credit in foreign currencies	1,105	4,331
Other sureties	6,400	3,600
Total	189,946	158,282

As at December 31, 2015, provisions for potential losses per commitments and contingencies amounted to BAM 1,512 thousand (2014: BAM 1,381 thousand). Movements on these provisions are presented in Note 27.

33. TRANSACTIONS WITH RELATED PARTIES

In compliance with International Accounting Standard (IAS) 24 parties related to the Bank and Bank 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 Austria AG
IAS 24.19 (c)	Subsidiaries and other entities of the same Group	Related banks and other legal entities within UniCredit Group
IAS 24.19 (d), (e)	Associates and joint ventures	The Bank did not have associates or joint ventures in 2015
IAS 24.19 (f)	Key management of the institution or its parent company	Members of the Supervisory Board and Management Board; members of the Supervisory Board and Management Board of the parent company, 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 2015

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, 2015 BAM '000	December 31, 2014 BAM '000
Assets:		
Foreign currency demand deposits:		
- UniCredit Bank Austria AG Vienna	2,880	66,509
- UniCredit bank Srbija a.d. Beograd	41	49
- Zagrebačka banka d.d. Zagreb	333	280
- UniCredit Bank AG Munich	17,578	1,992
- UniCredito Italiano SpA Milan	11,860	1,192
- UniCredit Bank d.d. Mostar	2	2
	32,694	70,024
Short-term deposits:		
- UniCredit Bank Austria AG Vienna	-	8,042
- UniCredit Bank d.d. Mostar	6,400	3,600
	6,400	11,642
Other receivables:		
- UniCredit Bank Austria AG Vienna	360	538
- UniCredito Italiano SpA Milan	46	27
- UniCredit Bank d.d. Mostar	-	18
	406	583
Financial assets at fair value through profit and loss:		
- UniCredit Bank AG Munich	547	-
Total assets	40,047	82,249
Liabilities:		
Short-term deposits:		
- UniCredit Bank Austria AG Vienna	216,382	172,998
- UniCredit Bank d.d. Mostar	41,400	38,600
Other liabilities:		
- UniCredit Bank Austria AG Vienna	-	131
- UniCredit Bank d.d. Mostar	54	25
- UniCredito Italiano SpA Milan	299	129
- UBIS, Vienna (formerly: UGIS;WAVE, BAGIS)	695	-
- Zagrebačka banka d.d. Zagreb	45	-
IFABER	14	-
	1,107	285
Financial liabilities at fair value through profit and loss:		
- UniCredit Bank AG Munich	210	-
Total liabilities	259,099	211,883
Liabilities, net	(219,052)	(129,634)

33. TRANSACTIONS WITH RELATED PARTIES (Continued)

Income and expenses from related party transactions were as follows:

	Year Ended December 31,	
	2015 BAM '000	2014 BAM '000
Items included in the statement of profit and loss		
Interest income:		
- UniCredit Bank Austria AG Vienna	5	16
- UniCredit Bank d.d. Mostar	150	18
Total interest income	155	34
Fee and commission income:		
- UniCredit Bank Austria AG Vienna	1	2
- UniCredit Bank d.d. Mostar	11	1
- UniCredit Bank Czech Republic and Slovakia a.s.	1	-
Total fee and commission income	12	3
Interest expenses:		
- UniCredit Bank Austria AG Vienna	1,944	1,783
- UniCredit Bank d.d. Mostar	368	65
- UniCredit Bank AG Munich	-	19
- AO UniCredit Bank Moscow	1,056	-
Total interest expenses	3,368	1,867
Fee and commission expenses:		
- UniCredit Bank Austria AG, Vienna	29	7
- UniCredito Italiano SPA, Milan	11	5
- Zagrebačka banka d.d., Zagreb	173	107
- UniCredit Bank d.d., Mostar	-	56
- UniCredit Bank AG Munich	2	7
- UBIS, Vienna	70	-
Total fee and commission expenses	285	182
Operating costs		
- UBIS, Vienna (formerly: UGIS; WAVE, BAGIS)	1,142	1,391
- UniCredit Bank d.d. Mostar	149	126
- Zagrebačka banka d.d. Zagreb	13	21
- ZANE BH d.o.o. Sarajevo	7	9
- UniCredit Italiano SPA, Milan	96	-
- IFABER	14	-
Total software maintenance costs	1,421	1,547
Other operating expenses		
- Zagrebačka banka d.d. Zagreb	24	-
Expenses, net	(4,931)	(3,553)

Expenses associated with the key management personnel do not include salaries and remuneration. Information on the management personnel salaries and remuneration are disclosed in a separate part of this note hereinafter.

33. TRANSACTIONS WITH RELATED PARTIES (Continued)

The remuneration of members of the Supervisory and Management Boards, and other key management personnel are presented below:

	Year Ended December 31,	
	2015 BAM '000	2014 BAM '000.
Supervisory Board		
Management Board		
Short-term remuneration		
Gross salaries disbursed in the current year for the current year	754	690
Bonuses disbursed in the current year for the previous year - gross	121	76
Long-term remuneration		
Insurance policies paid in the current year - gross	29	29
Disbursements in the current year based on prior years - gross	126	75
Total	1,030	870
Other key management personnel		
Short-term remuneration		
Gross salaries disbursed in the current year for the current year	467	834
Bonuses disbursed in the current year for previous year - gross	109	4125
Total	576	959

Other key management personnel comprise 7 employees of the Bank (2014: 14 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 297 thousand (2014: BAM 338 thousand) of contributions for pension and disability insurance with the prescribed amounts of contributions, which are paid 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.

34. RISK MANAGEMENT

The Bank's risk management 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 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 acts covering business areas. 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
4. Risk Controlling with the function of collateral management,
5. Market Risk Management, and
6. Operational Risk Management.

Within Special Credit Management there are three departments: Restructuring, Workout and Retail Collection Center.
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. The 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 products 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, credit exposure including balance sheet and off-balance-sheet items of the Bank and the quality and value of collaterals.

Credit risk is measured at the level of individual loan beneficiaries/transactions 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 analyses the main triggers and components of credit risk and their dynamics in order to undertake corrective activities if necessary and in time. Reports contain the information about changes in the size and quality of the credit portfolio at the customer segment level and for the Bank.

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

b) Risk Control Policies

The Bank manages, limits and controls credit risk concentrations, wherever such risk concentrations have been established, particularly with regard to specific clients and/or groups, 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 collateral serving as security for claims collection, and as the collateral for the collection of its claims, it uses acceptable collateral. 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.

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

	December 31, 2015	December 31, 2014
	BAM '000	BAM '000
Balance sheet assets		
Cash and cash equivalents (Note 17)	77,768	69,883
Obligatory reserve with the Central Bank (Note 18)	57,816	51,174
Loans and receivables due from banks (Note 19)	111,386	117,139
Loans and receivables due from customers - corporate (Note 20)	463,670	359,032
Loans and receivables due from customers - retail (Note 20)	377,182	346,708
Accrued interest	1,475	1,343
Financial assets available for sale (Note 21a)	144,261	129,106
Financial assets held to maturity (Note 21b)	-	36
Financial asset at fair value through profit or loss	548	385
Other assets (Note 24)	3,012	2,733
Total balance sheet items exposed to credit risk	1,237,118	1,077,539
Off-balance sheet items		
Guarantees and other sureties	71,961	75,312
Approved overdrafts, framework loans and guarantees	117,985	82,970
Total off-balance-sheet exposure to credit risk	189,946	158,282
	1,427,064	1,235,821

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 non-alignment 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 due and financial assets available for sale.

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

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
- Loans assessed on a group basis (general IBNR and special provisions).

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 debtor);
- 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 corporate customers and number of days past-due for retail customers and, accordingly, applying parameters of credit risk (such as probability of default, loss given default, amount that the Bank requires in instances of non-performance of obligations) determined by Basel II 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
- Non-performing loans for which impairment has been recognized.

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

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

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

	December 31, 2015			December 31, 2014		
	BAM '000			BAM '000		
	Loans	**Provisions**	%	Loans	**Provisions**	%
Performing and past due loans not specifically impaired						
- corporate loans	456,712	6,004	1.3%	344,707	5,970	1.7%
- retail loans	374,847	3,106	0.8%	345,507	2,256	0.7%
	831,559	9,110	1.1%	690,214	8,226	1.2%
Non-performing loans						
- corporate loans	47,273	34,311	72.6%	56,090	35,795	63.8%
- retail loans	26,092	20,651	79.1%	21,093	17,636	83.6%
	73,365	54,962	74.9%	77,183	53,431	69.2%
Total loans	904,924	64,072	7.1%	767,397	61,657	8.0%

Provision coverage of the non-performing portfolio amounts to 74.9 % (2014: 69.2 %).

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

	December 31, 2015	**December 31, 2014**
	BAM '000	BAM '000
Corporate		
Loans to customers that are neither due nor impaired	456,198	343,971
Past-due but not impaired loans	514	736
Non-performing loans (impaired loans)	47,273	56,090
Gross exposure	503,985	400,797
***Less:* Impairment allowance:**		
- Portfolio (IBNR), individual and group impairment allowance	(40,315)	(41,765)
Net exposure	463,670	359,032
	December 31, 2015	December 31, 2014
	BAM '000	BAM '000
Retail		
Loans to customers that are neither due nor impaired	374,797	345,451
Past due but not impaired loans	50	56
Non-performing loans (impaired loans)	26,092	21,093
Gross exposure	400,939	366,600

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

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

	December 31, 2015	December 31, 2014
	BAM '000	BAM '000
***Less:* Impairment allowance:**		
- Portfolio (IBNR), individual and group impairment allowance	(23,757)	(19,892)
Net exposure	377,182	346,708
Total gross exposure	904,924	767,397
Portfolio impairment allowance (IBNR)	(9,110)	(8,226)
Individual and group impairment allowance	(54,962)	(53,431)
Net exposure	840,852	705,740

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.

a) Loans to customers that are neither due nor impaired (Continued)

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

				Retail loans				Corporate loans
	Customer loans	Housing loans	Credit card loans and **overdrafts**	Total	Large	Medium	Small	Total
December 31, 2015	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Standard monitoring	283,695	69,761	21,341	374,797	327,655	99,953	28,590	456,198
December 31, 2014								
Standard monitoring	257,564	67,939	19,948	345,451	235,194	75,199	33,578	343,971

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

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

b) Past due but not impaired loans

Loans and receivables due from customers less than 90 days overdue 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:

			Retail loans					Corporate loans
December 31, 2015	Customer loans	Housing loans	Credit card loans and **overdrafts**	Total	Large	Medium	Small	Total
Past-due	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Past due up to 30 days	16	-	-	16	-	158	5	163
Past due 30 – 60 days	18	-	-	18	-	321	4	325
Past due 60 – 90 days	16	-	-	16	-	26	-	26
Past due over 90 days	-	-	-	-	-	-	-	-
Total	50	-	-	50	-	505	9	514
Value of collateral	-	-	-	-	-	130	5	135
December 31, 2014								
Past due								
Past due up to 30 days	26	1	-	27	-	250	42	292
Past due 30 – 60 days	16	-	-	16	-	-	410	410
Past due 60 – 90 days	13	-	-	13	-	33	1	34
Past due over 90 days	-	-	-	-	-	-	-	-
Total	55	1	-	56	-	283	453	736
Value of collateral	1	1	-	2	-	250	5	255

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

34.1.2. Credit risk management and policies for impairment and 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:

				Retail loans				Corporate loans
	Customer loans	Housing loans	Credit card loans and **overdrafts**	Total	Large	Medium	Small	Total
December 31, 2015	BAM ‘000	BAM ‘000	BAM ‘000	BAM ‘000	BAM ‘000	BAM ‘000	BAM ‘000	BAM ‘000
Non-performing loans	18,273	5,461	2,358	26,092	7,963	19,829	19,481	47,273
Value of collateral	143	1,719	-	1,862	961	9,289	3,514	13,764
December 31, 2014								
Non-performing loans	13,952	4,779	2,362	21,093	2,357	31,832	21,901	56,090
Value of collateral	219	3,933	-	4,152	1,534	18,932	11,395	31,861

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

As at December 31, 2015, assets acquired in lieu of settlement of non-performing loans amounted to BAM 458 thousand (2014: BAM 81 thousand).

d) Restructured loans and receivables

During the year, the Bank restructured certain loans to customers in order to improve their final 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 Workout Units and Sections) amounted to a total of BAM 32,570 thousand as at December 31, 2015 (2014: BAM 33,553 thousand).

	December 31, 2015	December 31, 2014
	BAM ‘000	BAM ‘000
Restructured loans	32,570	33,553
Loan portfolio - gross	904,924	767,397
Share (%) of restructured loans in the gross loan portfolio	3.6%	4.4%

34. RISK MANAGEMENT (Continued)

34.2. Liquidity Risk

The liquidity risk represents the risk that the Bank will not be able to settle its financial liabilities fully and without any delay. In this sense, 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 minimum standards and limits prescribed by the Banking Agency of the Republic of Srpska, BH Central Bank and the Group.

The Bank has the access to different sources of financing which include different types of deposits of individuals and legal entities, 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 parameters analysis, responsibilities of managing functions and reporting lines, which cover the short term, medium term and long term liquidity, as well as the liquidity stress tests. In accordance with Group guidelines, the exposure to liquidity risk is held at the level at which the Bank is able to observe its payment obligations on regular basis, and also in the crisis period, by ensuring the monitoring of short term and long term requirements for liquidity. The Bank has adopted the Contingency Liquidity Management Policy consisting of Liquidity Management Policy and Contingency Action Plan.

Short-term liquidity maintenance requirements are planned each month for the period of the ensuing six months. They are controlled and maintained daily. ALCO manages the daily liquidity reserves providing the compliance with the customers' needs.

The following table shows the profile of structural liquidity, which represents a breakdown of assets and liabilities according to appropriate time buckets based on the remaining period of the 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 for the longest term to maturity.

34. RISK MANAGEMENT (Continued)

34.2. Liquidity Risk (Continued)

December 31, 2015	Up to 1 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
Assets						
Cash and cash equivalents	77,768	-	-	-	-	77,768
Obligatory reserve with the Central bank	57,816	-	-	-		57,816
Loans and receivables due from banks	104,986	-	-	6,400	-	111,386
Financial assets available for sale	-	-	143,907	-	354	144,261
Financial assets at fair value through profit or loss	258	84	-	206	-	548
Loans and receivables due from customers	24,178	49,228	197,428	359,430	210,137	840,401
Property and equipment	-	-	-	-	16,345	16,345
Intangible assets	-	-	-	-	3,424	3,424
Other assets	-	-	3,012	-	-	3,012
Deferred tax assets	-	-	61	-	-	61
Total assets	265,006	49,312	344,408	366,036	230,260	1,255,022
Liabilities, equity and reserves						
Deposits and loans due to banks	134,954	15,000	103,083	40,970	12,206	306,213
Deposits and loans due to customers	91,074	73,245	208,662	249,112	132,058	754,151
Financial liabilities at fair value through profit or loss	-	35	174	-	-	209
Other liabilities	2,047	2,285	7,160	4,885	1,349	17,726
Provisions for liabilities and costs	-	-	2,207	-	-	2,207
Income tax payable	-	1	-	-	-	1
Equity and reserves	-	-	-	-	174,515	174,515
Total liabilities, equity and reserves	228,075	90,566	321,286	294,967	320,128	1,255,022
Liquidity gap	36,931	(41,254)	23,122	71,069	(89,868)	-

34. RISK MANAGEMENT (Continued)

34.2. Liquidity Risk (Continued)

December 31, 2014	Up to 1 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
Assets						
Cash and cash equivalents	69,883	-	-	-	-	69,883
Obligatory reserve with the Central bank	51,174	-	-	-		51,174
Loans and receivables due from banks	117,139	-	-	-	-	117,139
Financial assets available for sale	-	-	128,725	9	372	129,106
Financial assets at fair value through profit or loss	-	-	-	385	-	385
Loans and receivables due from customers	15,968	31,697	95,014	313,775	248,502	704,956
Financial assets held to maturity	-	-	29	7	-	36
Property and equipment	-	-	-	-	16,265	16,265
Intangible assets	-	-	-	-	1,957	1,957
Other assets	611	849	1,273	-	-	2,733
Deferred tax assets	-	-	88	-	-	88
Total assets	254,775	32,546	225,129	314,176	267,096	1,093,722
Liabilities, equity and reserves						
Deposits and loans due to banks	98,383	64,028	33,657	38,330	15,360	249,758
Deposits and loans due to customers	85,511	87,164	124,295	238,928	126,631	662,529
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Other liabilities	4,274	4,274	5,129	3,420	-	17,097
Provisions for liabilities and costs	-	-	127	2,419	-	2,546
Income tax payable	-	28	-	-	-	28
Deferred tax liabilities	-	-	-	-	-	-
Equity and reserves	-	-	-	-	161,764	161,764
Total liabilities, equity and reserves	188,168	155,494	163,208	283,097	303,755	1,093,722
Liquidity gap	66,607	(122,948)	61,921	31,079	(36,659)	-

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management

Market risks result from general and specific trends and changes of specified 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 acts and the setting of defined limits and warning signals which are supervised on a daily basis. Market risk measuring is based on the VaR ("Value at Risk") methodology. VaR is the appraised potential overnight loss which occurs at total and particular positions of balance sheet structure 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 set VaR limits.

Factors which are also of importance for the assessment of market risk impact on the Banks' portfolio are stress-oriented warning levels and limits. The Bank performs stress liquidity tests within Risk Management in accordance with group parameters for:

- foreign exchange (currency) risk,
- interest rate risk, and
- liquidity risk,

and the results are included in regular ALCO reports.

The Bank performs activities on market risk limit review closely cooperating with UniCredit Bank Austria AG, Vienna. These activities are performed at least on annually, and if needed more often in accordance with business changes as a result of changes of legal regulations, development of business strategy goals as well as targeted risk profile.

The set of documents with rules for operations performed by 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 bearers are enabled to enter into the risk-weighted items.

Overview of total VaR position of the Bank:

	2015 BAM '000	2014 BAM '000
- average for the period	871	620
- maximum for the period	1,340	1,267
- minimum for the period	527	449

In addition to 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 financial results 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 payment currencies, and in total amount for all assets and liabilities denominated in foreign currency or indexed to a foreign currency.

The Market Risk Management is responsible for daily monitoring of foreign exchange risk calculations in accordance with the Group guidelines in compliance with defined rules for trend monitoring through the conversion accounts for individual currencies.

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management (Continued)

34.3.1. Currency risk (Continued)

The Bank intends to direct its business activities with a view to minimizing the mismatch between assets and liabilities denominated in foreign currencies or with the foreign currency clauses, keeping daily operations within set limits.

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

Stress testing for currency risk is performed by the including appreciation and depreciation shocks for all the major currencies and currency buckets and the results are presented within regular ALCO reports.

Exposure to this risk is monitored on a daily basis in accordance with legally and internally determined limits for each currency and in the total amount for assets and liabilities denominated in foreign currencies or linked thereto with a foreign currency clause. According to local regulations the currency risk ratio is the proportion between the total open foreign currency items and the Bank's core capital (Tier 1).

In accordance with the decision which regulates the minimum standards for currency risk management, the Bank is required to maintain relations between assets and liabilities in each individual currency so that its total open foreign currency position at the end of each working day is not higher than 30% of its core capital. According to internal regulations the Bank measures the risk of exposure to change in foreign currency rate through openness of positions in foreign currency in relation to limits defined in the absolute amounts.

	2015	2014
Currency risk ratios:		
- as at December 31	4.92%	26.07%
- maximum for the month of December	16.27%	26.07%
- minimum for the month of December	3.43%	0.71%

The major portion of business transactions exposes the Bank to the risk of change in the EUR exchange rate; however due to the Currency Board regime currently in place, according to which the ratio of the local currency to EUR is fixed, it can be deemed that there is no foreign exchange rate risk to the Bank.

The Bank protects itself from exposure to currency risk in foreign currencies other than EUR by managing foreign currency position, within the assets and liabilities management strategy, in such a manner that the positions 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, 2015, is presented in the table below:

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management (Continued)

34.3.1. Currency risk (Continued)

	EUR BAM '000	EUR related items BAM '000	USD BAM '000	Other currencies BAM '000	Total currencies BAM '000	BAM BAM '000	Total BAM '000
December 31, 2015							
Assets							
Cash and cash equivalents	3,191	-	410	1,156	4,757	73,011	77,768
Obligatory reserve with Central bank	-	-	-	-	-	57,816	57,816
Loans and receivables due from banks	98,143	-	2,309	4,534	104,986	6,400	111,386
Financial assets available for sale	458	72,843	-	-	73,301	70,960	144,261
Financial assets at fair value through profit or loss	-	-	-	-	-	548	548
Loans and receivables due from customers	116,194	383,274	-	-	499,468	340,933	840,401
Financial assets held to maturity	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	16,345	16,345
Intangible assets	-	-	-	-	-	3,424	3,424
Other assets	193	-	87	12	292	2,720	3,012
Deferred tax assets	-	-	-	-	-	61	61
Total assets	218,179	456,117	2,806	5,702	682,804	572,218	1,255,022
Liabilities and equity							
Deposits and loans due to banks	264,811	-	-	-	264,811	41,402	306,213
Deposits and loans due to customers	228,063	149,943	11,603	14,274	403,883	350,268	754,151
Financial liabilities at fair value through profit or loss							
profit or loss	-	-	-	-	-	209	209
Other liabilities	6,475	-	131	144	6,750	10,976	17,726
Provisions for liabilities and costs	1,280	-	-	-	1,280	927	2,207
Income tax payable	-	-	-	-	-	1	1
Equity and reserves	3,496	-	-	-	3,496	171,019	174,515
Total liabilities, equity and reserves	504,125	149,943	11,734	14,418	680,220	574,802	1,255,022
Net foreign currency position	(285,946)	306,174	(8,928)	(8,716)	2,584	(2,584)	-

Depreciation of foreign currencies (except for EUR) against BAM by 10%, with all other variables remaining unaltered, would result in an increase of profit for the year 2015 by the amount of BAM 1,764 thousand (2014: increase of BAM 774 thousand).

Appreciation of 10% of foreign currencies other than EUR against BAM would result in a decrease of profit for the year 2015 by the amount of BAM 1,764 thousand (2014: decrease of BAM 774 thousand).

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management (Continued)

34.3.1. Currency risk (Continued)

	EUR BAM '000	EUR related items BAM '000	USD BAM '000	Other currencies BAM '000	Total currencies BAM '000	BAM BAM '000	Total BAM '000
December 31, 2014							
Assets							
Cash and cash equivalents	6,261	-	282	863	7,406	62,477	69,883
Obligatory reserve with Central bank	-	-	-	-	-	51,174	51,174
Loans and receivables due from banks	94,881	-	9,909	8,749	113,539	3,600	117,139
Financial assets available for sale	-	54,192	-	-	54,192	74,914	129,106
Financial assets at fair value through profit or loss	-	-	-	-	-	385	385
Loans and receivables due from customers	109,368	329,436	-	-	438,804	266,152	704,956
Financial assets held to maturity	-	-	-	-	-	36	36
Property and equipment	-	-	-	-	-	16,265	16,265
Intangible assets	-	-	-	-	-	1,957	1,957
Other assets	131	94	114	13	352	2,381	2,733
Deferred tax assets	-	-	-	-	-	88	88
Total assets	210,641	383,722	10,305	9,625	614,293	479,429	1,093,722
Liabilities and equity							
Deposits and loans due to banks	211,025	-	-	-	211,025	38,733	249,758
Deposits and loans due to customers	223,486	161,819	13,453	14,018	412,776	249,753	662,529
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Other liabilities	5,179	780	81	118	6,158	10,939	17,097
Provisions for liabilities and costs	1,571	-	-	-	1,571	975	2,546
Income tax payable	-	-	-	-	-	28	28
Equity and reserves	3,496	-	-	-	3,496	158,268	161,764
Total liabilities, equity and reserves	444,757	162,599	13,534	14,136	635,026	458,696	1,093,722
Net foreign currency position	(234,116)	221,123	(3,229)	(4,511)	(20,733)	20,733	-

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management (Continued)

34.3.2. Interest rate risk

The Bank is exposed to risk from interest rate fluctuations which have 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 be reduced 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 interest earned and interest paid (basis risk) of instruments having identical maturity and denominated in identical currency, 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 and it is under remit of the Market Risk Management. The methodology which is used for risk assessment of interest rate changes is based on the GAP analysis of time differences. Differences between interest-bearing assets and liabilities in different time "buckets" show how two sides of the balance sheet may react differently on 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 payment currency fall,
- in case of negative GAP difference the Bank is exposed to risk of loss in the event that interest rates of the given maturity for the relevant payment currency grow.

Risk is measured by calculating the change in the net present value of the portfolio in case of reference rate curve shift 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. BPV limits for daily operations matching are regulated by UniCredit Group. 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 Bank estimates the interest rate exposure also based on the net interest income sensitivity analysis.

Economic capital sensitivity analysis

The Bank measures interest rate risk by means of economic capital sensitivity analysis in compliance with the Group and Basel II regulatory framework and the result thereof is included in the regular ALCO report.

An overview of the Bank's exposure to interest rate risk as at December 31, 2015 and 2014 is shown on the following pages.

The Bank is exposed to various risks which through the effects of fluctuations in the levels of market interest rates have an impact on its financial position and cash flows. The following table presents the Bank's estimate of the interest rate risk as at December 31, 2015 and 2014, as well as certain sensitivity of the Bank's earnings to movements in interest rates, which is not necessarily indicative for forthcoming periods.

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 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Non-interest bearing	Total	Fixed interest rate
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
December 31, 2015								
Assets								
Cash and cash equivalents	61,263	-	-	-	-	16,505	77,768	-
Obligatory reserve with the Central bank	57,816	-	-	-	-	-	57,816	-
Loans and receivables due from banks	104,986	-	-	-	6,400	-	111,386	37,706
Financial assets available for sale	-	17,952	-	125,955	-	354	144,261	143,907
Financial assets at fair value through profit or loss	258	84	-	206	-	-	548	548
Loans and receivables due from customers	204,978	338,206	246,308	45,657	5,252	-	840,401	261,531
Financial assets held to maturity	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	16,345	16,345	-
Intangible assets	-	-	-	-	-	3,424	3,424	-
Other assets	-	-	-	-	-	3,012	3,012	-
Deferred tax assets	-	-	-	-	-	61	61	-
Total assets	429,301	356,242	246,308	171,818	11,652	39,701	1,255,022	443,692
Liabilities and equity								
Deposits and loans due to banks	48,141	208,603	43,067	6,400	-	2	306,213	192,270
Deposits and loans due to customers	261,403	107,450	128,943	110,109	7,506	138,740	754,151	345,077
Financial liabilities at fair value through profit or loss	-	35	174	-	-	-	209	209
Other liabilities	-	-	-	-	-	17,726	17,726	-
Provisions for liabilities and costs	-	-	-	-	-	2,207	2,207	-
Income tax payable	-	-	-	-	-	1	1	-
Deferred tax liabilities	-	-	-	-	-	-	-	-
Equity and reserves	-	-	-	-	-	174,515	174,515	-
Total liabilities, equity and reserves	309,544	316,088	172,184	116,509	7,506	333,191	1,255,022	537,556
Bank's interest rate mismatch	119,757	40,154	74,124	55,309	4,146	(293,490)	-	(93,864)

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 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Non-interest bearing	Total	Fixed interest rate
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
December 31, 2014								
Assets								
Cash and cash equivalents	53,169	-	-	-	-	16,714	69,883	-
Obligatory reserve with the Central bank	51,174	-	-	-	-	-	51,174	-
Loans and receivables due from banks	117,139	-	-	-	-	-	117,139	-
Financial assets available for sale	-	5,086	9,496	114,152	-	372	129,106	128,734
Financial assets at fair value through profit or loss	-	-	-	385	-	-	385	385
Loans and receivables due from customers	153,404	346,921	169,955	23,524	11,152	-	704,956	201,860
Financial assets held to maturity	-	-	-	36	-	-	36	36
Property and equipment	-	-	-	-	-	16,265	16,265	-
Intangible assets	-	-	-	-	-	1,957	1,957	-
Other assets	-	-	-	-	-	2,733	2,733	-
Deferred tax assets	-	-	-	-	-	88	88	-
Total assets	374,886	352,007	179,451	138,097	11,152	38,129	1,093,722	331,015
Liabilities and equity								
Deposits and loans due to banks	810	209,753	39,070	-	-	125	249,758	-
Deposits and loans due to customers	226,269	96,513	76,808	133,883	12,391	116,665	662,529	261,148
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	17,097	17,097	-
Provisions for liabilities and costs	-	-	-	-	-	2,546	2,546	-
Income tax payable	-	-	-	-	-	28	28	-
Deferred tax liabilities	-	-	-	-	-	-	-	-
Equity and reserves	-	-	-	-	-	161,764	161,764	-
Total liabilities, equity and reserves	227,079	306,266	115,878	133,883	12,391	298,225	1,093,722	261,148
Bank's interest rate mismatch	147,807	45,741	63,573	4,214	(1,239)	(260,096)	-	69,867

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management (Continued)

34.3.2. Interest rate risk (continued)

Sensitivity analysis

Simulation is performed by measuring the impact of change in the interest rate by 1 percentage point on the net interest income for the period of 12 months based on simultaneous growth or drop of interest rates against all items in the Bank's statement of financial position sensitive to the interest rate change. Changes in net interest income due to changes in interest rates should not exceed 7.5% of the projected net interest income.

Taking into consideration discrepancies between assets and liabilities in the observed periods: up to one month, 1-3 months and 3-12 months, an assessment of the impact of interest rate change of +/-1 percentage point was performed on the net interest income of the Bank for 2015 and for 2014.

It was estimated from the specified assumptions that an interest rate decrease by 1 percentage point would cause a decrease in the interest rate income for 2015 in the amount of BAM 2,340 thousand, or 5.0% of the total net interest income. Simulation of the impact of interest rate change on net interest income in the previous year resulted in decrease by of approximately BAM 2.571 thousand or 5.9% of the total net interest income.

The estimated future cash flows for the Bank's interest bearing liabilities as at December 31, 2015 and 2014 are shown in the following table:

December 31, 2015	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 **years**	**Over 5 years**	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Transaction accounts and deposits of banks	135,028	15,856	104,003	40,970	12,206	308,063
Transaction accounts and deposits of customers	91,425	80,615	213,320	261,081	134,121	780,562
Other liabilities	2,047	2,285	7,160	4,885	1,349	17,726
Total liabilities	228,500	98,756	324,483	306,936	147,676	1,106,351
December 31, 2014						
Transaction accounts and deposits of banks	108,261	45,353	44,316	41,595	11,299	250,824
Transaction accounts and deposits of customers	80,852	73,588	138,387	270,854	120,834	684,515
Other liabilities	5,710	4,565	3,550	5,156	1,435	20,416
Total liabilities	194,823	123,506	186,253	317,605	133,568	955,755

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, 2015	**December 31, 2014**
	%	%
Obligatory reserve with the Central Bank	0.00	0.05
Loans and receivables due from banks	0.40	0.12
Loans due from customers	6.92	7.62
Debt securities available for sale	5.21	5.80
Transaction accounts and deposits of banks	2.02	1.07
Transaction accounts and deposits of customers	1.65	1.87
Borrowings	1.37	2.02

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 securities with fixed yield. The risk of change in 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 Point Value). This limit has been applied since 2013. CPV limit is similar to BPV (Basis Point Value) and limits the risk of change in the net present value of securities portfolio if the impact of interest margin change shifts by 0.01% (1 basis point). BPV limit limits total sensitivity of the Bank's items to changes in interest rates and CPV limit additionally limits investments in securities with regard to the volume and duration.

34.4. Operational Risk

Operational risk is the risk of incurring a loss due to inadequate or poor internal processes, systems and procedures, as well as due to errors made by employees during their work or the result of externally caused events. Definition of operational risks includes legal risk; however it excludes strategic and reputational risk.

Operational risk events are events resulting from inadequate or failed internal processes, people and systems or from systemic or other external events: internal or external fraud, relations with employees and safety at workplace, customer complaints, distribution of products, fines and penalties for non-compliance with regulations, damage to tangible assets of the Bank, work disruptions and errors in the system and process management.

In accordance with 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 by operational risk and the Bank's exposure to operational risks, the assessment of operational risk within processes and products, and defining the ways to avoid, control or transfer operational risk to third parties, as well as a reporting system.

For operational risk loss data recording, analyzed scenarios records, recording and monitoring of risk indicators, reporting and analysis of data regarding Bank operational risk the Bank uses Group's ARGO tool.

The Bank's management and the Group are regularly informed and receive reports in respect of 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 UniCredit Group and local and international regulations.

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

Given the significance of the reputational risk and the requirements and standards of the Group, the Bank has finished the process of implementing reputational risk management by adopting and implementing special policies and procedures regulating the area of reputational risk management.

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.

The Bank monitors capital adequacy using techniques based on BARS regulatory requirements. The minimum capital standards defined by the law and other regulations are: maintenance of the minimum level of the net capital, maintenance of the ratio of the total net capital to the total risk-weighted assets at the prescribed minimum of 12%, maintenance of the ratio of the core capital to the total risk-weighted assets at the prescribed minimum of 8% (as from December 31, 2015) and maintenance of the leverage ratio at the prescribed minimum of 6%.

The Bank's net capital, which is used for calculation of the Bank's capital adequacy ratio, represents the sum of tier 1 and tier 2 capital, decreased by deductibles consisting of, inter alia, the amount of shortfall regulatory reserves for credit losses.

34. RISK MANAGEMENT (Continued)

34.5. Capital Management (Continued)

The Bank's core, supplementary, net capital and capital adequacy calculated pursuant to the BARS regulations, are presented in the following table:

	December 31, 2015 BAM '000	**December 31,** 2014 BAM '000
Tier 1 capital		
Ordinary shares	97,055	97,055
Share premium	373	373
General legal reserves	9,706	9,706
Other reserves from profit	17 362	8,511
Retained earnings from prior and current years	25,588	25,588
Deductible items		
Intangible assets	(3,424)	(1,957)
Deferred tax assets	(61)	(88)
Negative revaluation reserves	(551)	(790)
Total tier 1 capital	146,048	138,398
Tier 2 capital		
General reserves	13,571	14,513
Positive revaluation reserves	110	123
Audited profit	-	-
Total tier 2 capital	13,681	14,636
Shortfall credit loss provisions as per regulatory requirement	(7,139)	(11,902)
Net capital	152,590	141,132
Risk-weighted assets		
Risk-weighted assets and credit equivalents	762,982	641,513
Weighted operational risk	72,165	69,265
Total weighted risks	835,147	710,778
Net capital relative to total asset risk	18.3	19.9
Core capital relative to total asset risk	17.5	19.5

* Pursuant to the Decision on the Minimum Standards for Capital Management and Capital Protection, the audited current year profit is included in the core capital in the amount distributed by the Shareholders' Meeting's Decision into the bank capital, so that in the calculation as of December 31, 2015 the current profit for the year 2015 was not included in capital calculation.

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 which may result in conflict of interest.

Tax returns, together with other legal compliance matters (e.g., customs and currency control matters) are subject to the 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 activity of the Bank may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Bank may be assessed additional taxes, penalties and interest, which can be significant. In accordance with the Law on Tax Authority of the Republic of Srpska, expiration period of the tax liability is five years. This practically means that tax authorities could determine payment of outstanding liabilities 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 funds off balance sheet, separated from its own assets. The Bank charges a fee 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, 2015 BAM '000	**December 31,** 2014 BAM '000
Consignment investments – MCI	649	599

In 2015, the Bank earned revenues from fees for managed funds in the amount of BAM 14 thousand (2014: BAM 95 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 ATMs.

The future minimum lease payments under the aforesaid operating lease contracts are summarized in the table below:

	December 31, 2015 BAM '000	**December 31,** 2014 BAM '000
Up to 1 year	522	609
From 1 to 5 years	635	1,172
Over 5 years	1	37
	1,158	1,818

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 which originates from the assets / liabilities in the appropriate time-frame.

Up to January 1, 2015, the Bank had calculated fair value only for loans and deposits with fixed interest rates. The Bank has applied IFRS 13 "Fair Value Measurement" to the periods beginning on or after January 1, 2015.

Assumptions used in assessing and measuring the fair values of financial instruments, the Bank 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 which can be accessed 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 taken from an active market when option of inputs used in assessment of Hierarchy Level 1 is excluded.

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 ≤5%.

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 > 5%.

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 bonds 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 is presented in the table below:

			December 31, 2015					December 31, 2014
	Fair value	Carrying value		Variance	Fair value	Carrying value		Variance
	BAM '000	BAM '000	BAM '000	%	BAM '000	BAM '000	BAM '000	%
Financial assets held-to-maturity	-	-	-	0.0%	36	36	-	0.0%
Loans and receivables due from banks	169,254	169,202	52	0.0%	168,313	168,313	-	0.0%
Loans and receivables due from customers	886,559	840,401	46,158	5.5%	736,221	704,956	31,265	4.4%
Total	1,055,813	1,009,603	46,210	4.6%	904,570	873,305	31,265	3.6%
Deposits and loans due to banks	384,824	306,213	(1,389)	(0.5%)	251,006	249,758	1,248	0.5%
Deposits and loans due to customers	766,073	754,151	11,922	1.6%	676,153	662,529	13,624	2.1%
Total	1,070,897	1,060,364	10,533	1.0%	927,159	912,287	14,872	1.6%

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

		December 31, 2015			December 31, 2014	
		Fair value levels			Fair value levels	
	L1	L2	L3	L1	L2	L3
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Financial assets held-to-maturity	-	-	-	-	-	36
Loans and receivables due from banks	-	49,265	119,989	-	168,313	-
Loans and receivables due from customers	-	152,936	733,623	-	211,203	525,018
Total	-	202,201	853,612	-	379,516	525,054
Deposits and loans due to banks	-	232,380	72,444	-	251,006	-
Deposits and loans due to customers	-	246,909	519,164	-	676,153	-
Total	-	479,289	591,608	-	927,159	-

38. EVENTS AFTER THE REPORTING PERIOD

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

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, 2015 and 2014 for the following more significant currencies were:

	December 31, 2015	**December 31, 2014**
USD	1.790070	1.608413
CHF	1.808609	1.626064
EUR	1.955830	1.955830

Annexes

Financial Statements composed according to the regulations of BARS

Balance sheet as of	2015	2014
	000 BAM	000 BAM
Assets		
Funds and deposit accounts with deposit institutions	240,697	234,734
Securities available for sale	143,243	128,335
Facilities to other banks	6,400	3,600
Loans, leasing receivables and due receivables	904.924	767.397
Securities held to maturity	0	36
Business premises and the other fixed assets	19,769	18,349
Investments in non-consolidated related companies	464	483
Other assets	10,093	9,428
MINUS: Impairment	(68,642)	(66,513)
Impairment on loans and due receivables	(64,072)	(61,657)
Impairment on other assets	(4,570)	(4,856)
Total assets	1,256,948	1,0 95,849
Liabilities		
Deposits	943,328	797,263
Liabilities on loans taken and other borrowings	117,036	115,025
Reserves on off-balance sheet items	1,512	1,381
Other liabilities	20,557	20,416
Total liabilities	1,082,433	934,085
Equity		
Ordinary shares	97,055	97,055
Issue premium	373	373
Unallocated profit	46,964	43,290
Capital reserves	26,627	17,550
Reserves for credit losses according to regulatory requirement	3,496	3,496
Total equity	174,515	161,764
Total liabilities and equity	1,256,948	1,095,849
Off-balance records	189,946	158,282

Financial Statements composed according to the regulations of BARS

Profit and Loss	2015	2014
Interest income and expenses		
Interest income and similar income		
Interest bearing deposit accounts with depository institutions	209	105
Securities	6,977	5,321
Loans and leasing	54,610	51,372
Receivables as per paid off off-balance liabilities	1	-
Other interest income and similar income	629	716
Total interest income and similar income	62,426	57,514
Interest expenses and similar expenses		
Deposits	(11,876)	(10,926)
Liabilities on loans taken and other borrowings	(2,232)	(2,433)
Other interest expenses and similar expenses	(1,793)	(438)
Total interest expenses and similar expenses	(15,901)	(13,797)
Net interest and similar income	46,525	43,717
Operating income		
Income from F/X deals	1,324	1,370
Fees on loans	830	707
Fees under off-balance sheet deals	1,357	1,246
Fees for services performed	11,980	11,882
Other operating income	82	41
Total operating income	15,573	15,246
Non-interest bearing expenses		
Operating and direct expenses		
Expenses of provisions for general credit risk and loan losses	(6,582)	(8,810)
Other operating and direct expenses	(2,252)	(1,668)
Total operating and direct expenses	(8,834)	(10,478)
Operating expenses		
Expenses for salaries and contributions	(15,115)	(13,953)
Expenses of business premises, other fixed assets and overheads	(9,627)	(10,149)
Other operating expenses	(5,218)	(4.754)
Total operating expenses	(29,960)	(28,856)
Total non-interest bearing expenses	(38,794)	(39,334)
Profit before tax	23,304	19,629
Taxes	(1,928)	(1,927)
Profit based on increase of deferred tax assets and decrease of deferred tax liabilities	-	-
Net profit	21.376	17,702

Business Network of UniCredit Bank a.d. Banja Luka as at December 31, 2015

No.	Name of the organitzational unit	Address	Phone no.
1.	FILIJALA BANJA LUKA	Marije Bursać 7	051/246688
1.1.	AGENCIJA OBILIĆEVO	Carice Milice 2	051/463132
2.	FILIJALA BANJA LUKA 2	Jevrejska 50	051/246662
3.	FILIJALA ČELINAC	Kralja Petra I Karađorđevića 65	051/551145
4.	FILIJALA KOTOR VAROŠ	Cara Dušana 28	051/783260
5.	FILIJALA LAKTAŠI	Karađorđeva 63	051/532215
6.	FILIJALA MRKONJIĆ GRAD	Svetog Save 13	050/211138
7.	FILIJALA PRNJAVOR	Karađorđeva 7	051/660295
8.	FILIJALA ŠIPOVO	Prva šipovačka brigada 1	050/371337
9.	FILIJALA GRADIŠKA	Vidovdanska bb	051/813412
9.1.	AGENCIJA SRBAC	Mome Vidovića 17	051/740151
10.	FILIJALA KOZARSKA DUBICA	Svetosavska 5	052/416346
11.	FILIJALA NOVI GRAD	Karađorđa Petrovića 33	052/751756
12.	FILIJALA PRIJEDOR	Vožda Karađorđa 9	052/240380
12.1	AGENCIJA KOZARAC	Maršala Tita bb	052/346050
13.	FILIJALA BIJELJINA	Patrijarha Pavla 3a	055/221361
14.	FILIJALA BRČKO	Bulevar mira 5	049/217590
14.1.	AGENCIJA ŠAMAC	Svetosavska 9	054/612745
15.	FILIJALA BROD	Jovana Raškovića bb	053/621491
16.	FILIJALA DERVENTA	Kralja Petra I Karađorđevića bb	053/312210
17.	FILIJALA DOBOJ	Kralja Dragutina 2a	051/246651
18.	FILIJALA TESLIĆ	Svetog Save 77	053/431501
19.	FILIJALA UGLJEVIK	Trg Ćirila i Metodija bb	055/771302
20.	FILIJALA LUKAVICA	Vojvode Radomira Putnika 36	057/318294
21.	FILIJALA PALE	Milana Simovića bb	057/203020
22.	FILIJALA ROGATICA	Srpske sloge bb	058/420092
23.	FILIJALA SOKOLAC	Cara Lazara bb	057/447076
24.	FILIJALA SREBRENICA	Vase Jovanovića 32	056/440269
24.1.	AGENCIJA BRATUNAC	Svetog Save bb	056/411214
25.	FILIJALA VLASENICA	Svetosavska 82	056/733353
26.	FILIJALA ZVORNIK	Karađorđeva bb	056/210407
27.	FILIJALA BILEĆA	Kralja Aleksandra 14	059/370066
28.	FILIJALA FOČA	Njegoševa 10	058/220970
29.	FILIJALA GACKO	Trg Save Vladisavića bb	059/471530
30.	FILIJALA NEVESINJE	Nevesinjskih ustanika 27	059/610470
31.	FILIJALA TREBINJE	Kralja Petra I oslobodioca 22	059/270861

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