One Bank One UniCredit

2016

Annual report

Welcome to
UniCredit Bank Banja Luka

UniCredit Bank Banja Luka 2016 Annual report

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

Welcome to
UniCredit Bank Banja Luka

We are a simple pan-European commercial bank with a fully plugged in Corporate & Investment Banking, delivering our unique Western, Central and Eastern European network to our extensive client franchise.

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

Everything we do to implement our vision is based on our Five Fundamentals. Our top priority, every minute of the day, is to serve our customers the very best we can (Customers First).

To do this, we rely on the quality and commitment of our people (People Development), and on our ability to cooperate and generate synergies as "One Bank, One UniCredit" (Cooperation & Synergies).

We take the right kind of risk (Risk Management) whilst being very disciplined in executing our strategy (Execution & Discipline).

CEO message

“With the customer in focus, constant cooperation and synergy, responsible risk management and the discipline in daily execution, and strong support in our employees, we are sure that the successful business results will come in the year ahead.”

Gordan Pehar

CEO

Dear clients, shareholders and partners,

2016 business results of UniCredit Bank a.d. Banja Luka (hereinafter: the Bank) followed a well traced way from previous years, being the leading Bank on the market of Republic of Srpska. Thus, the Bank completed the business year of 2016 with the results that surpassed the planned values, and which were above the market average. With the assets of BAM 1.4 billion and capital of BAM 186.7 million, the Bank confirmed its position of the systemically important financial institution on the market of Republic of Srpska and Bosnia and Herzegovina.

Although the Republic of Srpska macroeconomic trends and economic indicators, during the 2016, showed a mild growth of production, decrease in the number of unemployed persons, growth of average salary and increase in the Gross Domestic Product /GDP/ in comparison with the previous year, global trends and tensions negatively reflected on economic and business environment of the financial sector in BH and additionally worsened the economic environment, already challenging enough, and the limited market potential.

The strong commitment of the Bank management to maintain the long term sustainability and stability is reflected through the strong capital position of the Bank (Capital Adequacy Ratio 18.4%), loan portfolio with low NPL ratio (8.5%) and high NPL coverage ratio (79.1%), well-balanced Balance Sheet and adequate level of liquidity at every moment.

The continual growth of lending activities towards individuals and legal entities contributed to the good result (+1.7% y/y), as well as growth of deposits from clients (+4.8% y/y), which in the end also resulted in the growth of the market share of the Bank in loans and deposits on the RS market. Taking all that into account, the Bank realized the highest profitability in its newer history and strengthened the leading position on RS market year on year.

Additionally, such result is achieved thanks to high quality and commitment of the employees in the Bank, the absolute focus on customer and good client base, and the discipline in realization of the targeted activities, by recognizing and using every potential of the market, on which we do business. And what has already become our cornerstone for long, the responsible risk management and maximum cost-effectiveness, have only confirmed that this approach ensures the long term sustainable results.

Apart from that, in 2016, the Bank continued introducing and implementing the new technologies, following the newest trends in the domain of digital operations. The existing channels, as electronic banking (e-ba), were improved, and mobile banking (m-bank) was introduced, which, only in the first three months already, exceeded the number of the previous users of e-ba service. Our goal in 2017 is to maximally increase the number of m-bank users, and help the clients to recognize the benefits of digital business channels, especially considering transaction services.

As well as in all the previous years, special attention was given to the continual raising of awareness of all employees of the importance of compliance, and strict implementation of compliance of the Bank with the local, Group and European regulations in all business segments. The indispensable segment is also the permanent improvement of the Physical and IT Security, which clearly shows our clients and employees that we always work on establishment of the additional level of protection of people and assets of the Bank.

As a responsible member of the community in which we operate, we developed the Programme "For the Community", and, in the organized and clearly focused approach, we also gave the support to the most active and socially engaged associations, organizations, and public institutions. At the same time, we realized the partners' relationship with the RS Government and representatives of the local governance bodies. And as the major partner with the international clients on the RS market, we additionally promoted our International Center that conveys the experience from the European markets by connecting holding companies with their daughter companies in Republic of Srpska.

Although 2017 forecasts are somewhat more optimistic in comparison with the previous years, we still must be aware that the challenges are an inevitable part of banking operations. With the customer in focus, constant cooperation and synergy, responsible risk management and the discipline in daily execution, and strong support in our employees, we are sure that the successful business results will come in the year ahead.

On behalf of the Bank's Management Board, I would like to express gratitude to our clients, shareholders, business partners and employees for the indicated trust and all the timely feedback information, remarks and suggestions that we received from you and gladly listened to, with the aim to learn from mistakes, always deliver better solutions, confirm the remarkable business result and to celebrate the success together.

Sincerely yours,

Gordan Pehar
CEO

UniCredit Group

UniCredit is strong paneuropean commercial bank with a simple easily replicable banking model, client focused – in retail and corporate and investment banking. Thanks to own network of local banks in western, central and eastern Europe UniCredit works for needs of 25 million clients, along with over 142,000 employees and 7,500 branches, with strong international network covers 40 international markets.

UniCredit offers local expertise, as well as the exchange of international best practice and monitors and supports its customers throughout the world, providing customers access to leading banks in the markets in which UniCredit operates. The European Network of UniCredit operates in 14 countries: Italy, Germany, Austria, Bosnia and Herzegovina, Serbia, Croatia, Slovenia, Bulgaria, Romania, Czech Republic, Slovakia, Hungary, Russia and Turkey.

The Groups' and Banks' bussines is based on five fundamental values:

1. **Customer first** – our primary purpose is to be at servise to our clients the best we can, because customers are our lifeblood and the reason the Bank exists.
2. **People development** – our future success depends mostly on the quality and commitment of our people.
3. **Cooperation and synergies** – our ability to cooperate generates synergies as "One Bank – One UniCredit". It is what will drive the bank, make the business stronger and more profitable.
4. **Risk management** – managing risk is the core of our business and we need to apply it to everything we do.
5. **Execution & discipline** – discipline and focus is what will make us successful; not only to say what we do, we do what we say.

Fundamental values are the common principles underlying the current and future activities in order to meet the defined mission and vision. These principles are continuously transferred to employees in order to apply the fundamental values in their daily work and thus contribute to a joint advancement and building of corporate culture of the Bank and of the Group.

The strategy for the upcoming period

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

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

The strategy of our Bank in the coming years will be devoted to maintaining and strengthening the capital base and sustainability, improving and adapting products and services to modern needs of clients, with the transformation of traditional channels to digital services firstly, in order to preserve the Bank's position as a systemically important financial institution on the market at which we do business.
Already well-known concept of "real-life banking" that allowed us to be more realistic and closer to our customers, we expanded with approach "One Bank, One UniCredit" because we recognize that using the best practices within the Group we create each individual Bank as strong and stable, and we provide our clients with the best service.

Customers First

Our top priority, every minute of the day, is to serve our customers the very best we can. We provide solutions for a wide variety of different personal finance and enterprise business needs. Our products and services are based on our customer's real needs and aimed at creating value for both individuals and businesses.

People Development

Our success depends on the quality and commitment of our people. That's why we have such a strong commitment to developing and empowering our teams. We must make sure we can attract and retain the very best talent and we must create and nurture an environment and culture in which our staff can grow, thrive and reach their full potential.

Macroeconomic review

Global economic environment went through numerous surprises and changes during 2016. The results of the Presidential Election in the United States of America, the refugee crisis, security issues and terrorism, The United Kingdom European Union membership referendum, are only some of the significant events that marked the year. Global business activity was not on a satisfying and initially expected level. Even though the risks are still present, the enhancement and further improvement of economy is expected in the following period.

Market interest rates continued to deteriorate to a historical low, which created large pressure on the financial industry, but it has not led to large financial crises that would endanger global stability.

Bosnia and Herzegovina was generally not directly exposed to the aforementioned risks, however through indirect relations with EU countries as main trade partners, deceleration of external demand and the impact of overall insecurity were felt. The largest direct impact was created generally by low interest rates that continue to create pressure on margins, and deflation that is mainly imported from the EU through the currency board arrangement.

The Standard and Poor's Agency confirmed Bosnia and Herzegovina credit rating in 2016 – B with stable outlook, primarily spurred by the approval of the financial arrangement of BiH and the International Monetary Fund in the form of the Extended program. The expectations are that the arrangement will ensure stability and provide support to the implementation of reforms for the improvement of economic growth.

The recorded GDP growth in 2016 is still satisfying with the expected rate for the end of year amounting to 2.5%. Personal spending remains the main BiH GDP growth driver, while export and investments remained at a low level. Despite it being weaker than in 2015, the new growth acceleration of up to +3% is expected in the next year. BiH has the strongest trade relationships with EU countries, and the positive impact on economy in BiH is expected according to the expected improvement in those countries.

Despite customary numerous political turmoils and delays in implementing reforms, BiH proceeds on its European path in the process of EU accession in 2016. The new significant moment was the submission of the membership application in February 2016, and receipt of the European Commission Questionnaire during December 2016. It remains to be seen whether the political compromise will manage to overcome the complex state apparatus of BiH and manage to meet all the deadlines and data in time, for BiH to receive candidate status as soon as possible.

The relationship with the IMF remains satisfying, still ensuring the basic source of assets for fiscal consolidation. Even though the IMF blocked the last payments of IV SBA, the IMF approved a new arrangement with favourable conditions upon the request of BiH government in 2016, (443.04 million SDR – about EUR 550 million – of the Extended Fund Facility – EFF), but under strictly defined deadlines for implementation of planned reforms for the improvement of the business environment, public debt decrease, and maintenance of financial sector stability. The first tranche was granted in fall of 2016, but the second was not ensured because by then the local authorities failed to reconcile the Excise Act, which was one of the conditions for the funds withdrawal.

The significance of this arrangement is not only in direct financial aid, but in the deciding role of mobilizing international financial funds expected from the EU and the World Bank. However, it is exceptionally important that IMF funds are available for withdrawal in 2017 already, since the repayment of IV SBA becomes due, which will impact 2017 and 2018 the most.

Industrial production in 2016 recorded a growth rate of 4.3%. The construction sector, especially in the area of construction of infrastructural projects, experienced absence and delays in significant projects again. It is expected that the continuation of the works on corridor Vc in the following year will have positive impact on this industry and overall economy.

The estimated current account deficit was slightly higher in 2016 compared to 2015 (6.1% vs. 5.7% of GDP). The larger imbalance is expected in 2017 and 2018 (7.7% and 8.6% of GDP respectively), given the foreseen growth of investments and strong dependence of economy on import.

Consumer price index remained negative to the end of the year, led by imported deflation through the currency board arrangement, prices of fuel, raw materials, and food. Price recovery and positive values are expected in the following period.

Unemployment rate has still remained unacceptably high, where weak oscillations in the number of employed persons are felt, but according to the official data of the statistics agency, the rate has not yet fallen below 40%. The particularly troublesome factor is an extremely high youth unemployment rate. Average net salary remained low, but the estimated significant impact of the grey economy of 15% provides space for higher buying power compared to the officially published one.

Expectations for 2017

In 2017, the accelerating GDP growth of 3% is expected, which will be spurred by high personal spending, with the support of employment increase and actual available household income, and with the expected recovery of external demand and investments.

In addition, there is a large number of infrastructural and other large investment that were on hold in 2016 due to procedural issues in preparation of projects and gaps in ensuring funds. Timely implementation of planned reforms remains the main risk factor for further growth.

Banking Sector in 2016

BiH banking sector is stable in general, with high liquidity and capital adequacy of 16.1% in the third quarter of 2016. However, numerous challenges are shared by the banking sector in BiH with banking sectors in other countries, such as low interest rates creating significant pressure on margins, sector profitability has not yet managed to reach sustainable growth foundations and the share of non-performing loans remained high.

In 2016, the banking sector in BiH continued with the decrease of the number of banks, reaching 23 banks total. RS ended the year with one bank fewer due to liquidation of Banka Srpske, while FBiH ended the financial year with two banks fewer due to mergers of smaller banks. The decreasing trend is expected because of high concentration of banks in a relatively small market. It is expected that this trend will continue due to larger and more complex regulatory requirements, which will be followed by the market of Bosnia and Herzegovina as well.

The sector structure did not change significantly in 2016. Two banks remain dominant by the volume of assets. According to data for the third quarter, the number of employees in the banking sector decreased to 9,658, and the number of branch offices decreased to 873.

High bank liquidity, the introduction of negative interest rate on surplus assets held by banks in the CBBiH, and favourable interest rates have not managed to lead to a significant increase of loan placement. The year was marked by low credit growth of only 2% compared to the end of 2015. The two largest banks comprise 30% of total sector loan portfolio. Total banking sector loans are mostly supported by the growth of Retail sector, while Corporate remained almost at the same level as at the end of 2015. Loans to the government and public enterprises are lagged compared to the previous year for -14%. Loans to private enterprises recorded a slight, but nevertheless positive growth compared to the previous year, at the rate of 4%. Retail recorded continuous growth, however significantly weaker compared to 2015, thus implying a more cautious attitude of clients in a relatively weak business environment and uncertainty. Growing volume of client activity is aimed at savings despite lower interest rates.

The share of non-performing loans remained high, with the rate of 12.1% in the third quarter of 2016. RS remains the entity with a slightly worse quality, and has not recorded a growth of performing loans since the second quarter of 2015.

In corporate segment the ratio of NPLs in total loans is higher, while retail segment continued slight but continuous improvement. There were no significant one-time effects, except for liquidation of one bank, but which was not large enough to cause significant deviations in BH banking sector in general.

Total client deposits exceeded the volume of total loans for over BAM 500 million, whereby the ratio of loans to deposits fell below 100%. This is the result of the growth of retail deposits of +8.1% in 2016 compared to the end of 2015. In Corporate segment, during 2016 deposits of governments are largely under the influence of fluctuations of IMF funds and the dynamics of securities issuance. Total corporate deposits grew for +6.4% compared to the end of 2015, whereby private enterprises grew for +7% compared to the end of 2015, and the government and public enterprises for +6.2%. During 2016, assets held abroad by commercial banks increased additionally, while the total balance of reserves in CBBiH account exceeded four billion BAM. Average obligatory reserve recorded increased compared to the previous years, while the surplus of assets was decreased due to negative interest rate of CBBiH and weak credit activity, the banks seek other ways for employing surplus.

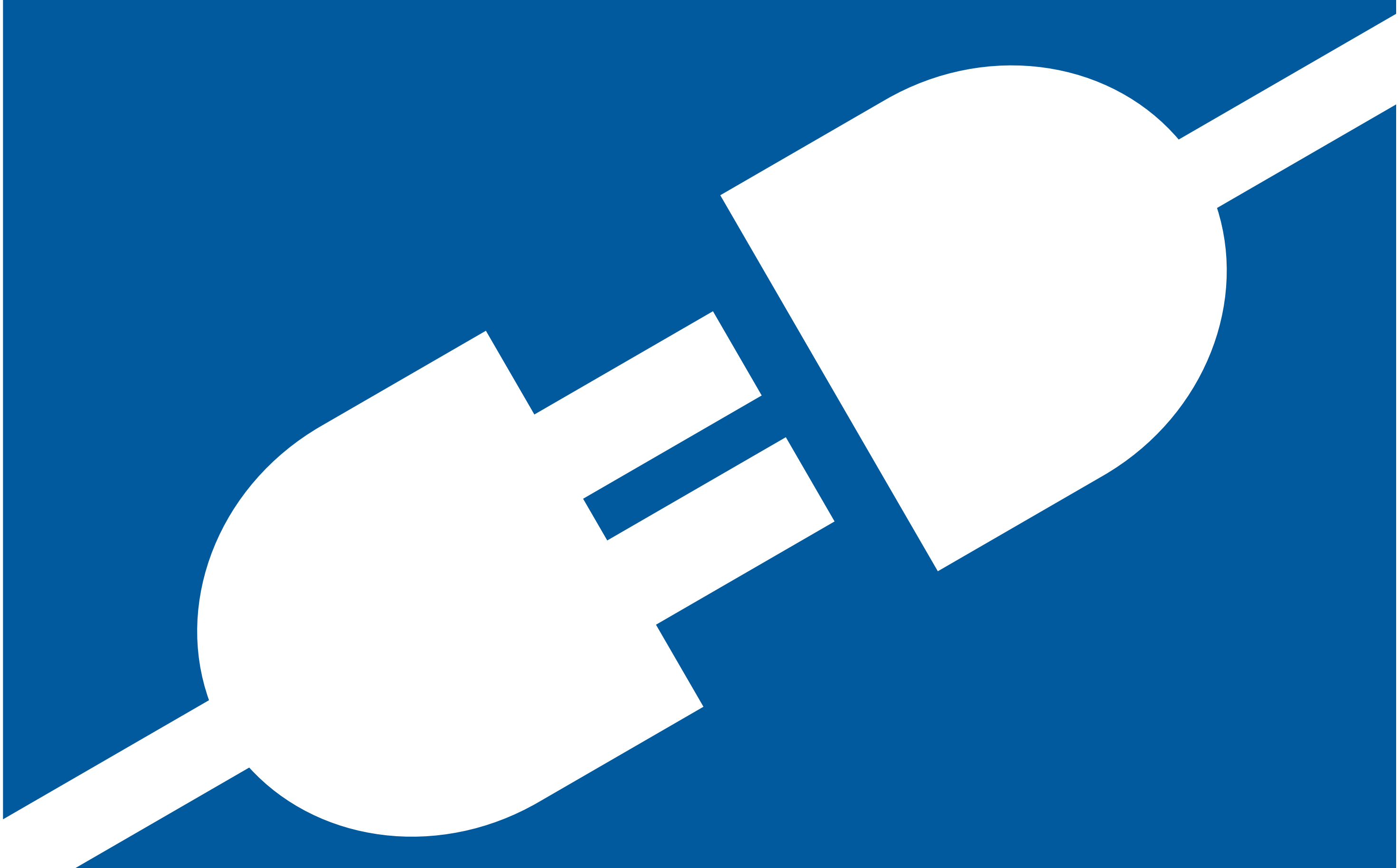
Securities portfolio in the balances of BiH banks at the end of the third quarter of 2016 amounted to BAM 1.7 billion, which represents the growth of 12% compared to the end of 2015. The majority of growth is related to investments in securities issued by FBiH and RS. During 2016, total BAM 281 million in bonds and BAM 186 million of treasury bills were issued by RS. Government of FBiH issued total BAM 320 million treasury bills and BAM 140 million of bonds. The securities issuance was mostly intensified in the fourth quarter when it became apparent that the new tranche of the EEF will not be granted because of delay in reform implementation.

The profitability of the banking sector remained fragile, determined by the movement of expenses for provisions in most banks. Majority of banks did not manage to neutralize the decrease of interest income by new activities and volumes, and the mitigation of the decrease was mainly attempted by lower expenses on deposits (lower interest rates and de-terming). In the area of non-interest income, the banks attempted to find a growth potential, but that potential becomes lower and lower. The effort on new expenditure savings continues, but a significant increase of expenses in one bank was enough to worsen the ratio of income and expenses in the entire banking sector.

Expectations in Banking sector for 2017

Further development of the banking sector mostly depends on the continuation of reforms for the enhancement of the overall business environment in the country. Those reforms in particular should revive the labour market, reanimate investments in the country, and the role of banks in these steps is of inevitable importance. On the other hand, the direct impact should be primarily felt by the planned amendments to the financial sector legislation, particularly in the area of adoption and harmonisation of a new banks act, and resolving non-performing loans. Strong revolution in growth of loans and deposits cannot be expected in the short-term, however there is space in the following years for the expected increase of economy growth through investments and export to be accompanied by banks' credit activity at the same time.

Cooperation & Synergies



Our ability to cooperate and generate synergies across departments and geographies is what makes us unique and allows us to be “One Bank, One UniCredit”. We are a true pan-European bank and we work seamlessly across the Group.

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 “Privilegovane zemaljske banke za BiH - Filijala Banja Luka“ established in 1910, UniCredit Bank a.d. Banja Luka in its bases 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 individuals, small and medium banking, corporate and investment banking, business with financial institutions and public sector entities as well as international operations.

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 to the market, transparent communication, implementation of highest reporting standards and sharing the know-how gained from the rich pool of experience of the Group the Bank belongs to.

Map of the Branch Network

Retail

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 6 regions, which are further split into branches and agencies located throughout Republic of Srpska, with 37 organizational units at the end of 2016.

Retail Banking has a portfolio of more than 319 thousand clients within individual clients and SME segment.

Commercial activities in 2016

Clients are looking for a partner in the Bank, someone who is trustworthy and confident and who will be able to follow them for a long time. The development strategy of the Bank is focused on the client needs and the development of new corresponding technologies.

In the first phase of the digitization process, the new and redesigned web site that allows quickly and easily search for information through a clear and transparent view is implemented in 2016.

Digitization and strengthening of the direct channels is recognized as one of the key directions of development in the Group. Significant place in this belongs to electronic and mobile banking.

Modern technologies nowdays offer us the possibility of using a mobile phone to access our bank account and carry out the transactions, at any time and from any place, whereby banking takes the characteristics of global.

Mobile application of our Bank is made on the highest technological and safety standards, while modern design and transparent navigation allows to navigate easly through the application.

Another advantage of mobile banking usage, besides saving the time, is saving the money because the payment is significantly cheaper than at the Bank counter.

The European Union (EU) and the European Bank for Reconstruction and Development (EBRD) in cooperation with three local banks from Bosnia and Herzegovina, launched a new program of small and medium enterprises support.

Our Bank is again the only one in the Republic of Srpska by which interested customers, which comply the prerequisites, can apply for funds from the BH-SME-CSF (Bosnia and Herzegovina SME Competitiveness Support Framework) credit line. This credit line is intended for small and medium entreprizes wanting to improve their skills in accessing and dealing with the market of the European Union (EU).

Beside the funds, this credit line provides support in introduction of EU standards at the level of SMEs in the areas of environmental protection, safety and occupational safety, and improving the quality and safety of products.

Clients recongnise the Bank as a reliable partner and during 2016 Bank recorded growth in the market shares, both in retail loans and deposits.

Volume of loans to individuals amounted to BAM 423 million, with an increase in market share to 21% in Republic of Srpska and 5.3% in BiH by the end of November 2016. It is important to note that all key indicators of portfolio quality have been improved. The main driver of this growth was the new non-purpose loans adjusted to client needs and market requirements.

Resulting from the increased customer confidence in the Bank, as a result of improving and strengthening market reputation, retail deposits have increased to BAM 354 million, resulting in an increase in market share to 12.3% in the RS and 3.3% in BiH with the end of November 2016.

Bank product development continued in 2016 primarily in the area of credit cards and direct channel products, which is a prerequisite for migration of business to channels of sale (m-bank, e-banking, ATM's, POS etc) that enable us to provide service to our customers in a faster and simpler way, in line with the needs of the modern era.

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

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, and leads business relations with more than one thousand large and medium sized clients, including public and financial institutions.

Commercial activities in 2016

During 2016, 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 and negative trend in interest rates, the Bank has increased lending to corporate clients, with total amount of loans at the end of 2016 amounting BAM 461.8 million, which resulted in the growth of market share to 19.8% in Republic of Srpska and 5.6% in BiH by the end of November 2016, while deposits of corporate clients amounted to BAM 390 million with an increase in market share to 21.5% and 5% in BiH by the end of November 2016. The structure and stability of the loan portfolio is strengthened, keeping the proportion of non-performing loans at a significantly lower level compared to the market. During the year the Bank also participated in securities auctions and confirmed its high market share in this business segment.

During 2016, the Bank 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 local companies, through projects in area of renewable energy and improvement of energy efficiency (GGF) and support for Women in Business as well as small and medium enterprises in cooperation with international financial institutions (EBRD).

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.

The focus on international clients is present throughout 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.

Thanks to UniCredit Group, clients from BiH have been offered a unique opportunity and privilege to join the program ELITE by inclusion in UniCredit CEE Lounge. Through the ELITE program, UniCredit Group, as a key banking partner of London Stock Exchange Group, provides to small and medium enterprises from its portfolio of clients, from Central and Eastern Europe, the faster development and improvement of business and offers superior training for managers with the support of Europe's leading business schools, as well as sharing knowledge and best practices.

In order to be adjusted to global trends and the needs of the market, one of the main focus is the development of direct channels and e-banking, with the aim of more efficient operations of our clients, taking into account the security of their business.

By constant improving of our business model and our products, we 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 the ease of operation. Long-term partnership and business relationship with our customers, and support the development of our economy, through projects of public importance, remain key priorities.

Financial Overview

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

In the reporting period the Bank operated in compliance with Banking Law of Republic of Srpska and decisions stipulated by the Banking Agency of Republika Srpska (hereinafter: BARS), as well as other applicable legal and subordinate regulations, and compiled reports defined by the BARS and other local institutions, as well as reports for the majority owner (managerial and for the needs of consolidated report at UniCredit Group level).

Financial indicators

In 2016, the Bank has confirmed previous trend of continuous growth and the maintenance of high standards of profitability and efficiency.

Review of financial indicators

UniCredit Bank a.d. Banja Luka			
in thousand BAM	**2016**	**2015**	**Change**
Profit and loss			
Total operating income	63,277	59,783	5.8%
Total operating expenses	(30,498)	(29,747)	2.5%
Profit before tax	24,785	23,304	6.4%
Profit for the year	22,383	21,376	4.7%
Balance sheet			
Loans and receivables with customers	854,683	840,473	1.7%
Deposits and loans from customers	790,217	754,151	4.8%
Total equity and reserves	186,670	174,515	7.0%
Total assets	1,400,048	1,255,022	11.6%
Capital adequacy			
Total risk weighted assets (RWA)	877,473	835,147	5.1%
Own funds (Regulatory capital)	161,434	152,590	5.8%
Capital adequacy ratio (CAR)	18.4%	18.3%	0.1 pp
Business indicators			
Cost income ratio	48.2%	49.8%	-1.6 pp
Return on equity (ROAE)	12.4%	12.4%	0.0 pp
Return on assets (ROAA)	1.8%	1.9%	-0.1 pp
Customers Loans to deposits ratio	108.2%	111.4%	-3.2 pp
Number of employees	429	431	-
Number of organizational units	37	36	-

Profit and loss

In 2016, the Bank generated net profit in amount of BAM 22.4 million, which is by 4.7% greather than the previous year.

Total operating income in 2016 amounts to BAM 63.3 million which is by 5.8% higher compared to total operating income generated in 2015, as the result of increase of net interest income and net fee and commission income.

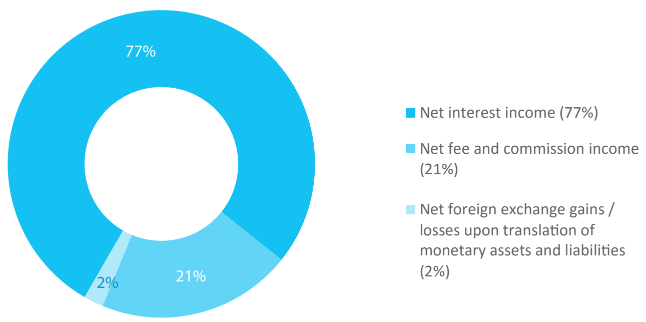
Total operating expenses in 2016 amount to BAM 30.5 million and they are higher by 2.5% vs. previous year, mostly as the result of increase of other expenses.

Cost income ratio is decreased from 49.8% to 48.2%, which is positive trend as the result of higher increase of total operating income compared to increase of total operating expenses.

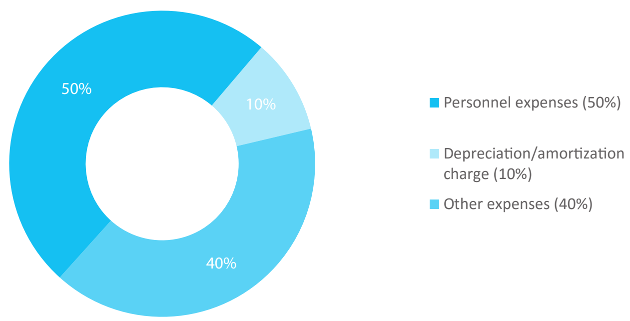
Significant growth of operating income resulted in the increase of profit before impairment and provisions by BAM 2.7 million compared to previous year.

Operative income and operative expenses

Operating income structure



Operating expenses



Net interest income generated in amount of BAM 49.0 million, is by 5.2% higher compared to the previous year, and it makes 77% of Total operating income. The increase of net interest income is driven by the increase in loan volumes and investment in securities as well as lower interest expense of sources of financing.

Net fee and commission income amounts to BAM 13.0 million which is by 9.0% higher compared to previous year, and makes 21% of total operating income. Increase of fee income is result of higher income from loan fees and increased income from payment services.

Net foreign exchange gains / losses upon translation of monetary assets and liabilities in 2016 amount to BAM 1.3 million and make 2% of total Bank operating income.

Operating expenses structure is kept at approximately the same level compared to the previous year. Personnel expenses amounting to BAM 15.1 million make 50% of total operating expenses, which is at the same level as last year. Other administrative costs with BAM 12.3 million participate with 40% in total operating expenses, while amortization of tangible and depreciation of intangible assets amount to BAM 3.1 million and makes 10% of total operating expenses. Recorded growth in total operating expenses compared to the previous year (+2.5% y/y), mainly is the result of the increase of ICT (Information and Communication Technologies) and consultancy services expenses.

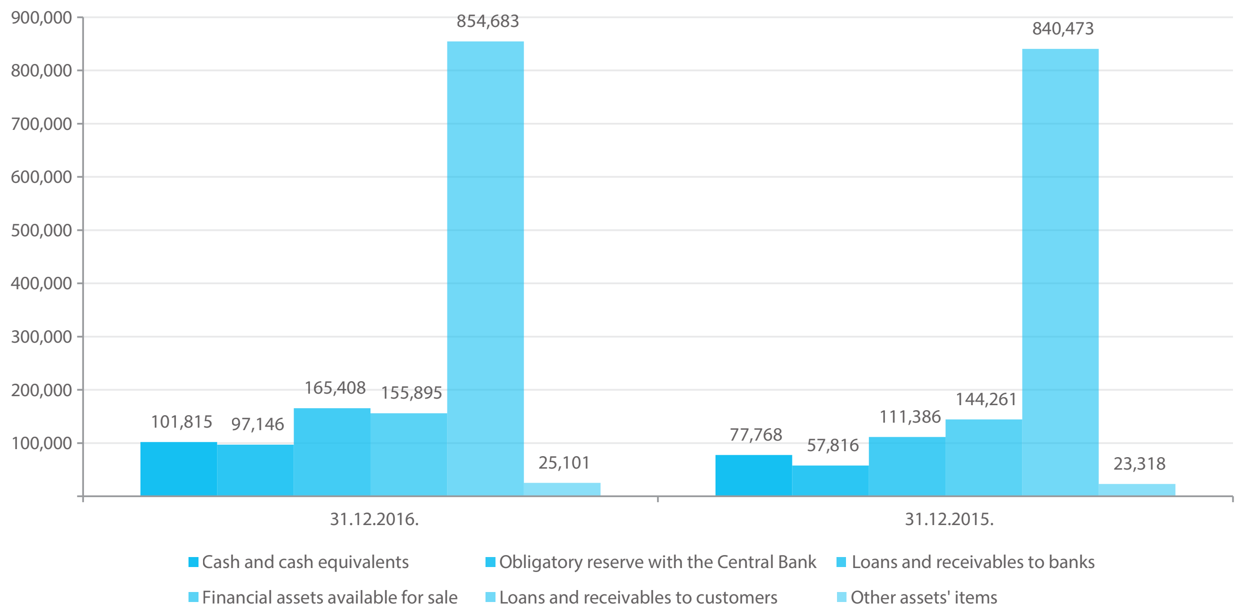
During 2016, the Bank has allocated BAM 7.8 million of impairment losses and provisions for credit risk, which is by BAM 1.5 million or 24.8% more than the amount recorded in the previous year.

Balance Sheet

Assets

Total assets as at December 31, 2016 amounts to BAM 1.4 billion which is by 11.6% higher vs. the end of the previous year.

Assets structure



In the assets' structure the most significant item is Loans and receivables with customers (61% of Total assets) amounting to BAM 854.7 million and with growth of 1.7% compared to the previous year end. Loans and receivables with banks amount to BAM 165.4 million, and together with obligatory reserve with the Central Bank and cash and cash equivalents make 26% of total assets of the Bank.

Financial assets available for sale contributes with 11% in total Bank's asset. It amounts to BAM 155.9 million with increase of 8.1% y/y and is mainly composed of securities issued by Government of Republic of Srpska.

Other items of assets are tangible and intangible assets, financial assets at fair value through profit or loss, deferred tax asset and other assets.

In the assets' structure the most significant item - loans and receivables with customers, there is approximately equal participation of loans to legal entities (54%) and loans to individuals (46%). Net loans to legal entities as of December 31, 2016 amount to BAM 460.0 million, while net loans to individuals amount to BAM 394.9 million.

Gross loans provided to legal entities are at approximately same level compared to the previous year end, while loans provioded to individuals are increased by 5.5% compared to the previous year.

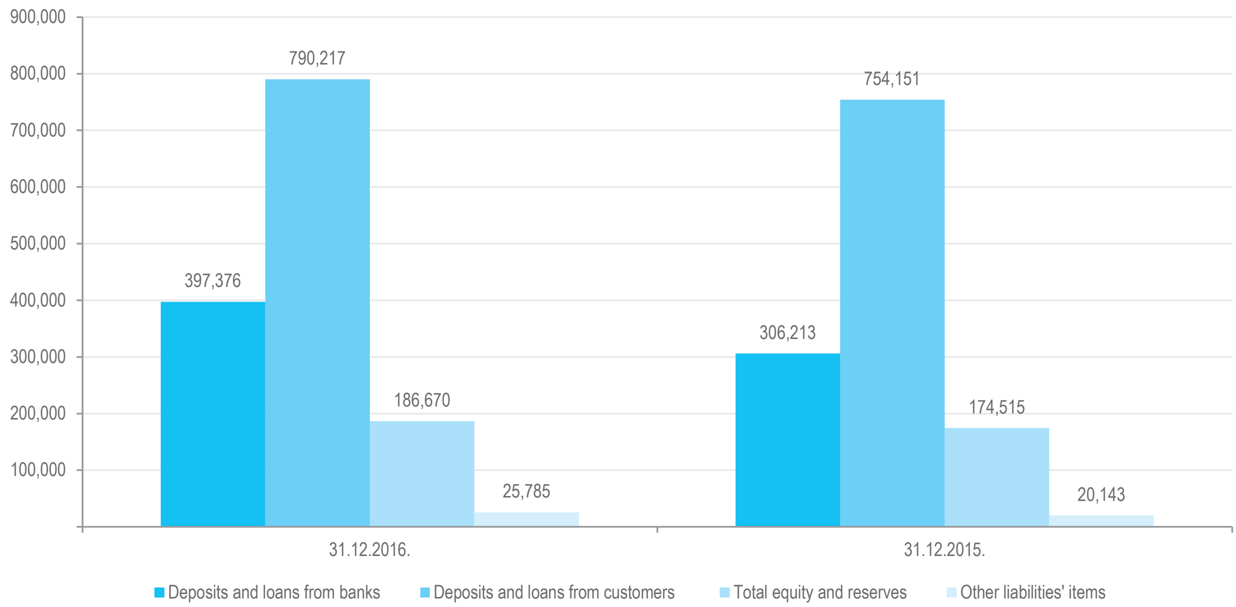
Liabilities

On the liabilities side, the most siginificant item is Deposits and loans from customers (56%). Total deposits and loans from customers amount to BAM 790.2 million and they increased by BAM 36.1 million or 4.8% compared to the previous year.

Deposits from banks amount to BAM 397.4 million which is by BAM 91.2 million or 29.8% higher vs. end of 2015.

Total Deposits and loans from banks and customers as of December 31, 2016 amount to BAM 1,187.6 million (31.12.2015: BAM 1,060.4 million), which is by BAM 127.2 million or 12% higher compared to previous year level.

Liabilities structure

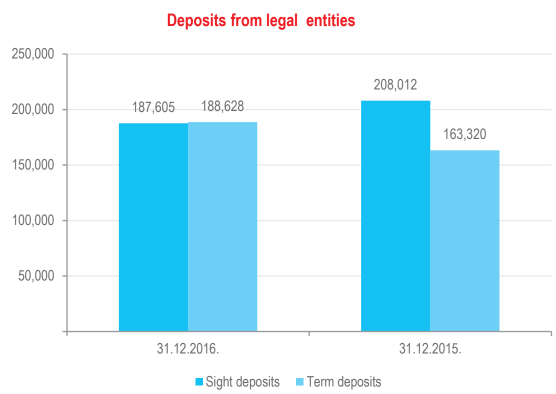


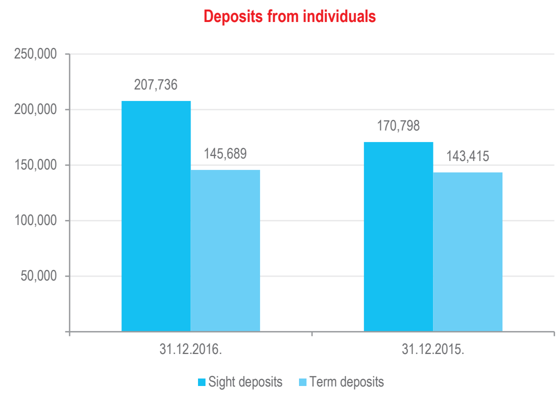
In the structure of Deposits and loans from customers, deposits and loans from legal entities make 55%, while deposits from individuals make 45%.

Deposits from legal entites amounted to BAM 376.2 million at the end of 2016, which is by BAM 4.9 million or 1.3% vs. the end of previous year. In the structure of deposits of legal entities, sight deposits and time deposits are equally presented.

Deposits from individuals amount to BAM 353.4 million, which is by BAM 39.2 million or 12.5% higher compared to previous year. Sight deposits from individuals make 58.8%, while term deposits make 41.2% of total deposits from individuals.

Structure of deposits from legal entities and individuals





In 2016, Customers Loans to deposit ratio decreased from 111.4% in 2015 to 108.2% as a result of higher increase in deposits from customers compared to the increase of loans to customers.

Share capital and reserves

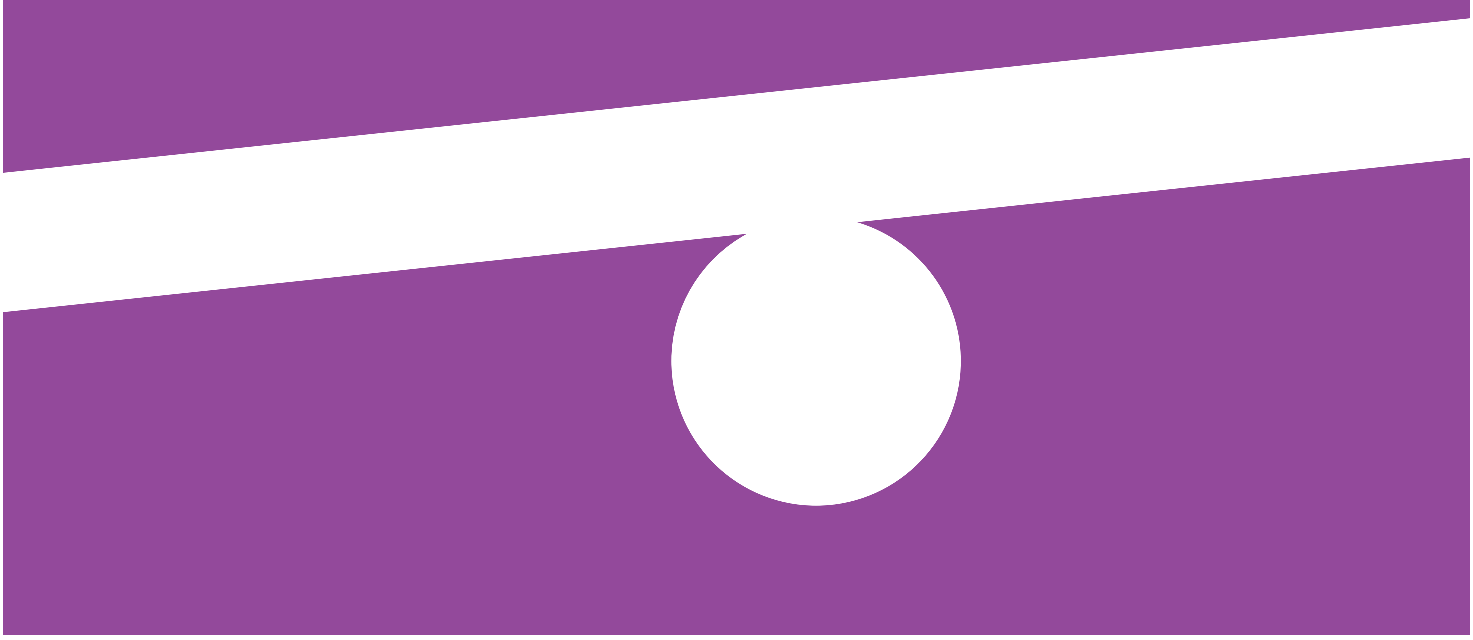
Bank's equity amounts to BAM 186.7 million, which is by BAM 12.2 million higher compared to previous year as the result of increase in other reserves from profit.

Based on the General Assembly decision, in 2016 the Bank paid out a dividend to shareholders in total amount of BAM 10.69 million (50% of net profit from 2015).

The remaining amount of net profit from 2015 was allocated to other reserves from profit.

Capital adequacy ratio is at 18.4% (31.12.2015: 18.3%), well above the regulatory minimum of 12%.

Risk Management



In order to be successful in what we do we must take risks, but we must rigorously manage our risks. We must be fully aware of the impacts of our decisions, we must take risks but we must take the right risks. And to do that, we must apply strong risk management to everything we do.

Bank Management and Organization

In accordance with the Banking Law of RS and the Statute of the Bank the managing bodies of the Bank are: General Assembly, Supervisory Board and Management Board. In addition to the managing bodies, the Bank has the Audit Committee as well.

General Assembly

The General Assembly of the Bank is the Bank's supreme managing body consisting of the Bank's shareholders. The Chairman of the General Assembly, who is elected by the present shareholders at the beginning of each session, signs the decisions.

As of 31 December 2016, the Bank has 67 shareholders of which the majority shareholder is UniCredit S.p.A, Roma with 98.44% of the total share capital of the Bank.

Bank's share capital amounts to BAM 97,055 thousand and it is divided into 138,650 ordinary "A" class shares with nominal value of BAM 700.00 per share.

In the ownership structure, the private capital participates with 99.9%, and the cooperative with 0.1% in the total capital of the Bank, and by origin, 98.5% is foreign capital, and 1.5% is domestic capital.

An ordinary "A" class share gives its holder the right vote in the General Assembly of the Bank. Owners of ordinary shares have the right to manage the Bank, the right to participate in net profit and other rights defined by the Statute, legal and other regulations.

Supervisory Board

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

As of 31 December 2016 members of the Supervisory Board are:

Miljenko Živaljić	President	Zagrebačka banka d.d.
Claudio Cesario	Deputy President	Zagrebačka banka d.d.
Jasna Mandac	Member	Zagrebačka banka d.d.
Dijana Hrastović	Member	Zagrebačka banka d.d.
Helmut Haller	Member	UniCredit S.p.A.
Martin Klauzer	Member	UniCredit S.p.A.
Georg Günther Horndasch	Member	UniCredit S.p.A.

Management Board

Management organizes, manages and coordinates the Banks' operations, represents the Bank towards third parties, it is responsible for the legal operations and the implementation of decisions of governing bodies, as well as the approved plans, strategies and business policies.

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

Management Board members in 2016 are:

Gordan Pehar	CEO (Dalibor Ćubela until 31.07.2016)
Siniša Adžić	Executive Director for Corporate and Investment Banking
Borislav Petrov Guenov	Executive Director for Retail Banking (Slaven Rukavina until 31.07.2016)
Sandra Vojnović	Executive Director for Finance Management/CFO until 22.12.2016

Audit Committee

The Audit Committee of the Bank is responsible to oversee the implementation and hiring of an external audit 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 five members who are appointed by the Supervisory Board for a period of four years.

As of 31 December 2016 members of the Audit Committee are:

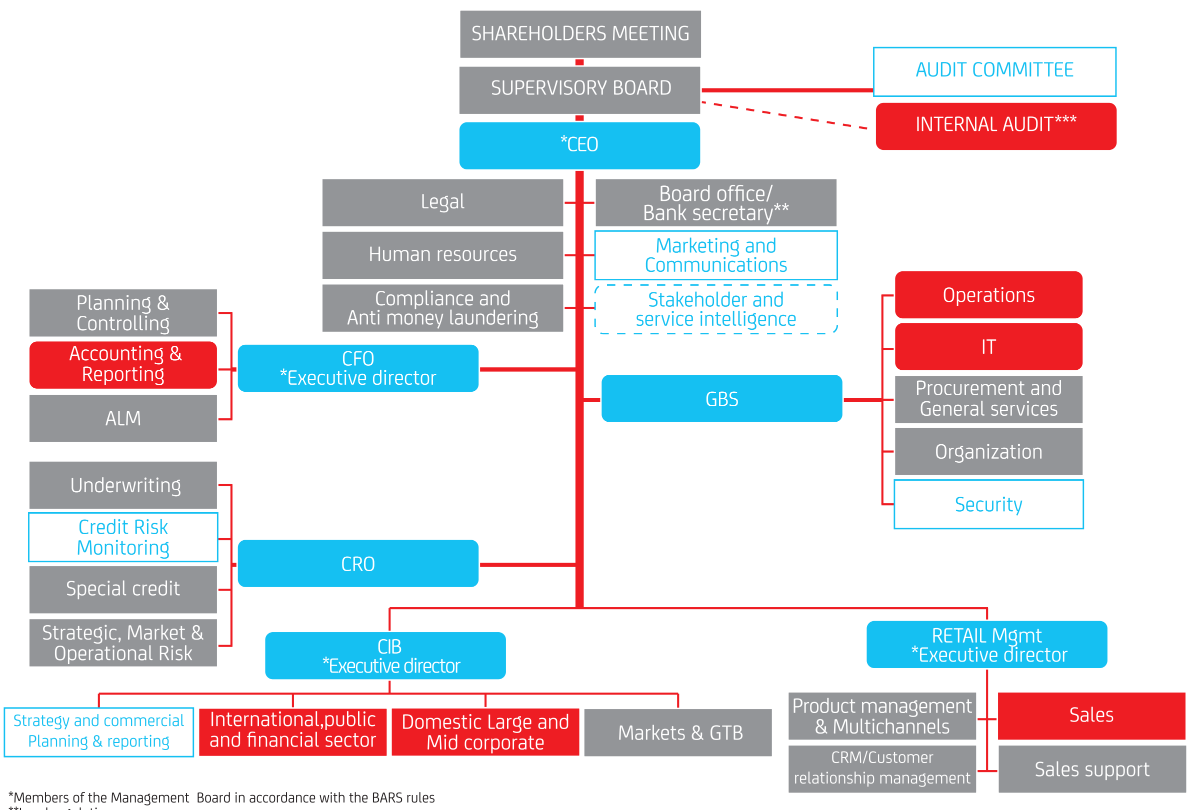
Danimir Gulin	President	Independent member
Marijana Brcko	Member	Zagrebačka banka d.d.
Hrvoje Matovina	Member	Zagrebačka banka d.d.
Christian Pieschel	Member	UniCredit Bank Austria AG
Ante Križan	Member	Zagrebačka banka d.d.

Employees

At the end of 2016 the Bank had 429 employees. Being aware that our current, and future development depends on the quality and commitment of our employees, we are constantly working on improving the knowledge and competences, through the targeted training and education, by using modern technologies and tools like: e-learning, participation in projects to acquire and exchange knowledge within the Group, mentoring and oher. In developmental activities, Banks' focus is on the training of sales staff, managers and 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 new global trends, therefore using development activities aimed at employees we are adapting to changes and market needs. At the core of our business is the satisfaction of our employees, therefore by regular people survey we get feedback from all departments and employees, based on which we are planning activities for improvement year by year. We promote a culture of equal opportunity for all, encourage proactivity, agility and internal mobility, and provide opportunities for personal growth and development.

Organisational structure of the Bank as of 31 December 2016



*Members of the Management Board in accordance with the BARS rules
**Local regulations
***According to local banking regulations Internal Audit reports directly to the Audit Committee. Only in case of significant discrepancies Internal Audit could/should report directly to the Supervisory Board

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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 (pages 2 to 68) of UniCredit Bank a.d. Banja Luka (hereinafter the "Bank"), which comprise the statement of financial position as of December 31, 2016 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UniCredit Bank a.d. Banja Luka as at December 31, 2016, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Deloitte doo

Deloitte d.o.o.
Banja Luka

February 13, 2017

Execution & Discipline

We know that to do well we must be extremely disciplined in the execution of everything we do. In addition to our strategic plan, we have performance measures in place which provide all our teams with clear targets and regularly follow-up on progress to ensure we are always on track.

Financial Statements

Financial Statements for the Year Ended December 31, 2016

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Interest income	6	63,455	62,426
Interest expenses	7	(14,491)	(15,901)
Net interest income		**48,964**	**46,525**
Fee and commission income	8	15,112	14,167
Fee and commission expenses	9	(2,120)	(2,252)
Net fee and commission income		**12,992**	**11,915**
Dividend and profit sharing income	10	3	10
Net foreign exchange gains upon translation of monetary assets and liabilities	11	1,318	1,324
Gains on investments		-	9
Total operating income		**63,277**	**59,783**
Personnel expenses	12	(15,116)	(15,115)
Depreciation/amortization charge	22,23	(3,074)	(3,068)
Other expenses	13	(12,308)	(11,564)
Total operating expenses		**(30,498)**	**(29,747)**
Profit before impairment and provisions		**32,779**	**30,036**
Net impairment losses and provisions for credit risks	14	(7,784)	(6,236)
Provisions for risks and expenses	15	(103)	(346)
Other operating expences		(249)	(137)
Gains/(losses) on sales of property and equipment		142	(13)
Profit before taxes		**24,785**	**23,304**
Income tax expense	16	(2,402)	(1,928)
Profit for the year		**22,383**	**21,376**
Other comprehensive income, net of income tax			
Items that may subsequently be reclassified to profit and loss			
- Gains on the financial assets available for sale		460	226
Total comprehensive income for the year		**22,843**	**21,602**
Basic and diluted earnings per share (in BAM)	31	161.44	154.17

These financial statements were approved by the Bank's Management as at February 7, 2017.

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

Gordan Pehar,

CEO

Siniša Adžić

Executive Officer

STATEMENT OF FINANCIAL POSITION

As of

	Note	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Assets			
Cash and cash equivalents	17	101,815	77,768
Obligatory reserve held with the Central Bank	18	97,146	57,816
Loans and receivables with banks	19	165,408	111,386
Financial assets available for sale	21a	155,895	144,261
Financial assets at fair value through profit or loss		534	548
Loans and receivables with customers	20	854,683	840,473
Property and equipment	22	16,192	16,345
Intangible assets	23	4,566	3,424
Other assets	24	3,806	2,940
Deferred tax assets	29	3	61
Total assets		**1,400,048**	**1,255,022**
Liabilities			
Deposits and borrowings from banks	25	397,376	306,213
Deposits and loans from customers	26	790,217	754,151
Financial liabilities at fair value through profit or loss		-	209
Other liabilities	27	23,459	17,726
Provisions for liabilities and expenses	28	2,026	2,207
Income tax payable		300	1
Total liabilities		**1,213,378**	**1,080,507**
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		19	(441)
Legal reserve		9,706	9,706
Other reserves from profit		28,050	17,362
Retained earnings		25,588	25,588
Net profit for the year		22,383	21,376
Total equity and reserves		**186,670**	**174,515**
Total liabilities, equity and reserves		**1,400,048**	**1,255,022**

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, 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	-	-	-	-	-	-	(8,851)	-	(8,851)
Net profit for the year	-	-	-	-	-	-	-	21,376	21,376
Other comprehensive income									
Net gains from 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 31 December 2015	**97,055**	**373**	**3,496**	**(441)**	**9,706**	**17,362**	**25,588**	**21,376**	**174,515**
Balance as at January 1, 2016									
Profit distribution	-	-	-	-	-	10,688	10,688	(21,376)	-
Dividend payment (Note 31)	-	-	-	-	-	-	(10,688)	-	(10,688)
Net profit for the year	-	-	-	-	-	-	-	22,383	22,383
Other comprehensive income									
Net gains on changes in fair value of financial assets available for sale	-	-	-	460	-	-	-	-	460
Total other comprehensive income	-	-	-	460	-	-	-	-	460
Total comprehensive income	**-**	**-**	**-**	**460**	**-**	**-**	**-**	**22,383**	**22,843**
Balance as at December 31, 2016	**97,055**	**373**	**3,496**	**19**	**9,706**	**28,050**	**25,588**	**22,383**	**186,670**

STATEMENT OF CASH FLOWS

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Cash flows from operating activities		
- Interest received	63,455	62,426
- Fees and commissions received	15,112	14,167
- Interest paid	(14,491)	(15,901)
- Fees and commissions paid	(2,120)	(2,252)
- Operating expenses paid	(27,424)	(26,679)
- Net proceeds from trading	1,318	1,324
- Other payments	(104)	(131)
1. Net cash generated by operating activities	**35,746**	**32,954**
Changes in operating assets and liabilities		
Net increase / (decrease) in loans and receivables with banks	(54,022)	5,753
Net increase / (decrease) in loans and receivables with customers	(21,532)	(141,217)
Net increase / (decrease) in accrued interest and other assets	(871)	(1,760)
Net increase / (decrease) in obligatory reserve held with the Central Bank	(39,330)	(6,642)
Net increase / (decrease) in deposits from banks	91,163	56,455
Net increase / (decrease) in deposits from customers	36,066	91,622
Net increase / (decrease) in other liabilities	5,733	1,382
2. Net changes in operating assets and liabilities	**17,207**	**5,593**
3. Net cash generated by operating activities before taxes (1+2)	**52,953**	**38,547**
4. Income taxes paid	**(2,101)**	**(1,927)**
5. Net cash generated by operating activities (3+4)	**50,852**	**36,620**
Cash flows from investing activities		
Purchases of property, equipment and intangible assets	(4,471)	(4,794)
Net increase / (decrease) in financial assets available for sale	(11,634)	(15,155)
Net increase / (decrease) in financial assets held to maturity	-	36
Dividend payment	(10,700)	(8,822)
6. Net cash used in investing activities	**(26,805)**	**(28,735)**
7. Net increase in cash and cash equivalents (5+6)	**24,047**	**7,885**
8. Cash and cash equivalents at the beginning of year	**77,768**	**69,883**
9. Cash and cash equivalents at the end of year (7+8)	**101,815**	**77,768**

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

In accordance with regulations on privatization of state-owned capital in the Republic of Srpska, in October 2000, shares of state-owned enterprises in the Bank were transferred to the management of the RS Ministry of Finance until the completion of privatization of the state-owned capital.
In early 2002, the Government of the Republic of Srpska sold the state-owned shares of the Bank to the company "Verano Motors d.o.o. Belgrade". The first Shareholders' Meeting of the private Bank adopted a decision on the change of the name from "Banjalučka banka" into "Nova banjalučka banka a.d. Banjaluka".

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

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

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

As at December 31, 2016, the Bank consisted of the Head Office in Banja Luka with the registered address at no. 7, Marije Bursać Street, 31 branch offices and 6 agencies (December 31, 2015: 31 branch offices and 5 agencies). As at December 31, 2016, the Bank had 429 employees (2015: 431 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 the Current Financial

Initial application of new standard and amendments to the existing standards effective for the Current Financial Period

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

- IFRS 14 "Regulatory Deferral Accounts" (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 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 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 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 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 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016);and
- 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).

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

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

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018), and
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

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. 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

The accompanying financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at fair value 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.

In preparing the statement of cash flows for the year ended December 31, 2016, the Bank used direct cash flow reporting method.

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

2.4. Functional Currency and Presentation Currency

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

The Central Bank of Bosnia and Herzegovina (the "Central Bank") implements the policy on FX rate in line with the principle of the Currency Board, according to which BAM is fixed to EUR at the rate of BAM 1 = EUR 0.51129, which was used for 2016 and 2015.

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 2015, as explained hereafter. The aforesaid reclassifications have no impact on the Bank's result or equity.

Statement of comprehensive income:

- An amount of BAM 13 thousand was reclassified from the item of "other operating income and expenses", to the line item of "gains/losses on sale of property and equipment" which was introduced to the statement of comprehensive income.

Statement of financial position:

- An amount of BAM 72 thousand was reclassified from the item of "other assets" to the line item of "loans and receivables with customers" (Notes 20.5. and 24.4).

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 comprehensive income as they accrue for all interest-bearing instruments using the effective interest method, i.e. at the rate that discounts the estimated cash flows to their net present value over the respective contract term.

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

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

Interest income and expenses recognized in profit or loss include:

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

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

3.4. Foreign Currencies

Transactions in foreign currencies are translated into BAM at the exchange rate prevailing at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into BAM at the foreign exchange rate effective at that date. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income, except in the case of FX gains and losses arising on non-monetary available-for-sale financial assets, which are recognized 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.

3. Significant accounting policies (Continued)

3.5. Income Taxes (Continued)

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.

3.6. Financial Instruments

Classification

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

Loans and receivables are non-derivative financial assets with fixed or determinable 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 with 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.

3. Significant accounting policies (Continued)

3.6. Financial Instruments (Continued)

Classification (Continued)

Financial assets and financial liabilities at fair value through the statement of comprehensive income (FVTOCI) have two sub-categories: financial assets held for trading (including derivatives) and those designated by management as FVTOCI 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 total profit and include current accounts, deposit accounts and borrowings.

Recognition

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

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

Measurement

(a) Loans and Receivables

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

(b) Available-for-Sale Financial Assets

AFS financial assets are initially measured at fair value increased by transaction costs that are directly attributable to the acquisition or issue of 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 - “Fair value”, the Bank performs revaluation of all securities in its portfolio thereby adjusting the balances of securities to their fair value.

Special attention upon revaluation is paid to debt securities portfolio, which comprises a significant portion of the Bank’s assets as of December 31, 2016 and revaluation is calculated based on the interest rate risk, i.e. the risk of change to the market interest rate (IR-delta), which is more manifest in instruments with fixed yield.

(c) Financial Assets and Financial Liabilities at Fair Value through Other Comprehensive Income (FVTOCI)

Financial assets and liabilities carried at fair value through other comprehensive income are initially recognized at fair value. All transaction costs are immediately expensed within statement of comprehensive income. 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.

3. Significant accounting policies (Continued)

3.6. Financial Instruments (Continued)

(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 the statement of comprehensive income.

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 the statement of comprehensive income. 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 the statement of comprehensive income. 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.

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,
- available data which imply 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.

3. Significant accounting policies (Continued)

3.6. Financial Instruments (Continued)

Impairment of Financial Assets (Continued)

1) Loans and Receivables (Continued)

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 the statement of comprehensive income.

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 October 2016, the Bank implemented a new counter of days past due for the purpose of impairment allowance and provision calculation in accordance with the requirements of IFRS. Counting of the number of days past due in libility settlement commences when liabilities matured at the individual borrower level exceed the materiality threshold defined. This change resulted in the increase in impairment allowance of the loan portfolio and provisions for losses per off-balance sheet items against provisions for risks for the current year in the amount of BAM 1.7 million. The aforedescribed change in the accounting estimate is immaterial and its effects on the future accounting periods cannot be anticipated at present.

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 statement of comprehensive income. Write-off of irrecoverable receivables is performed based on the relevant decision of the Credit Committee, and in accordance with court decisions, agreements between interested parties and the Bank's assessments.

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

3. Significant accounting policies (Continued)

3.6. Financial Instruments (Continued)

2) Available-for-Sale Financial Assets

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

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

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

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

3) 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 the statement of comprehensive income, are not subsequently reversed through the statement of comprehensive income.

Derecognition

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

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

Loans and receivables and other financial liabilities are derecognized at the date that they are transferred / 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.

3. Significant accounting policies (Continued)

3.6. Financial Instruments (Continued)

Fair Value Measurement Principles (Continued)

Valuation techniques for fair value involve models of cash flow discounting to the net present value, comparison to the similar instruments with identifiable market prices and other valuation techniques. Assumptions and inputs used in valuation techniques include risk-free and key policy and reference interest rates, credit margins, prices of shares and bonds, FX rates, prices of indices and 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.

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.

3. Significant accounting policies (Continued)

3.6. Financial Instruments (Continued)

Specific Instruments (Continued)

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

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

b) Cash and Cash Equivalents

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

c) Obligatory Reserve Held with the Central Bank

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

d) Loans and Receivables with 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 with banks.

e) Loans and Receivables with 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 financial liabilities and are initially recognized 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 lives are reviewed at each reporting date.

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

3. Significant accounting policies (Continued)

3.7. Property and Equipment (Continued)

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

	2016	2015
Buildings	2.0% - 5.0%	2.0% - 5.0%
Electronic equipment	12.5% - 25.0%	12.5% - 25.0%
Office furniture and equipment	12.5% - 20.0%	12.5% - 20.0%
Other	12.5% - 25.0%	12.5% - 25.0%
Leasehold improvements	20.0%	20.0%

3.8. Intangible assets

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

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

Amortization rates used for intangible assets are set out below:

	2016	2015
Intangible assets – software and licenses	20.0% - 25.0%	20.0% - 25.0%

3.9. Impairment of Non-Financial Assets

The net carrying values of intangible assets in progress and intangible assets with 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 comprehensive income 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.

3. Significant accounting policies (Continued)

3.9. Impairment of Non-Financial Assets (Continued)

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.

Reserves from Profit

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

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

Share Premium

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

Regulatory Reserve for Credit Losses

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

3. Significant accounting policies (Continued)

3.11. Equity (Continued)

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.

Accumulated profit (retained earnings)

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

3.12. Commitments and Contingent Liabilities

In the regular course of business, the Bank enters into 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 for and on Behalf of Third Parties

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

3.15. Employee Benefits

a) Employee Salaries

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

3. Significant accounting policies (Continued)

3.15. Employee Benefits (Continued)

b) Jubilee Awards

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

c) Retirement Benefits

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

3.16. Dividend Income

Dividend income is recognized in the statement of comprehensive income 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 of current period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

3.18. Leases

Leases where the Bank as a lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. At the reporting date, the Bank had no finance leases. All other leases are classified as operating leases. Payments made under operating leases are recognized in the statement of comprehensive income 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.

4. Significant accounting estimates and judgments (Continued)

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.

a) Impairment Losses on Loans and Receivables

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

Impairment losses are recognized mainly against the carrying value of loans to legal entities and individual 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 legal entity exposures where objective evidence of impairment exists and individual exposures that are materially significant. Individual exposures that are not materially significant but exhibit objective evidence of receivables impairment, are assessed for impairment on a group (portfolio) basis. All exposures for which no impairment losses were confirmed are assessed for impairment on a group (portfolio) basis. (generic "IBNR" provisions).

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

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

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

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

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)

a) Impairment Losses on Loans and Receivables (Continued)

	Note	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Breakdown of impairment allowances (IFRS)			
Impairment allowance for loans to customers	20b	71,686	64,072
Provisions for off-balance sheet contingent liabilities	27	1,474	1,512
		73,160	**65,584**
Impairment allowance for interest and fee receivables	20a	3,383	3,350
Impairment allowance for other assets	24	525	521
Impairment allowance for loans and receivables		**77,068**	**69,455**
Impairment of available-for-sale financial assets		87	699
Total impairment losses		**77,155**	**70,154**

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, 2016 BAM '000	December 31, 2015 BAM '000
Breakdown of impairment allowances (BARS)		
Impairment allowance for loans to customers	78,148	72,891
Provisions for off-balance sheet contingent liabilities	3,855	3,755
	82,003	**76,646**
Impairment allowance for interest and fee receivables	3,398	3,393
Impairment allowance for other assets	899	750
Total impairment losses	**86,300**	**80,789**

4. Significant accounting estimates and judgments (Continued)

a) Impairment Losses on Loans and Receivables (Continued)

Regulatory reserve for credit losses:

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Impairment allowances under BARS	86,300	80,789
Impairment allowances under IFRS	(77,155)	(70,154)
Opening balance of regulatory reserve	(3,496)	(3,496)
Shortfall regulatory reserve for capital adequacy calculation	**5,649**	**7,139**

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

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

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

	December 31, 2016 BAM '000			December 31, 2015 BAM '000		
	Legal entities	Individuals	Total	Legal entities	Individuals	Total
Gross exposure	48,008	30,627	**78,635**	47,273	26,092	**73,365**
Impairment	37,901	24,334	**62,235**	34,311	20,651	**54,962**
Impairment rate	78.9%	79.5%	**79.1%**	72.6%	79.1%	**74.9%**

Each additional increase in the impairment rate of 1 percentage point of the gross non-performing exposure presented above as at December 31, 2016, would have resulted in the recognition of an additional impairment loss of BAM 786 thousand (2015: BAM 734 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).

As at December 31, 2016 the amount of impairment losses assessed on a portfolio basis (IBNR provisions) amounted to BAM 9,451 thousand (2015: BAM 9,110 thousand) of the relevant on and off-balance sheet exposure. Total IBNR provision amounted to 1.1% (2015: 1.1%) of the net loans to customers.

4. Significant accounting estimates and judgments (Continued)

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 Special Credit Management. 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 1,773 thousand (2015: BAM 1,956 thousand), out of which the amount of BAM 185 thousand (2015: BAM 295 thousand) relates to labor suits and BAM 1,587 thousand (2015: BAM 1,661 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").

5. Segment reporting (Continued)

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

Statement of comprehensive income by segment

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

*Segment report line item

5. Segment reporting (Continued)

Statement of comprehensive income by segment (Continued)

Year Ended December 31, 2015	Corporate & Investment Banking BAM '000	Retail BAM '000	Other BAM '000	Total BAM '000	Adjust-ments BAM '000	Total Notes 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/expenses*	(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 expenses	(780)	(977)	-	(1,757)	1,411	(346)
Impairment losses on property and equipment*	-	-	(17)	(17)	17	-
Other operating income and expences	-	-	-	-	(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**

*Segment report line item

Income and results per segment presented in the tables above (for the years ended December 31, 2016 and 2015) 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.

5. Segment reporting (Continued)

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

Statement of financial position by segment

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

5. Segment reporting (Continued)

Statement of financial position by segment (Continued)

As of December 31, 2015	Corporate & Investment Banking BAM '000	Retail BAM '000	Other BAM '000	Total BAM '000	Adjust-ments 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 with 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 with customers	431,006	409,467	-	840,473	-	840,473
Property and equipment	-	-	16,345	16,345	-	16,345
Intangible assets	-	-	3,424	3,424	-	3,424
Other assets	-	-	2,940	2,940	-	2,940
Deferred tax assets	-	-	61	61	-	61
Total assets	**531,933**	**409,467**	**313,622**	**1,255,022**	**-**	**1,255,022**
Liabilities						
Deposits and loans from banks	-	-	306,213	306,213	-	306,213
Deposits and loans from 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**

6. Interest income

a) Breakdown by source:

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Individual customers	30,108	28,464
Legal entity customers and entrepreneurs	16,353	15,825
Banks and financial institutions	127	218
Public sector	16,867	17,919
	63,455	**62,426**

b) Breakdown by product/banking operation

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Loans and receivables with customers	55,560	55,196
Loans and receivables with banks	178	218
Obligatory reserve with the Central Bank	(75)	-
Debt securities	7,792	7,012
	63,455	**62,426**

7. Interest expenses

a) Breakdown by recipient:

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Individual customers	4,592	4,859
Legal entity customers and entrepreneurs	2,759	3,598
Banks and other financial institutions	4,319	4,021
Public sector	227	651
Other organizations	2,594	2,772
	14,491	**15,901**

b) Breakdown by product/banking operation

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Current accounts and deposits - individuals	4,592	4,859
Current accounts and deposits – legal entities	1,891	3,054
Current accounts and deposits - banks	3,948	3,500
Borrowings from banks	1,467	1,716
Borrowings from another institutions	2,593	2,772
	14,491	**15,901**

8. Fee and commission income

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Domestic payment transactions	5,709	5,330
Foreign payment transactions	1,929	1,778
Payment of foreign pensions and remittances of individuals	1,666	1,550
Issuance of guarantees and other sureties	1,324	1,357
Card operations	1,651	1,302
Loan origination fees	1,419	995
Foreign exchange spot trading gains and cash operations	987	1,306
Other fees and commissions	427	549
	15,112	**14,167**

9. Fee and commission expenses

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Domestic payment transactions	466	453
Foreign payment transactions	159	148
Guarantees and other sureties received	13	43
Card operations	1,280	1,120
Cash operations	42	393
Loan origination/processing fees	92	47
Other fees and commissions	68	48
	2,120	**2,252**

10. Dividend and profit sharing income

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Dividend income	3	10
	3	**10**

11. Net foreign exchange gains upon translation of monetary assets and liabilities

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Net foreign exchange gains upon translation of monetary assets and liabilities	1,318	1,324
	1,318	**1,324**

12. Personnel expenses

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Fixed payments – gross salaries	12,904	12,446
Variable payments - bonuses	1,275	1,232
Other personnel costs	403	645
Severance pays and retirement benefits	431	632
Other costs (service contracts)	103	160
Total personnel expenses	**15,116**	**15,115**

Personnel expenses include contributions for pension and disability insurance paid in 2016 in the amount of BAM 2,708 thousand (2015: BAM 2,690 thousand).

13. Other expenses:

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Information & communication technology expenses	3,373	2,937
Sundry operating expenses	2,457	2,366
Real estate expenses	1,744	1,680
Consulting & professional services	1,446	1,255
Security and cash management	1,130	1,286
Advertising & marketing expenses	869	810
Back office expenses	610	638
Other personnel expenses	310	312
Indirect taxes and duties	321	267
Loan origination and monitoring fees payable	48	13
	12,308	**11,564**

14. Net impairment losses and provisions for credit risk

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Loans and receivables with customers (Note 20b)	7,821	6,105
Off-balance sheet items (Note 27)	(37)	131
	7,784	**6,236**

15. Provisions for risks and expenses

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Provisions for litigations	103	346
	103	**346**

16. Income taxes

Income tax charged to the statement of comprehensive income comprises current and deferred taxes.

b) Income tax expense recognized within the statement of comprehensive income:

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Current income tax expense	2,402	1,928
Total	**2,402**	**1,928**

c) Reconciliation of income tax expense

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Profit before tax	**24,785**	**23,304**
Income tax at the rate of 10%	2,479	2,330
Decrease of income tax for deductible income	(781)	(786)
Increase of income tax for impairment losses on loans and other assets which are not deductible for tax purposes	366	238
Increase of income tax for other expenses not deductible for tax purposes	165	146
Adjustment to the income tax for prior years	173	-
Income tax expense	**2,402**	**1,928**
Average effective income tax rate	**9.69%**	**8.27%**

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

Tax liabilities are recognized in accordance with the tax 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, 2016 BAM '000	December 31, 2015 BAM '000
Cash in domestic currency	17,143	11,748
Funds held with the Central Bank – giro account	77,465	61,263
Cash in foreign currencies	7,207	4,757
	101,815	**77,768**

18. Obligatory reserve with the central bank

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Obligatory reserve with the Central Bank in domestic currency	97,146	57,816
	97,146	**57,816**

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).

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

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

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

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

19. Loans and receivables with banks

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
- foreign banks	160,606	104,930
- domestic banks	4,802	6,456
	165,408	**111,386**

Loans and receivables with banks include the amount of BAM 51,429 thousand (2015: BAM 39,095 thousand) of loans to and receivables from related banks.

Loans and receivables with related banks include BAM 4,800 thousand which refers to the funds placed as cash collaterals (2015: BAM 6,400 thousand).

20. Loans and receivables with customers

a) Breakdown by product

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Legal entities		
- in BAM	204,494	228,074
- in foreign currencies	124,668	128,233
- with foreign currency clause	174,271	147,678
Total gross	**503,433**	**503,985**
Impairment of loan principal amounts	(43,463)	(40,315)
	459,970	**463,670**
Individuals		
- in BAM	166,596	152,120
- in foreign currencies	60	72
- with foreign currency clause	256,421	248,819
Total gross	**423,077**	**401,011**
Impairment of loan principal amounts	(28,223)	(23,757)
	394,854	**377,254**
Net loans	**854,824**	**840,924**
Interest receivables matured	4,837	4,825
Impairment of interest receivables – legal entities	(2,607)	(2,614)
Impairment of interest receivables - individuals	(776)	(736)
Collected fee not included into income	(1,595)	(1,926)
Loans and receivables with customers	**854,683**	**840,473**

b) Movements on impairment allowance of loans

	Loans - legal entities BAM '000	Loans - individuals BAM '000	Total loans BAM '000
Balance as at January 1, 2015	**41,765**	**19,892**	**61,657**
Net loss recognized in the statement of comprehensive income (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**
Net loss recognized in the statement of comprehensive income (Note 14)	3,359	4,462	7,821
Write-offs/transfers	(211)	4	(207)
Balance as at December 31, 2016	**43,463**	**28,223**	**71,686**

c) Geographic concentration of credit risk

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

20. Loans and receivables with customers (Continued)

d) Concentration of credit risk by industry

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

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Loans to legal entity customers		
Mining and energy	33,386	23,570
Agriculture	10,145	9,581
Construction industry	33,681	31,293
Manufacturing industry	155,524	155,005
Trade	124,513	111,615
Services	2,951	3,001
Transport	4,728	10,395
Finance	1,009	2,740
Public sector (central institutions)	87,766	105,030
Local self-government	45,777	47,851
Non-profit institutions	3,953	3,904
	503,433	**503,985**
Individual loans	423,077	400,939
Total gross loans	**926,510**	**904,924**
Impairment allowance	(71,686)	(64,072)
Total net loans	**854,824**	**840,852**

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

21. Financial assets

21. a) Financial assets available for sale

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Equity securities		
Domestic insurance companies	8	8
Other domestic companies	338	338
Foreign companies	8	8
	354	**354**
Quoted	8	8
Unquoted	346	346
	354	**354**
Debt securities		
Municipal bonds	5	6
Bonds of the Republic of Srpska	151,842	125,949
Treasury Bills of the Republic of Srpska	3,694	17.952
	155,541	**143,907**
Quoted	155,541	143,907
Unquoted	-	-
	155,541	**143,907**
Total financial assets available for sale	**155,895**	**144,261**

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

December 31, 2016	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	Total BAM 000
Equity securities	-	-	354	354
Municipal bonds	-	5	-	5
Bonds of the Republic of Srpska	-	151,842	-	151,842
Treasury Bills of the Republic of Srpska	-	3,694	-	3,694
Total	**-**	**155,541**	**354**	**155,895**
December 31, 2015				
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
Total	**-**	**-**	**144,261**	**144,261**

Transfers among the hierarchy levels of the fair value of debt securities from level 3 to the level 2 in 2016 were made based on the reassessment of the local (Republic of Srpska) market data and reconciliation of the levels through the process of independent price verification (IPV) established on the level of UniCredit Group. After collecting and analyzing detailed data on turnover and debt security prices on the market of the Republic of Srpska, it was decided on the level of UniCredit Group that debt securities in the Bank's portfolio ought to be kept within hierarchy level 2.

21. Financial assets (Continued)

21. 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 "B 3 / stable."

22. Property and equipment

	Land and buildings BAM '000	Equipment and other assets BAM '000	Investment in progress BAM '000	Total property and equipment BAM '000
Cost				
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)
Sales and write-offs	-	(240)	-	(240)
Balance as at December 31, 2015	**26,072**	**19,498**	**382**	**45,952**
Balance as at January 1, 2016	**26,072**	**19,498**	**382**	**45,952**
Additions	-	-	1,874	1,874
Transfers	566	963	(1,529)	-
Sales and write-offs	(1,380)	(4,632)	-	(6,012)
Balance as at December 3 1, 2016	**25,258**	**15,829**	**727**	**41,814**
Accumulated depreciation				
Balance as at January 1, 2015	**12,314**	**15,750**	**-**	**28,064**
Charge for the year	596	1,114	-	1,710
Sales and write-offs	-	(167)	-	(167)
Balance as at December 31, 2015	**12,910**	**16,697**	**-**	**29,607**
Balance as at January 1, 2016	**12,910**	**16,697**	**-**	**29,607**
Charge for the year	549	1,070	-	1,619
Sales and write-offs	(972)	(4,632)	-	(5,604)
Balance as at December 31, 2016	**12,487**	**13,135**	**-**	**25,622**
Net book value:				
Balance as at December 31, 2015	**13,162**	**2,801**	**382**	**16,345**
Balance as at December 31, 2016	**12,771**	**2,694**	**727**	**16,192**

The carrying value of non-depreciable land within the class of land and buildings amounts to BAM 3,159 thousand (2015: BAM 3,253 thousand).

Investments in progress in the amount of BAM 727 thousand as of December 31, 2016 (2015: BAM 382 thousand) relate to the equipment not yet placed into use.

During 2016 there were no mortgage or pledge liens instituted over the Bank's property and equipment.

The Bank tested property for impairment as of December 31, 2016, based on which it was deduced that there was no need for impairment.

23. Intangible assets

	Software BAM '000	Other BAM '000	Investments in progress BAM '000	Total BAM '000
Cost				
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	**16,733**	**5,315**	**1,390**	**23,438**
Balance as at January 1, 2016	**16,733**	**5,315**	**1,390**	**23,438**
Additions	-	-	2,597	2,597
Transfers	577	432	(1,009)	-
Sales and write-offs	(245)	(1,407)	-	(1,652)
Balance as at December 31, 2016	**17,065**	**4,340**	**2,978**	**24,383**
Accumulated amortization				
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**
Balance as at January 1, 2016	**15,168**	**4,846**	**-**	**20,014**
Charge for the year	776	679	-	1,455
Write-offs	(245)	(1,407)	-	(1,652)
Balance as at December 31, 2016	**15,699**	**4,118**	**-**	**19,817**
Net book value:				
Balance as at December 31, 2015	**1,565**	**469**	**1,390**	**3,424**
Balance as at December 31, 2016	**1,365**	**222**	**2,978**	**4,566**

Investments in progress in the amount of BAM 2,978 thousand as of December 31, 2016 (2015: BAM 1,390 thousand) relate to the software and other intangible assets not yet placed into use.

As of December 31, 2016, the Bank had no internally generated intangible assets.

24. Other assets

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Accrued interest not matured	247	373
Receivables for fees in local currency	195	187
Receivables for salaries of employees	652	818
Receivables from card operations	1,884	619
Receivables based on cheque payments	-	114
Leasehold improvements	305	185
Receivables from operating activities	435	435
Tangible assets acquired in lieu of debt collection	189	458
Other receivables	424	272
Impairment allowance	(525)	(521)
Total other assets	**3,806**	**2,940**

24. Other assets (Continued)

Movements on impairment allowance for other assets:

	Total BAM '000
Balance as at January 1, 2015	520
Net gains / losses recognized in the statement of comprehensive income	-
Write-offs and transfers	1
Balance as at December 31, 2015	**521**
Net gains / losses recognized in the statement of comprehensive income	-
Write-offs and transfers	4
Balance as at December 31, 2016	**525**

25. Deposits and loans from banks

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Demand deposits		
- in BAM	2	2
- in foreign currencies	223	-
	225	**2**
Term deposits		
- in BAM	49,800	41,400
- in foreign currencies	283,953	216,381
	333,753	**257,781**
Total deposits	**333,978**	**257,783**
Loans obtained		
- in foreign currencies	63,398	48.430
Total loans	**63,398**	**48,430**
Total deposits and loans from banks	**397,376**	**306,213**

Deposits and loans from banks include the amount of BAM 333,755 thousand from related parties (2015: BAM 257,782 thousand).

26. Deposits and loans from customers

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Legal entity customers and entrepreneurs		
Demand deposits		
- in BAM	129,172	157,799
- in foreign currencies	58,433	50,213
	187,605	**208,012**
Term deposits		
- in BAM	48,555	50,671
- with foreign currency clause	125,096	96,374
- in foreign currencies	14,977	16,275
	188,628	**163,320**
Total legal enties	**376,233**	**371,332**
Individuals		
Demand deposits		
- in BAM	127,494	106,093
- in foreign currencies	80,242	64,705
	207,736	**170,798**
Term deposits		
- in BAM	41,696	35,705
- with foreign currency clause	42	3
- in foreign currencies	103,951	107,707
	145,689	**143,415**
Total individuals	**353,425**	**314,213**
Total deposits	**729,658**	**685,545**
Loans obtained from customers		
- in BAM	-	-
- with foreign currency clause	48,531	53,566
- in foreign currencies	12,028	15,040
Total loans obtained from customers	**60,559**	**68,606**
Total deposits and loans from customers	**790,217**	**754,151**

27. Other liabilities

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Accrued interest, not matured	6,237	6,671
Liabilities to employees	2,191	1,825
Advances received for foreclosure of assets - NPL	203	-
Liabilities to suppliers – trade payables	1,872	1,568
Provisions for off-balance-sheet contingent liabilities	1,474	1,512
Provisions for jubilee awards	208	208
Liabilities for realization of payment orders in the country	3,282	24
Liabilities based on brokerage operations	65	181
Liabilities based on non-nominated deposits	665	659
Accruals and deferred income	827	948
Liabilities from card operations	1,085	645
Liabilities for insured unpaid deposits	3,122	1,602
Other liabilities	2,228	1,883
	23,459	**17,726**

27. Other liabilities (Continued)

Movements on provisions were as follows:

	Off-balance-sheet contingent liabilities BAM '000	Jubilee awards BAM '000	Total BAM '000
Balance as at January 1, 2015	**1,381**	**210**	**1,591**
Net gain / loss recognized in the statement of comprehensive income (Note 14)	131	(2)	129
Provisions released during the period and transfers	-	-	-
Balance as at December 31, 2015	**1,512**	**208**	**1,720**
Net gain / loss recognized in the statement of comprehensive income (Note 14)	(37)	-	(37)
Provisions released during the period and transfers	(1)	-	(1)
Balance as at December 31, 2016	**1,474**	**208**	**1,682**

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, 2016 BAM '000	December 31, 2015 BAM '000
Provisions for retirement benefits	253	251
Provisions for litigations	1,773	1,956
	2,026	**2,207**

Movements on provisions were as follows:

	Litigations BAM '000	Retirement benefits BAM '000	Total BAM '000
Balance as at January 1, 2015	**2,291**	**255**	**2,546**
Net gain / loss recognized in the statement of comprehensive income (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**
Net gain / loss recognized in the statement of comprehensive income (Note 15)	103	2	105
Provisions released during the period and transfers	(286)	-	(286)
Balance as at December 31, 2016	**1,773**	**253**	**2,026**

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% (2015: 10%).

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Deferred tax assets		
Fair value reserve	3	61
Net deferred tax assets	**3**	**61**

Movements on deferred taxes were as follows:

	Deferred tax assets BAM '000	Deferred tax liabilities BAM '000	Net deferred tax assets BAM '000
Balance as at January 1, 2015	**88**	**-**	**88**
Decrease in deferred tax liabilities	(27)	-	(27)
Balance as at December 31, 2015	**61**	**-**	**61**
Balance as at January 1, 2016	**61**	**-**	**61**
Decrease in deferred tax liabilities	(58)	-	**(58)**
Balance as at December 31, 2016	**3**	**-**	**3**

30. Share capital

	Ordinary shares BAM '000
Balance as at January 1, 2015	97,055
Changes	-
Balance as at December 31, 2015	**97,055**
Changes	**-**
Balance as at December 31, 2016	**97,055**
Nominal value (BAM)	700
Share count	138,650

As at December 31, 2016 the shareholders of the Bank comprised a single major and 66 minor shareholders; both domestic and foreign legal entities and individuals with the following equity interests:

	% of equity interest
UniCredit Bank S.p.A. Italy	**98.44%**
Other shareholders	1.56%
	100.00%

As at December 31, 2016, 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 2016, the price per share on the last trading day at Banjaluka Stock Exchange amounted to BAM 922.51 (December 31, 2015: BAM 901.00).

31. Earnings per share

	2016	2015
Total number of shares	138,650	138,650
Weighted average number of shares outstanding	138,650	138,650
Net profit in BAM '000	22,383	21,376
Basic and diluted earnings per share in BAM	161.44	154.17

In Q2 2016 the Bank paid dividend to the shareholders in the amount of BAM 10,688 thousand or 50% of the net profit for the year 2015. 64 shareholders were entitled to dividend payment, and dividend per share amounted to BAM 77.08.

32. Commitments and contingent liabilities

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Payment guarantees:		
- in BAM	12,315	10,203
- in foreign currencies	20,298	17,204
Performance guarantees:		
- in BAM	38,450	34,196
- in foreign currencies	10,545	9,253
Contingent liabilities for undrawn loans and guarantees :		
- in BAM	106,090	110,552
- in foreign currencies	701	1,033
Letters of credit in foreign currencies	1,751	1,105
Other sureties	-	6,400
Total	**190,150**	**189,946**

As at December 31, 2016, provisions for potential losses per commitments and contingencies amounted to BAM 1,474 thousand (2015: BAM 1,512 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 S.p.A. Italy
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 2016
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 2016

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, 2016 BAM '000	December 31, 2015 BAM '000
Assets:		
Foreign currency demand deposits:		
- UniCredit Bank Austria AG Vienna	16,658	2,880
- UniCredit bank Serbia JSC Belgrade	3,992	41
- Zagrebačka banka d.d. Zagreb	3,412	333
- UniCredit Bank AG Munich	19,244	17,578
- UniCredit S.p.A. Italy	1,463	11,860
- UniCredit Bank d.d. Mostar	2	2
- UniCredit Banka Slovenia d.d.	1,858	-
	46,629	**32,694**
Short-term deposits:		
- UniCredit Bank Austria AG Vienna	-	-
- UniCredit Bank d.d. Mostar	4,800	6,400
	4,800	**6,400**
Other receivables:		
- UniCredit Bank Austria AG Vienna	188	360
- UniCredit S.p.A. Italy	46	46
- UniCredit Bank d.d. Mostar	3	-
- UniCredit Bank Serbia JSC Belgrade	15	-
	252	**406**
Financial assets at fair value through profit and loss:		
- UniCredit Bank AG Munich	**533**	**547**
Total assets	**52,214**	**40,047**
Liabilities:		
Short-term deposits:		
- UniCredit Bank Austria AG Vienna	5,870	216,382
- UniCredit Bank d.d. Mostar	49,800	41,400
- UniCredit S.p.A. Italy	278,085	-
	333,755	**257,782**
Other liabilities:		
- UniCredit Bank Austria AG Vienna	116	-
- UniCredit Bank d.d. Mostar	192	54
- UniCredit S.p.A. Italy	346	299
- UBIS Vienna (formerly: UGIS, WAVE, BAGIS)	798	695
- Zagrebačka banka d.d. Zagreb	-	45
- IFABER	-	14
- UniCredit Consumer Financing EAD Sofia	7	-
- AO UniCredit Bank Moscow	178	-
	1,637	**1,107**
Financial liabilities at fair value through profit and loss:		
- UniCredit Bank AG Munich	**-**	**210**
Total liabilities	**335,392**	**259,099**
Liabilities, net	**(283,178)**	**(219,052)**

33. Transactions with related parties (Continued)

Income and expenses from related party transactions were as follows:

	Year Ended December 31, 2016 BAM '000	2015 BAM '000
Items included in the statement of comprehensive income		
Interest income:		
- UniCredit Bank Austria AG Vienna	(14)	5
- UniCredit Bank d.d. Mostar	186	150
- UniCredit Bank AG Munich	(1)	-
- UniCredit S.p.A. Italy	(1)	-
Total interest income	**170**	**155**
Fee and commission income:		
- UniCredit Bank Austria AG Vienna	24	1
- UniCredit Bank d.d. Mostar	10	11
- UniCredit Bank Czech Republic and Slovakia a.s.	2	-
- UniCredit Bank AG Munich	1	-
Total fee and commission income	**37**	**12**
Interest expenses:		
- UniCredit Bank Austria AG Vienna	2,014	1,944
- UniCredit Bank d.d. Mostar	560	368
- UniCredit Bank AG Munich	-	-
- AO UniCredit Bank Moscow	1,276	1,056
Total interest expenses	**3,850**	**3,368**
Fee and commission expenses:		
- UniCredit Bank Austria AG, Vienna	5	29
- UniCredit S.p.A. Italy	14	11
- Zagrebačka banka d.d., Zagreb	204	173
- UniCredit Bank d.d., Mostar	-	-
- UniCredit Bank AG Munich	1	2
- UBIS, Vienna	70	70
Total fee and commission expenses	**294**	**285**
Operating costs		
- UBIS Vienna (formerly: UGIS, WAVE, BAGIS)	1,336	1,142
- UniCredit Bank d.d. Mostar	132	149
- Zagrebačka banka d.d. Zagreb	11	13
- ZANE BH d.o.o. Sarajevo	1	7
- UniCredit S.p.A. Italy	94	96
- IFABER	13	14
Total software maintenance costs	**1,587**	**1,421**
Other operating expenses		
- Zagrebačka banka d.d. Zagreb	-	24
Expenses, net	**(5,524)**	**(4,931)**

Expenses associated with the key management personnel do not include salaries and remuneration. Information on the management personnel salaries and remuneration is disclosed in a separate section 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, 2016 BAM '000	2015 BAM '000.
Supervisory Board	-	-
Management Board		
Short-term remuneration		
Gross salaries disbursed in the current year for the current year	768	754
Bonuses disbursed in the current year for the previous year - gross	132	121
Long-term remuneration		
Insurance policies paid in the current year - gross	29	29
Disbursements in the current year for prior years - gross	137	126
Total	**1,066**	**1,030**
Other key management personnel		
Short-term remuneration		
Gross salaries disbursed in the current year for the current year	444	467
Bonuses disbursed in the current year for the previous year - gross	83	109
Long-term remuneration		
Insurance policies paid in the current year - gross	20	-
Disbursements in the current year for prior years - gross	5	-
Total	**552**	**576**

Other key management personnel comprise 7 employees of the Bank (2015: 7 employees of the Bank).

The amount of salaries and remuneration disbursed to members of the Management Board and key management includes the amount of BAM 299 thousand (2015: BAM 297 thousand) of contributions for pension and disability insurance with the prescribed amounts of contributions, payable to the mandatory pension funds.

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

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.

34. Risk management (Continued)

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, and
4. Strategic, Market and Operational Risk Management.

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

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

The most significant types of risk the Bank is exposed to are credit risk, market risk and operational risk.

34.1. Credit Risk

The Bank is exposed to credit risk which can be defined as the possibility that a borrower may fail to perform the liabilities defined in the respective loan agreements, resulting in a financial loss for the Bank. 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 borrower/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.

34. Risk management (Continued)

34.1. Credit Risk (Continued)

a) Credit risk measurement (Continued)

The established system of reporting analyzes the main triggers and components of credit risk and their dynamics in order to undertake corrective activities if necessary and 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.

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. Risk management (Continued)

34.1. Credit Risk (Continued)

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

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Balance sheet assets		
Cash and cash equivalents (Note 17)	101,815	77,768
Obligatory reserve with the Central Bank (Note 18)	97,146	57,816
Loans and receivables with banks (Note 19)	165,408	111,386
Loans and receivables with customers – legal entities (Note 20)	459,970	463,670
Loans and receivables with customers - individuals (Note 20)	394,854	377,254
Accrued interest	1,454	1,475
Financial assets available for sale (Note 21a)	155,895	144,261
Financial assets held to maturity (Note 21b)	-	-
Financial asset at fair value through profit or loss	534	548
Other assets (Note 24)	3,806	2,940
Total balance sheet items exposed to credit risk	**1,380,882**	**1,237,118**
Off-balance sheet items		
Guarantees and other sureties	83,359	71,961
Approved overdrafts, framework loans and guarantees	106,791	117,985
Total off-balance-sheet exposure to credit risk	**190,150**	**189,946**
	1,571,032	**1,427,064**

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 with banks and financial assets available for sale.

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

34. Risk management (Continued)

34.1. Credit Risk (Continued)

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 legal entity customers and number of days past-due for individual 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 III and in conformity with IFRS requirements it impairs loans.

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

- Performing loans – loans that are neither due nor impaired
- Past due but not impaired loans
- 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, 2016 BAM '000			December 31, 2015 BAM '000		
	Loans	Provisions	%	Loans	Provisions	%
Performing and past due loans not specifically impaired						
- legal entity loans	455,425	5,562	1.2%	456,712	6,004	1.3%
- individual loans	392,450	3,889	1.0%	374,919	3,106	0.8%
	847,875	**9,451**	**1.1%**	**831,631**	**9,110**	**1.1%**
Non-performing loans						
- legal entity loans	48,008	37,901	78.9%	47,273	34,311	72.6%
- individual loans	30,627	24,334	79.5%	26,092	20,651	79.1%
	78,635	**62,235**	**79.1%**	**73,365**	**54,962**	**74.9%**
Total loans	**926,510**	**71,686**	**7.7%**	**904,996**	**64,072**	**7.1%**

Provision coverage of the non-performing portfolio amounts to 79.1% (2015: 74.9%).

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

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Legal entities		
Loans to customers that are neither due nor impaired	454,801	456,198
Past-due but not impaired loans	624	514
Non-performing loans (impaired loans)	48,008	47,273
Gross exposure	**503,433**	**503,985**
Less: **Impairment allowance:**		
- Portfolio (IBNR), individual and group impairment allowance	(43,463)	(40,315)
Net exposure	**459,970**	**463,670**
Individuals		
Loans to customers that are neither due nor impaired	392,387	374,869
Past due but not impaired loans	63	50
Non-performing loans (impaired loans)	30,627	26,092
Gross exposure	**423,077**	**401,011**
Less: **Impairment allowance:**		
- Portfolio (IBNR), individual and group impairment allowance	(28,223)	(23,757)
Net exposure	**394,854**	**377,254**
Total gross exposure	**926,510**	**904,996**
Portfolio impairment allowance (IBNR)	(9,451)	(9,110)
Individual and group impairment allowance	(62,235)	(54,962)
Net exposure	**854,824**	**840,924**

34. Risk management (Continued)

34.1. Credit Risk (Continued)

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

a) Loans to customers that are neither due nor impaired

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

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

	Individual loans				Legal entity loans			
December 31, 2016	Customer loans BAM '000	Housing loans BAM '000	Credit card loans and overdrafts BAM '000	Total BAM '000	Public and financial sector and international clients BAM '000	Domestic business entities BAM '000	Retail sales BAM '000	Total BAM '000
Standard monitoring	294,738	73,451	24,198	**392,387**	291,138	138,838	24,825	**454,801**
December 31, 2015								
Standard monitoring	283,695	69,761	21,413	**374,869**	327,655	99,953	28,590	**456,198**

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 with 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 with customers that were past due but not impaired were as follows:

	Individual loans				Legal entity loans			
December 31, 2016 Past-due	**Customer loans BAM '000**	**Housing loans BAM '000**	**Credit card loans and overdrafts BAM '000**	**Total BAM '000**	**Public and financial sector and inter-national clients BAM '000**	**Domestic business subjects BAM '000**	**Retail sales BAM '000**	**Total BAM '000**
Past due up to 30 days	43	4	-	47	-	624	-	624
Past due 30 – 60 days	10	-	-	10	-	-	-	-
Past due 60 – 90 days	6	-	-	6	-	-	-	-
Past due over 90 days	-	-	-	-	-	-	-	-
Total	59	4	**-**	**63**	**-**	624	-	**624**
Value of collateral	-	-	-	**-**	-	25	-	**25**
December 31, 2015								
Past due								
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**

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:

	Individual loans				Legal entity loans			
December 31, 2016	Customer loans BAM '000	Housing loans BAM '000	Credit card loans and overdrafts BAM '000	Total BAM '000	Large BAM '000	Medium BAM '000	Small BAM '000	Total BAM '000
Non-performing loans	21,806	6,513	2,308	**30,627**	7,442	22,190	18,376	**48,008**
Value of collateral	945	2,667	-	**3,612**	624	3,934	2,114	**6,672**
December 31, 2015								
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**

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

As at December 31, 2016, assets acquired in lieu of debt collection per non-performing loans amounted to BAM 190 thousand (2015: BAM 458 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 Special Credit – Workout Units) amounted to a total of BAM 30,204 thousand as at December 31, 2016 (2015: BAM 32,570 thousand).

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Restructured loans	30,204	32,570
Loan portfolio - gross	926,510	904,996
Share (%) of restructured loans in the gross loan portfolio	3.3%	3.6%

34. Risk management (Continued)

34.2. Liquidity Risk

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. Asset and Liability Management 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, 2016	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	101,815	-	-	-	-	101,815
Obligatory reserve with the Central bank	97,146	-	-	-	-	97,146
Loans and receivables with banks	165,408	-	-	-	-	165,408
Financial assets available for sale	79,618	-	394	75,529	354	155,895
Financial assets at fair value through profit or loss	-	-	534	-	-	534
Loans and receivables with customers	63,758	44,330	201,149	367,190	178,256	854,683
Property and equipment	-	-	-	-	16,192	16,192
Intangible assets	-	-	-	-	4,566	4,566
Other assets	-	-	3,806	-	-	3,806
Deferred tax assets	-	-	3	-	-	3
Total assets	**507,745**	**44,330**	**205,886**	**442,719**	**199,373**	**1,400,048**
Liabilities, equity and reserves						
Deposits and loans from banks	187,527	20,467	132,400	44,386	12,596	397,376
Deposits and loans from customers	99,366	65,204	146,700	299,145	179,802	790,217
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Other liabilities	12,557	1,549	4,371	4,903	79	23,459
Provisions for liabilities and expenses	-	-	2,026	-	-	2,026
Income tax payable	-	300	-	-	-	300
Equity and reserves	-	-	-	-	186,670	186,670
Total liabilities, equity and reserves	**299,450**	**87,520**	**285,497**	**348,434**	**379,147**	**1,400,048**
Liquidity gap	**208,295**	**(43,190)**	**(79,611)**	**94,285**	**(179,779)**	**-**

34. 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 with 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 with 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 from banks	134,954	15,000	103,083	40,970	12,206	306,213
Deposits and loans from 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 expenses	-	-	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)**	**-**

34.3. 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.

34. Risk management (Continued)

34.3. Market Risk Management (Continued)

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 Asset and Liability Management reports.

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

	2016 BAM '000	2015 BAM '000
- average for the period	697	871
- maximum for the period	872	1,340
- minimum for the period	663	527

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

34.3.1. Currency risk

Currency risk is the risk of the possibility of occurrence of adverse effects on the 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.

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 also covered by general daily VaR limit, which among other risks, limits the maximum permitted loss of open positions in the foreign currencies.

34. Risk management (Continued)

34.3. Market Risk Management (Continued)

34.3.1. Currency risk (Continued)

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 Asset and Liability Management 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 its 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.

	2016	2015
Currency risk ratios:		
- as at December 31	3.55%	4.92%
- maximum for the month of December	19.09%	16.27%
- minimum for the month of December	3.55%	3.43%

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 the Bank is not exposed to the foreign exchange rate risk.

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

34. Risk management (Continued)

34.3. Market Risk Management (Continued)

34.3.1. Currency risk (Continued)

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

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

An assumed depreciation of foreign currencies (except for EUR) against BAM by 10%, with all other variables remaining unaltered, would have resulted in an increase of profit for the year 2016 by the amount of BAM 785 thousand (2015: increase of BAM 1,764 thousand).

An assumed appreciation of 10% of foreign currencies other than EUR against BAM would have resulted in a decrease of profit for the year 2016 by the amount of BAM 785 thousand (2015: decrease of BAM 1,764 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, 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 with 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 with customers	116,194	383,274	-	-	499,468	340,933	840,401
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 from banks	264,811	-	-	-	264,811	41,402	306,213
Deposits and loans from customers	228,063	149,943	11,603	14,274	403,883	350,268	754,151
Financial liabilities at fair value through 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)**	**-**

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.

34. Risk management (Continued)

34.3. Market Risk Management (Continued)

34.3.2. Interest rate risk (Continued)

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 Asset and Liability Management report.

An overview of the Bank's exposure to interest rate risk as at December 31, 2016 and 2015 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, 2016 and 2015, 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 BAM '000	1 – 3 months BAM '000	3 months to 1 year BAM '000	1 – 5 years BAM '000	Over 5 years BAM '000	Non-interest bearing BAM '000	Total BAM '000	Fixed interest rate BAM '000
December 31, 2016								
Assets								
Cash and cash equivalents	77,465	-	-	-	-	24,350	101,815	-
Obligatory reserve with the Central bank	-	-	-	-	-	97,146	97,146	-
Loans and receivables with banks	160,608	-	-	4,800	-	-	165,408	63,500
Financial assets available for sale	3,695	-	788	151,059	-	354	155,895	151,847
Financial assets at fair value through profit or loss	-	-	534	-	-	-	534	534
Loans and receivables with customers	268,140	242,641	276,562	63,239	4,100	-	854,683	59,431
Property and equipment	-	-	-	-	-	16,192	16,192	-
Intangible assets	-	-	-	-	-	4,566	4,566	-
Other assets	-	-	-	-	-	3,806	3,806	-
Deferred tax assets	-	-	-	-	-	3	3	-
Total assets	**509,908**	**242,641**	**277,884**	**219,098**	**4,100**	**146,417**	**1,400,048**	**275,312**
Liabilities and equity								
Deposits and loans from banks	208,176	72,719	111,456	4,800	-	226	397,376	292,872
Deposits and loans from customers	146,055	93,978	87,532	170,398	2,346	289,907	790,217	370,115
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	23,459	23,459	-
Provisions for liabilities and costs	-	-	-	-	-	2,026	2,026	-
Income tax payable	-	-	-	-	-	300	300	-
Deferred tax liabilities	-	-	-	-	-	-	-	-
Equity and reserves	-	-	-	-	-	186,670	186,670	-
Total liabilities, equity and reserves	**354,231**	**166,697**	**198,988**	**175,198**	**2,346**	**502,588**	**1,400,048**	**662,987**
Bank's interest rate mismatch	**155,677**	**75,944**	**78,896**	**43,900**	**1,754**	**(356,171)**	**-**	**(387,675)**

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 BAM '000	1 – 3 months BAM '000	3 months to 1 year BAM '000	1 – 5 years BAM '000	Over 5 years BAM '000	Non-interest bearing BAM '000	Total BAM '000	Fixed interest rate BAM '000
December 31, 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 with 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 with customers	204,978	338,206	246,308	45,657	5,252	-	840,401	261,531
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 from banks	48,141	208,603	43,067	6,400	-	2	306,213	192,270
Deposits and loans from 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)**

In 2016, Bank changed the approach to treatment of loans with fixed interest rate in such a manner that loans which had fixed interest rates until a potential change to interest rates periodically reviewed by the Bank and which were reported as loans with fixed interest rate in prior years, were excluded from the volume. Thus the Bank disclosed the amount of BAM 59,431 thousand as loans with fixed interest rate for 2016, whereas under the previous approach, this amount for 2016 would have been BAM 344,466 thousand.

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 +14 / -7% 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 2016 and for 2015.

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 2016 in the amount of BAM 3,105 thousand, or 6.3% 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 2,340 thousand or 5.0% of the total net interest income.

The estimated future cash flows for the Bank's interest bearing liabilities as at December 31, 2016 and 2015 are shown in the following table:

December 31, 2016	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
Transaction accounts and deposits of banks	187,940	20,467	132,458	44,481	12,791	398,137
Transaction accounts and deposits of customers	99,711	66,314	149,647	307,526	180,779	803,977
Other liabilities	12,557	1,549	4,371	4,902	79,000	23,458
Total liabilities	**300,208**	**88,330**	**286,476**	**356,909**	**193,649**	**1,225,572**
December 31, 2015						
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**

34. Risk management (Continued)

34.3. Market Risk Management (Continued)

34.3.2. Interest rate risk (Continued)

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, 2016	December 31, 2015
	%	%
Obligatory reserve with the Central Bank	-0.10	0.00
Loans and receivables with banks	0.40	0.40
Loans with customers	6.58	6.92
Debt securities available for sale	5.07	5.21
Transaction accounts and deposits of banks	1.87	2.02
Transaction accounts and deposits of customers	1.29	1.65
Borrowings	1.21	1.37

34.3.3. Risk of changes in interest rate margin

Within market-risk-measuring techniques the Bank measures the impact of interest rate margin changes in debt securities with fixed yield. The risk of change in debt securities price due to issuer credit risk change (margin perceived by the market) is measured and limited by CPV limit - basis point credit margin value (Credit Point Value). This limit is similar to Basis Point Value (BPV) 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 debt 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.

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

The Bank's management and the Group are regularly informed and receive reports 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.

34. Risk management (Continued)

34.4. Operational Risk (Continued)

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.

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 9% (as from December 31, 2016) 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 core (Tier 1) and supplementary capital (Tier 2), 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, 2016 BAM '000	December 31, 2015 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	28,050	17,362
Retained earnings from prior and current years	25,588	25,588
Deductible items		
Intangible assets	(4,566)	(3,424)
Deferred tax assets	(3)	(61)
Negative revaluation reserves	(31)	(551)
Total tier 1 capital	**156,172**	**146,048**
Tier 2 capital		
General reserves *	10,861	13,571
Positive revaluation reserves	50	110
Audited profit	-	-
Total tier 2 capital	**10,911**	**13,681**
Shortfall credit loss provisions as per regulatory requirement**	**(5,649)**	**(7,139)**
Net capital	**161,434**	**152,590**
Risk-weighted assets		
Risk-weighted assets and credit equivalents	802,226	762,982
Weighted operational risk	75,247	72,165
Total weighted risks	**877,473**	**835,147**
Net capital relative to total asset risk	**18.4%**	**18.3%**
Core capital relative to total asset risk	**17.8%**	**17.5%**

* General reserves are included in the supplementary (Tier 2) capital in the amount of 1.25% of the total asset risk (2015: 1.625%).

** 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, 2016 the current profit for the year 2016 was not included in capital calculation.

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.

34. Risk management (Continued)

34.6. Taxation Risks (Continued)

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 Procedure of the Tax Administration of the Republic of Srpska, expiration period of the tax liability is five years. This virtually means that tax authorities could determine payment of 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, 2016 BAM '000	December 31, 2015 BAM '000
Consignment investments – MCI	475	649

In 2016, the Bank did not earn revenues from fees for managed funds on behalf of third parties (2015: BAM 14 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 total contracted operating leases are summarized in the table below:

	December 31, 2016 BAM '000	December 31, 2015 BAM '000
Up to 1 year	620	522
From 1 to 5 years	1,255	635
Over 5 years	1	1
	1,876	**1,158**

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.

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 ≤ 2%.

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

37. Fair value of financial assets and liabilities (Continued)

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

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

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

	December 31, 2016				December 31, 2015			
	Fair value BAM '000	Carrying value BAM '000	Variance BAM '000	%	Fair value BAM '000	Carrying value BAM '000	Variance BAM '000	%
Loans and receivables with banks	262,025	262,554	(529)	(0.2%)	169,254	169,202	52	0.0%
Loans and receivables with customers	915,258	854,683	60,575	7.1%	886,559	840,401	46,158	5.5%
Total	**1,177,283**	**1,117,237**	**60,046**	**5.4%**	**1,055,813**	**1,009,603**	**46,210**	**4.6%**
Deposits and loans from banks	391,571	397,376	(5.805)	(1.5%)	304,824	306,213	(1,389)	(0.5%)
Deposits and loans from customers	789,633	790,217	(584)	(0.1%)	766,073	754,151	11,922	1.6%
Total	**1,181,204**	**1,187,593**	**(6,389)**	**(0.5%)**	**1,070,897**	**1,060,364**	**10,533**	**1.0%**

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

	December 31, 2016 Fair value levels			December 31, 2015 Fair value levels		
	L1 BAM '000	L2 BAM '000	L3 BAM '000	L1 BAM '000	L2 BAM '000	L3 BAM '000
Loans and receivables with banks	-	58,562	203,463	-	49,265	119,989
Loans and receivables with customers	-	159,677	755,581	-	152,936	733,623
Total	**-**	**218,239**	**959,044**	**-**	**202,201**	**853,612**
Deposits and loans from banks	-	328,597	62,947	-	232,380	72,444
Deposits and loans from customers	-	91,394	698,240	-	246,909	519,164
Total	**-**	**419,991**	**761,214**	**-**	**479,289**	**591,608**

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, 2016 and 2015 for the following more significant currencies were:

	December 31, 2016	December 31, 2015
USD	1.855450	1.790070
CHF	1.821240	1.808609
EUR	1.955830	1.955830

A shared vision based on Five Fundamentals.

As a strong pan-European Group with leading banks in 14 core markets, and operations in another 18 countries, we perfectly embody our vision to be “One Bank, One UniCredit”. A simple pan-European commercial bank enriched by multiple cultures where everybody shares the same vision and are guided by our Five Fundamentals: Customers First, People Development, Execution & Discipline, Cooperation & Synergies and Risk Management.

Business Network of UniCredit Bank a.d. Banja Luka as at December 31, 2016

No.	Name of the organitzational unit	Address	Phone no.
1.	BRANCH BANJA LUKA	Marije Bursać 7	051/246-688
2.	AGENCY OBILIĆEVO	Carice Milice 2	051/463-132
3.	BRANCH BANJA LUKA 2	Jevrejska 50	051/246-662
4.	BRANCH BIJELjINA	Patrijarha Pavla 3A	055/221-361
5.	BRANCH BILEĆA	Kralja Aleksandra 14	059/370-066
6.	BRANCH BROD	Jovana Raškovića bb	053/621-491
7.	AGENCY BRATUNAC	Svetog Save bb	056/411-214
8.	BRANCH BRČKO	Bulevar mira 5	049/217-590
9.	BRANCH VLASENICA	Svetosavska 82	056/733-353
10.	BRANCH GACKO	Trg Save Vladisavića bb	059/471-530
11.	BRANCH GRADIŠKA	Vidovdanska bb	051/813-412
12.	BRANCH DERVENTA	Kralja Petra I Karađorđevića bb	053/312-210
13.	BRANCH DOBOJ	Karađorđeva 1	053/490-350
14.	BRANCH KOZARSKA DUBICA	Svetosavska 5	052/416-346
15.	BRANCH ZVORNIK	Karađorđeva bb	056/210-407
16.	AGENCY KOZARAC	Maršala Tita bb	052/346-050
17.	BRANCH KOTOR VAROŠ	Cara Dušana 28	051/783-260
18.	BRANCH LAKTAŠI	Karađorđeva 63	051/532-215
19.	BRANCH LUKAVICA	Vojvode Radomira Putnika 36	057/318-294
20.	BRANCH MILIĆI	Sv. Nikole 1-3	056/490-179
21.	BRANCH MRKONjIĆ GRAD	Svetog Save 13	050/211-138
22.	BRANCH NEVESINjE	Nevesinjskih ustanika 27	059/610-470
23.	BRANCH NOVI GRAD	Karađorđa Petrovića 33	052/751-756
24.	BRANCH PALE	Milana Simovića bb	057/203-020
25.	BRANCH PRIJEDOR	Vožda Karađorđa 9	052/240-380
26.	BRANCH PRNjAVOR	Svetog Save 25	051/660-295
27.	BRANCH ROGATICA	Srpske sloge bb	058/420-092
28.	BRANCH SOKOLAC	Cara Lazara bb	057/447-076
29.	AGENCY SRBAC	Mome Vidovića 17	051/740-151
30.	BRANCH SREBRENICA	Vase Jovanovića 32	056/440-269
31.	BRANCH TESLIĆ	Svetog Save 77	053/431-501
32.	BRANCH TREBINjE	K.Petra I oslobodioca 22	059/270-861
33.	BRANCH UGLjEVIK	Trg Ćirila i Metodija bb	055/771-302
34.	BRANCH FOČA	Njegoševa 10	058/220-970
35.	BRANCH ČELINAC	Kralja Petra I Karađorđevića 65	051/551-145
36.	AGENCY ŠAMAC	Svetosavska 9	054/612-745
37.	BRANCH ŠIPOVO	Prva šipovačka brigada 1	050/371-337

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