# One Bank One UniCredit

# 2016

## Annual Report

Welcome to UniCredit Bank

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).

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

Welcome to
UniCredit Bank

# Director's report

“Satisfied clients are the foundation of our business success, and their satisfaction is possible exclusively with developed and dedicated employees providing quality services and being the best representatives of the Bank.”

Dalibor Ćubela
Director

## Dear clients, shareholders and business partners,

With exceptional pride and pleasure we present to you business results of UniCredit Bank d.d. (hereinafter the “Bank”) and the Group UniCredit Bank d.d. in 2016.

By achieving our set goals, together with high efficiency and devotion of our employees in the previous year, we strengthened our title of the market leader, which continuously grows and improves its business processes.

Despite facing the challenges of compliance with the Bosnia and Herzegovina legislation, and regulations of the UniCredit Group, which are compliant with European Union regulations, the Bank successfully performed its activities and ensured compliance with the local and European regulations and legislation, accompanied by the extended engagement on compliance monitoring. One of the activities continuously improved and adjusted is the Know Your Client procedure, through the client base is managed with the aim of more secure and higher quality business relationship of the clients and the Bank.

Notwithstanding the obstacles and difficulties that complicated our work, we retained our leading position in 2016 by all significant financial criteria, including net profit, total assets, loans and deposits, and market share in total equity. Satisfied clients are the foundation of our business success, and their satisfaction is possible exclusively with developed and dedicated employees providing quality services and being the best representatives of the Bank.

We consider digitalization the key for future operating success both in the area of providing higher quality, lower-priced and more secured products and services to our clients, and in the area of improving efficiency and internal processes. Thus, we presented new solutions for faster and more efficient services in the year behind us, by offering our clients time-saving quality products. In addition, we paid special attention to security improvement, and provided our clients with high-security measures in their operations.

The Bank closed the financial year with net profit of BAM 81.5 million, which is BAM 1.9 million more compared to 2015. The increase of net profit was generated uniformly by net interest and non-interest income, strict expense control, and responsible risk assumption and management, which is primarily the result of our continuous and detailed work, and high cost-efficiency.

Years of development and upgrading of the Bank's successful business model resulted in self-sustainable growth and development in different segments. In 2016, loan to deposit ratio year was 77.7%, and we have also achieved positive effects in the field of covering loans with provisions in both non-performing and performing portfolios. The Bank's assets increased to BAM 4.714 million. Total net loans amounted to BAM 2.783 million, with the corresponding growth of 6.3% compared to 2015, while the growth of loans on the overall BiH market was 2%. The growth of client's deposits of 7.9% was also achieved, so we close 2016 with the amount of BAM 3.579 million, while the growth of deposits on the overall BiH market was 7.4%. With the equity amount of BAM 711,2 million, the Bank confirmed its solvency through the high capital adequacy ratio of 15.7%, which confirms stability and safety of operations with the Bank.

Being aware of its social role, the Bank fosters its social responsibility as a strategic commitment from year to year. In 2016, through humanitarian activities, and cultural, artistic and sporting events, we provided support to people and organizations that improve our county by their devoted work. The Bank attaches special importance to good relationships and cooperation with the community, which are embedded in the Bank's strategy and long-term plans, and they represent investment in sustainable market and social role.

Accordingly, we will continue supporting quality projects and invest in further community development through the use of our expertise and extensive experience of UniCredit Group. We strive to build a better future for all of us through our work, and it will continue to be our lodestar in the years to come.

Our commitment to quality operations was rewarded in the previous year by many valuable awards and acknowledgements. The British financial magazine Euromoney named UniCredit Bank the best bank in Bosnia and Herzegovina, and the best provider of trade financing services in Bosnia and Herzegovina. The consulting firm Revicon and regional business magazine Prizma awarded us with two Crystal Prysms for the most successful bank in Bosnia and Herzegovina and the best manager. The magazine Banke & Biznis u BiH awarded us four Golden BAMs for the amount of total assets, total equity, return on equity rate (ROE), and return on assets rate (ROA). The confirmation of Bank's appreciation and continuous investment in the employees is the award for the most desirable employer in BiH according to the web portal Posao.ba. We are particularly proud to retain this title for nine years in a row, and it is one of the indicators that the strength and success of the Bank lie with satisfied and devoted employees, in whose development we continuously invest.

In the times of regulatory hyperinflation, continuous external and internal changes, and gradual change of our clients' habits, the stability of our operations can be maintained solely through responsible assumption and intelligent risk management, and continuous improvement of services.

Our objective for 2017 is to follow the Group's plan, with the clear focus on improvement of client services, which will be achieved by relying on our ability to assume the right risks through our cooperation and synergy as One bank, one UniCredit, together with disciplined implementation of our operating strategy that makes us distinguishable.

On behalf of the Management of the Bank, I would like to thank all clients and business partners for their loyalty and granted trust, with the hope that our future activities and plans for further improvement of operations will strengthen our successful relations in the year before us.

Sincerely yours,

Dalibor Ćubela
Director

# 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.

# Economic Environment in Bosnia and Herzegovina

## Macroeconomic review of the year 2016

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.

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 between BiH and the International Monetary Fund in the form of the Extended Program. The expectations are that the arrangement will ensure stability and support to implementation of reforms for the improvement of economic growth.

The recorded GDP growth in 2016 is still satisfying, with the expected year-end rate of 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 ponderous 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.

Through 2016, industrial production recorded growth rate of 4.3%. The construction sector, especially in the area of construction of infrastructural projects, experienced absence and delays in significant projects. 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), resulting from low export of goods and services, and somewhat higher import of goods and services. 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 41%. 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 (in particular for parts of the highway corridor Vc, which is expected to be mostly financed by international financial institutions).

Timely implementation of planned reforms remains the main risk factor for further growth

## Banking Sector in 2016

The banking sector is stable, with high liquidity and capital adequacy of 16.1%. 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. Two banks remain dominant by the volume of assets, while only 4 banks on the market have over 1 billion in loans and deposits. The number of employees in the banking sector decreased to 9,669, 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 activity of only 2% compared to the end of 2015. The two largest banks comprise 32% of total sector loan portfolio. Total banking sector loans are mostly supported by the growth of etail sector, while corporate remained almost at the same level as at the end of 2015. Loans to the Government and public enterprises lagged during the whole year compared to the previous year for -9%. Loans to private enterprises recorded a slight but nonetheless positive number compared to the previous year, at the rate of 2%. 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 worse quality, and has not recorded a growth of performing loans since the second quarter of 2015.

Higher ratio of NPLs is in corporate segment, while retail segment continued slight but continuous improvement. There were no significant one-time effects, except for liquidation of one bank, but which was large enough to cause significant deviations.

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 5.2% 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 9.5% compared to the end of 2015, whereby private enterprises grew for 9% compared to the end of 2015, and the government and public enterprises for 8%.

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 assets – placements to other banks amounted to BAM 197 million, which is the growth of 41% compared to the end of 2015.

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 ever 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 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.

# 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.

# Business description

UniCredit Bank d.d. Mostar (hereinafter the "Bank") is a licensed commercial bank headquartered in Bosnia and Herzegovina, and it is the mother company of the Group UniCredit Bank d.d. Mostar.

The Group UniCredit Bank d.d. Mostar (hereinafter the "Group") is a group headquartered in Bosnia and Herzegovina consisting of UniCredit Bank d.d. and its subsidiaries and associates. The Group provides the full range of services, including services to individuals and companies, treasury operations, and financial and operating leases operations.

The Bank provides the full set of banking and financial services, including corporate banking, retail banking, financial institutions, international operations, and investment banking services.

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

The Bank's subsidiaries and associates as of 31 December 2016 are presented in the tables below:

***Subsidiaries in full consolidation***

| Legal entity | Address | Headquarters country | Area of operations | Equity owned by the Bank % |
|---|---|---|---|---|
| UniCredit Leasing d.o.o | Ložionička 7 Sarajevo | Bosnia and Herzegovina | Leasing | 100% |

***Associates consolidated using equity method***

| Legal entity | Address | Headquarters country | Area of operations | Equity owned by the Bank % |
|---|---|---|---|---|
| UniCredit Broker d.o.o | Obala Kulina Bana 15 Sarajevo | Bosnia and Herzegovina | Brokering companies in insurance | 49% |

During 2017, the Bank plans to undertake activities for acquisition of the subsidiary in full consolidation, which is formally approved by UniCredit S.p.A. Milano, the ultimate owner of the Group, on 27 January 2017. The Bank has not yet formally approved the Decision on the intended reorganization, nor any legal procedures prescribed by the acquisition procedure have been undertaken.

## Retail Segment

**Organisation**

The retail segment offers a wide range of products and services to individual clients and small business banking clients, and manages the branch network and direct channels of distribution.

The business network is divided into 9 regions, which are further split into branches located throughout Bosnia and Herzegovina, and as of the end of 2016, there were 78 such branches.

**Business in 2016**

The client oriented business, continuous improvement of processes and services, which result in a more efficient and simpler management of business relations, development of client business consulting through an individualised approach and a full range of Bank's products, continuously differentiate the Bank from its competition.

According to 2016 surveys, clients of the Bank once again demonstrated that they appreciate the unique quality of service and rewarded the Bank's focus on improvement of the client satisfaction.

Clients recongnise the Bank as a reliable partner, and during 2016 a growth of the Bank's market share has been recorded, not only in deposits, but also in retail loans.

Bank's development strategy is digitally oriented, adjusted to the need and practice of clients and markets, and development of new technologies. In th first phase of digitalisation process, the entirely new redesigned website in both local and English language was implemented in 2016, which enables a simple and fast search of information through a clear and articulate presentation, and provides an even better user experience.

The m-ba mobile banking application for existing and new users with Android and iOS operating systems, redesigned in 2015, has drawn an even higher number of users in 2016 with its simplified design that enables a simpler use of the application. At year-end, the bank recorded an increase in the number of agreed mobile banking services for 50%. Our focus will remain on the improvement and introduction of innovation in electronic services to alleviate to our clients doing business in the digital age in which we live.

In the area of self-servicing machines, we continued with the strategy of extending the network of pay-in/pay-out ATMs. Of the total 256 ATMs in our network at year-end, we had 60 pay-in/pay-out machines in production. In addition to the basic functionalities: cash pay-out, checking the balance on the current account, and purchase of prepaid cell phone vouchers, this type of devices enable our clients to deposit cash on their current or transaction accounts at any given moment.

With the aim of simplifying operations and strengthening client satisfaction, a new service model for retail clients was implemented during 2016 in our business network. We enabled our clients to complete their operations, including transactions, in a single place in a branch office. In addition, the trend of modern organisation concept for the business network has been continued, which follows the new service model, and whose aim is to make the time spent in a branch office more comfortable.

In the credit card business, a diverse range of card products is tailored to the demands of our clients. During 2016, the highest security standards for Internet shopping were introduced, as prescribed by the global credit card companies Visa and Mastercard. UniCredit Bank was the first bank in Bosnia and Herzegovina to introduce the new VCAS 3-D Secure platform, the service that guarantees an even higher level of security for Internet shopping using Bank's Visa and Mastercard cards.

In addition, in 2016 the Bank introduced the new technology for no-contact card transactions on their EFT POS terminals. By using no-contact technology, a card or a mobile phone can be connected to a terminal in a retail store and thus complete the purchase transaction. Such a quick and comfortable payment method is ideal for small purchases in busy locations where the speed is crucial.

The Bank continuously works on the implementation of new solutions with the aim to enable our clients the simplification of loan realisation and credit products approval. Accordingly, in 2016 the new platform for approval and release of loans was implemented, with simplified and automated process, which resulted in faster processing of all retail credit products. Over 90% of cash loans is approved within a working day, and the information on loan realisation can be obtained by simply showing the personal ID card.

With every step, we are working hard to confirm the reputation of a dynamic and modern bank that follows the requirements of the market, considers the needs of its clients and strives to be the number one bank in their opinions.

# Corporate and Investment Banking Segment

**Business in 2016**

GEconomic movements in 2016 retained the same characteristics and trends as in previous year. A modest economic growth was recorded, but the investments' contribution to that growth is negligible, and the demand for financial assets was weak. Direct foreign investments do not record significant results for years now, and the reason mainly lies with the delays in implementation of large strategic projects. The market faced negative interest rates and a series of other factors previously unknown, which significantly affected doing business by limiting the space for growth and generating income.

Despite complex business environment, UniCredit Bank managed to achieve progress and confirm its leading position in operations with corporate clients, where we surpassed the planned results. Total corporate loans at the end of 2016 amount to BAM 1,425.8 million, which is BAM 106.5 higher compared to 2015. Thanks to the growth of credit activities, we have increased our market share in retail loans for 1.1 pp from 14.4% to 15.5%. In addition to achieved significant crediting level, we strengthened the structure and stability of our loan portfolio and increased its quality by decreasing the share of NPLs in total loans.

The largest volume of credit activities was recorded in crediting clients from the sector of private enterprises. By providing our services in crediting business entities, we contribute to supporting economic growth, and by our partner role we participate in the implementation of their business solutions.

We are particularly proud of significant business transactions with international client, thank to which we recorded exceptional results and positive movement of market share in total loans. In operations with international clients, UniCredit Bank has made a significant leap in previous years by perfecting its approach to this market segment and by adapting its business model by organizing UniCredit International business centre dedicated solely to international clients.

In operations with the state, we continuously confirm our dominant participation and our leading partner role through both crediting and participating in securities auctions. During 2016, we provided support to public sector clients on all governance levels and to public companies, through credit activity of over BAM 80 million, aimed at business consolidation and various projects. In addition, we regularly participated in securities auctions and thanks to correct price positioning and choice of best strategies we confirmed our high market participation in this segment of operations as well.

Even though we performed decrease of interest rate in the deposit operations, the level of deposits did not change significantly, which confirms that our clients primarily value stability and security, and security that we guarantee. Corporate deposits at 2016 year-end amounted to BAM 1,152.5 million, and our market share is 15.7%

By continuing our successful cooperation with international financial institutions, we ensured financial funds under favourable commercial conditions to small and medium entrepreneurs, in order to enable additional support to their business development. The Bank has, in cooperation with IFC (International Finance Corporation), ensured new credit line for investments in renewable energy sources and energy efficiency projects, while in cooperation with KfW (Kreditanstalt für Wiederaufbau Frankfurt, we offered a credit line for financing investments in long-term working and basic assets.

Together with other members of UniCredit Group, we participated in concluding the contract with the European Investment Fund (EIF), through which we will implement the financial instrument from the largest EU program dedicated to research and innovation, Horizon2020. With this product, we are able to ensure support to promoting investments in innovation and innovative solutions in small and medium enterprises (SME).

Technological development and advancement accelerates a number of processes, changes habits and offers new solutions, and all market participants must continuously adapt to ever happening changes. By investing in innovation and by applying digital technology, we are continuously improving our business because we strive to be adapted to global movements. By developing direct channels and investing in electronic banking, we aim to contribute to more efficient doing business for our clients, and taking into account the security of their business in doing so. By striving to stay adapted to actual market needs, its constant changes and high client expectations, we will continue to improve our business model into a higher quality and more efficient one, with the aim of improving services and finding the best solutions, respecting our risk culture in doing so.

# Business description (CONTINUED)

## Corporate and Investment Banking Segment

Thanks to the UniCredit Group, we have offered to clients in BiH a unique possibility and privilege to join the ELITE program by inclusion in UniCredit CEE Lounge. Through ELITE program, UniCredit Bank, as the key banking partner of the London Stock Exchange Group, enables SMEs from its portfolio of clients from Central and Eastern Europe a faster development and improvement of operations, and offers top-quality specialisation of executives with the support of leading European business schools, direct contact with financial and advisory community, and sharing know-how and best practices.

For years now, the quality of our business operations is recognized by the banking experts and we received numerous acknowledgements. However, despite professional acknowledgement, a particularly important acknowledgement arrived again in 2016 from our clients, by the confirmation of continuously high level of client satisfaction with the business relationship with the Bank, and with our products and services.

Together with UniCredit Group and other Group members on domestic and foreign markets, we achieve significant synergetic impacts to be able to add value to all clients who decided to do their business with us.

In Bosnia and Herzegovina's path to European integration and implementation of reforms necessary for achievement of that objective, we face new challenges and new opportunities for both our country and all business entities. The prosperity of Bosnia and Herzegovina on the European Union accession path and implementation of large strategic projects from various industrial sectors will provide a base for the growth of investments in both private and public sector, and the best confirmation of positive investment climate. Thus, our long-term and partner business relationship with our clients, and growth and strengthening of our economy remain our basic priorities.

# Financial Overview and Business Performance

## Financial indicators

| (in '000 BAM) | Group<br>31 December 2016 | Bank<br>31 December 2016 | Bank<br>31. December 2015 |
|---|---|---|---|
| Total operating income | 239,634 | 233,860 | 221,899 |
| Profit before provisions and taxation | 116,611 | 115,743 | 105,035 |
| Profit before taxation | 86,836 | 92,316 | 89,171 |
| Net profit for the year | 75,913 | 81,527 | 79,584 |
| Equity and reserves | 712,382 | 711,229 | 719,442 |
| Loans and receivables from clients | 2,783,464 | 2,782,588 | 2,617,373 |
| Current accounts and deposits of clients and banks | 3,760,685 | 3,765,744 | 3,444,803 |
| Total assets | 4,849,170 | 4,713,758 | 4,375,656 |
| **Performance indicators** | | | |
| Capital adequacy | | 15.7% | 15.2% |
| Operating costs in total income | 51.3% | 50.5% | 52.7% |
| Return on equity and reserve after taxation (ROE) | 10.6% | 11.4% | 11.8% |
| Return on average total assets before taxation (ROA) | 1.9% | 2.0% | 2.0% |

## Overview of business operations of the Group

By the end of 2015, the Bank acquired 100% share in the company UniCredit Leasing d.o.o. Sarajevo (subsidiary), and 49% share in the company UniCredit Broker d.o.o. Sarajevo (associate). Considering the date of acquisition (22 December 2015), the statement of profit or loss and other comprehensive income for the year ended 31 December 2015 does not include the results of the UniCredit Leasing d.o.o. Sarajevo. However, the UniCredit Group's statement of financial position as of 31 December 2015 includes the statement of financial position of UniCredit Leasing as of 31 December 2015.

In the financial statements for 2015, the consolidation of the subsidiary was presented using full consolidation method, and the consolidation of the associate was presented using equity method.

**Assets and liabilities of the Group**

***Group's assets*** amounted to BAM 4,849 million, which is increase of BAM 332.2 million (+7.4%) compared to the previous year, as a result of increase in loans and receivables from customers and increase in assets of the Assets and Liabilities Management.

***Net loans and receivables from clients*** amount to BAM 2,783 million, which is increase of BAM 165 million (+6.3%), resulting from increase in both retail and corporate loans.

***Net receivables on financial lease*** amount to BAM 115.5 million and they relate to the receivables on financial leases of the subisidiary, and they record a slight decreased compared to the previous year (-1.2%).

***Other assets*** amount to BAM 47.8 million, which compared to the previous year record increase of BAM 0.6 million (+1.3%).

***Property and equipment*** amount to BAM 56.5 million, and compared to the previous year, this position records decrease of BAM 2.4 million (-4.1%).

***Current accounts and deposits of clients*** amount to BAM 3,573.9 million. Compared to the end of the previous year, current accounts and deposits of clients record increase of BAM 260.2 million (+7,9%).

***Current accounts and deposits of banks and borrowings*** amount to BAM 428.7 million. Compared to the previous year, current accounts and deposits of banks and borrowings record increase of BAM 57.2 million (+15.4%) due to increase of current accounts and deposits of banks, and insignificant decrease of borrowings.

***Income and expenses of the Group***

Total income of the Group for 2016 amounts to BAM 239.6 million, which is BAM 17.7 million more than the last year (+8.0%), of which BAM 5.7 million belongs to the subsidiaty.

Total net interest income of the Group in the amount of BAM 163.1 million, which is growth of BAM 10.8 million (+7.1%) as a result of both higher interest income and lower interest expenses, of which BAM 3.6 million belongs to the subsidiary.

Net income from fees and commissions of the Group in the amount of BAM 61.9 displays growth of BAM 3.4 million (+5.7%) due to growth of income from current and transaction account fees, product packages, credit card fees, payment transaction fees, of which BAM 0.1 million belongs to the subsidiary.

***Net gains from FX transactions and FX differences on conversion of monetary assets and liabilities, and other income***

Net gains from FX transactions and FX differences on conversion of monetary assets and liabilities, and other income of the Group in 2016 amounted to BAM 14.7 million, and compared to last year the increase of 3.5 million (+31.9%) is recorded, mostly due to increase of income from foreign currency exchange operations, and the income of the subsidiary amounted to BAM 2.2 million.

***Operating expenses***

Total operating expenses of the Group in 2016 amounted to BAM 123.0 million, which is BAM 6.2 million (+5.3%) more compared to the previous year, where expenses of the subsidiary were BAM 4.9 million.

***Impairment losses and provisions***

In 2016, the Group allocated BAM 29.9 million for impairment and provisions expenses, which is BAM 14.1 million (+88.8) more compared to the previous year, where expenses of the subsidiary were BAM 6.5 million.

# Overview of business operations of the Bank

In 2016, the Bank generated BAM 92.3 million profit before taxation, which is the growth of BAM 3.1 million (+3.5%) compared to the previous year. Achieved results are primarily affected by the achievement of higher revenue due to higher interest income, fees and commissions income, and income from the sale of foreign currencies and exchange rates, with the increase of operating expenses as a result of investing in projects with the aim of further improving operating efficiency and development of new products, and the increase of total impairment and provisions expenses compared to the previous year (+47.7%), which confirms the capability for generating stable operating income and efficient expense management.

The Bank retained its leading position in the market and additionally solidified its position compared to competitors through continuous orientation to improvement of the quality of services, recognising and meeting clients' needs by focusing on simplifying products and improving process efficiency.

### *Income and expenses*

Total income of the Bank for 2016 amounts to BAM 233.9 million, which is BAM 12.0 million more than the last year (+5.4%).

Total net interest income amounts to BAM 159.5 million, comprising 68.2% of total income and displaying growth of BAM 7.2 million (+4.8%) as a result of higher interest income and lower interest expenses. Net income from fees and commissions amount to BAM 61.8 million, representing 26.4% in the structure of total income, and it displays growth of 5.6% compared to 2015.

### *Net interest income*

The 2016 net interest income amounted to BAM 159.5 million, which is the increase of BAM 7.2 million (+4.8%) compared to previous year. Despite continuous trend of decreasing interest rates on the market, the Bank achieved a significant growth of volume of client loans and securities, and hence increased interest income. The increase of interest income (+1.7%) is the effect of larger volume of gross loans and receivables from clients (+6.0%), larger volume of securities (+1.2%), and higher yield from invesments in securities compared to the last year. The decrease of interest expenses (-10.9%) was achieved by optimising prices and structure of deposits, with the simultaneous retaining client trust and growth of volume of current accounts and deposits of clients (+7.9%).

### *Net fee and commission Income*

The net fee and commission income amounts to BAM 61.8 million, with an annual growth of BAM 3.3 million (+5.6%).

The increase in fees commission income is mainly a result of higher income from fee rates for current and transaction and package accounts, card operations, but also the growth of income from payment operations as a result of larger volume of transactions.

### *Net gains from FX transactions and FX differences on conversion of monetary assets and liabilities, and other income*

Net gains from FX transactions and FX differences on conversion of monetary assets and liabilities, and other income in 2016 amounted to BAM 12.5 million, displaying growth of BAM 1.4 million compared to the previous year. FX gains were decreased by BAM 1.0 million compared to previous year, while other income is increased by BAM 0.4 million.

### *Operating expenses*

The 2016 total operating expenses amount to BAM 118.1 million, which is higher by BAM 1.3 million (+1.1%) compared to previous year.

Personnel costs amounted to BAM 53.6 million and are lower by BAM 0.9 million (-1.6%) compared to the previous year.

Administrative expenses display growth compared to the previous year affected by higher administrative and marketing expenses, increasing deposit insurance costs, with optimisation of real estate costs. The Bank aims to continuously improve process efficiency, which contributed to the decrease of share of operating costs in operating income by 2.2 pp compared to last year, and they amount to 50.5%.

### *Impairment losses and provisions*

In 2016, total impairment and provisions expenses amounted to BAM 23.4 million, which is BAM 7.6 million (47.7%) more compared to the previous year.

Impairment losses on loans and receivables amounted to BAM 17.4 million, and they resulted from BAM 6.9 million new provisioning costs (out of which BAM 6 million for corporate loans, and BAM 0.9 million for retail loans), plus new costs of provisioning for the performing portfolio in the amount of BAM 10.5 million, and they are BAM 5.7 million (48.3%) higher

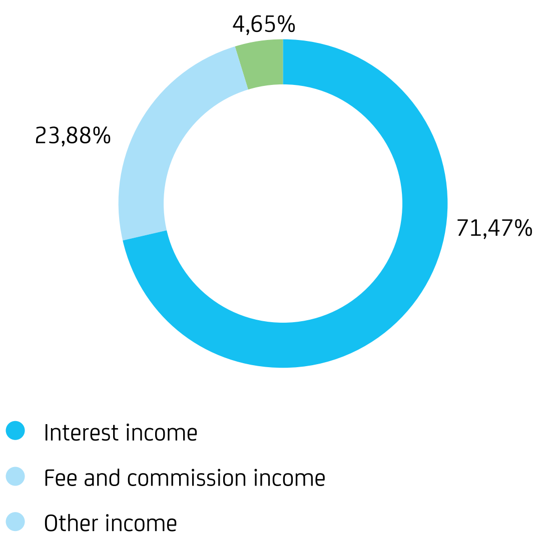
## Overview of business operations of the Bank (continued)

compared to previous year.

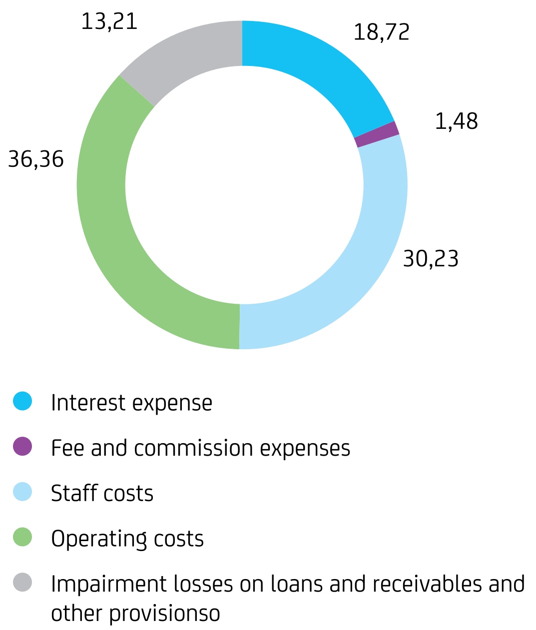
Other impairment and provisioning amounted to BAM 6.0 million of additional charges, including off-balance provisioning of BAM 4.5 million and allowance for other assets of BAM 0.7 million, provisioning costs for litigations of BAM 0.8 million.

### Income and expenses structure for 2015

**Structure of Income**




**Strucutre of Expence**

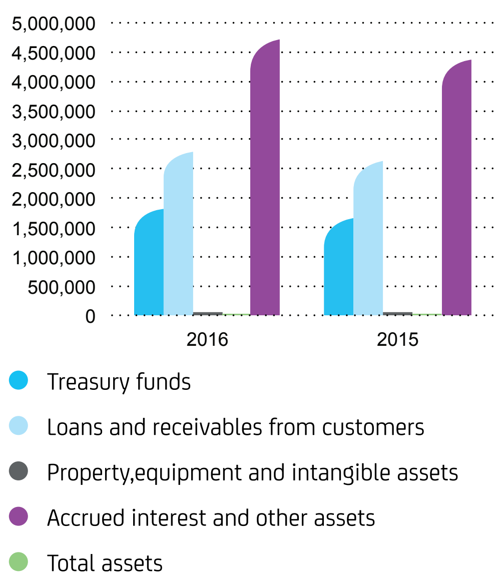



### Bank's assets and liabilities

**Bank's assets**

As of 31 December 2016, the Bank's assets amounted to BAM 4,713.8 million, with an increase in the amount of BAM 338.1 million (+7.7%) compared to previous year. Significant increase of assets is mainly a result of increase in loans and receivables from clients, which display growth of BAM 165.2 million (+6.3%), and growth of assets in Assets and liabilities management (+BAM 167.8 million/+10.1%) compared to the previous year.

### Assets structure (000) BAM



### *Assets of Assets and Liability Management*

Assets of the Assets and Liabilities Management consists of: cash and cash equivalents, statutory reserve and free funds with the Central Bank of Bosnia and Herzegovina, loans and receivables from banks, and securities.

These assets comprise 38.8% if total Bank's assets, which is increase compared to the previous year for BAM 167.8 million (10.1%), with the total amount of BAM 1,827.7 million.

The structure of these assets is as follows:

| | Bank | Bank |
|---|---|---|
| *(in BAM '000)* | 31 December 2016 | 31 December 2015 |
| Cash and cash equivalents | 745,515 | 776,735 |
| Obligatory reserve with CBBH | 366,379 | 302,868 |
| Placements and loans to other banks | 282,149 | 151,808 |
| Financial assets available-for-sale | 433,698 | 428,547 |
| | **1,827,741** | **1,659,958** |

The Bank has maintained throughout the year liquidity considerably above the required limits of the Banking Agency of Federation of Bosnia and Herzegovina and the Central Bank of Bosnia and Herzegovina.

### *Loans and receivables from clients*

The structure of loans and receivables from Bank's clients is as follows:

| *(in BAM '000)* | 31 December 2016 | 31 December 2015 | Change |
|---|---|---|---|
| **Gross loans** | | | |
| Corporate | 1,425,760 | 1,319,205 | 106,555 |
| Retail | 1,663,146 | 1,594,302 | 68,844 |
| | **3,088,906** | **2,913,507** | **175,399** |
| **Provisions** | | | |
| Corporate | 201,594 | 197,607 | 3,987 |
| Retail | 104,754 | 98,527 | 6,227 |
| | **306,348** | **296,134** | **10,214** |
| **Net loans** | | | |
| Corporate | 1,224,166 | 1,121,598 | 102,568 |
| Retail | 1,558,392 | 1,495,775 | 62,617 |
| | **2,782,558** | **2,617,373** | **165,185** |

Gross loans to clients increased by BAM 175.4 (+6.0%) million on a yearly basis, and with the end of 2016 amount to BAM 3,088.9 million

Gross loans to corporate clients (including state and public institutions) at the end of 2016 amounted to BAM 1,425.8 million and are increased by BAM 106.6 milion (+8.1%), despite the still present lack of quality investments on the market. Their participation in the total portfolio amounted 46.2% and is decreased by 0.9 pp compared to the last year.

Gross loans to citizens at the end of 2016 amounted to BAM 1,663.1 million, and are increased in the amount of BAM 68.8 million (+4.3%), as a result of recognizing client's demands and needs.

Their share in the total portfolio amounts to 53.8% and is increased compared to the previous year by 0.9 pp

The largest portion in the overall retail loans portfolio referred to long-term all-purpose loans (71.8%), long-term housing loans (15.1%), and receivables based on current accounts (7.2%) and credit card loans (5.3%).

Long-term loans participate with 65.1% in the total gross loans, while short-term loans made 34.9% of the total corporate loans.

## Bank's assets and liabilities (CONTINUED)

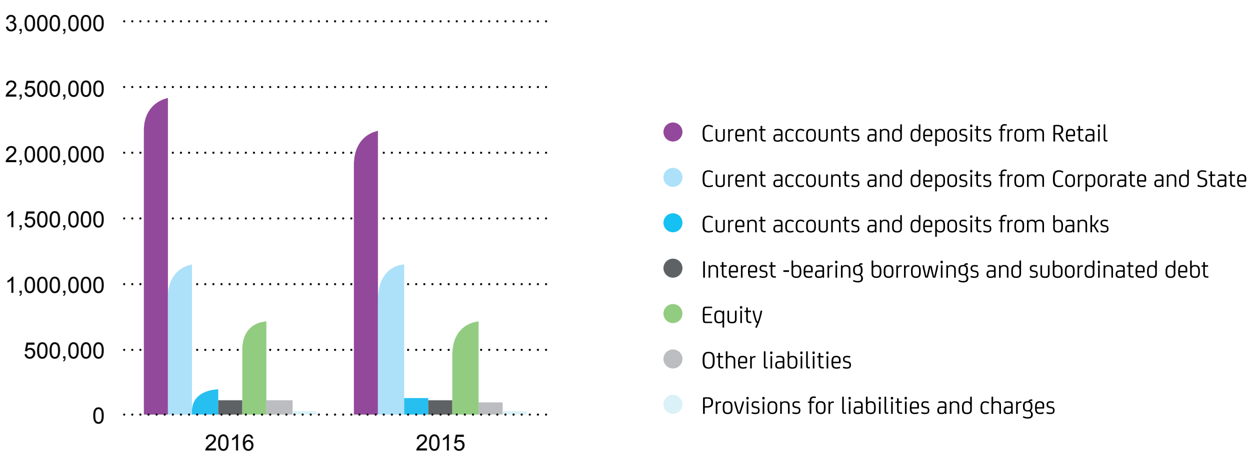
Allowance for impairment losses on loans compared to the previous year increased by BAM 10.2 million, out of which provisions for corporate loans decreased by BAM 4 million, and provisions for retail loans increased by BAM 6.2 million.

The Bank is continually focused on preserving the quality of the loan portfolio are therefore non-performing loans are monitored and adequately secured by provisions.

Net loans to clients amounted to BAM 2,782.6 million, recording an increase of BAM 165.2 million (+6.3%) compared to the previous year, and they comprise 59.0% of Bank's total assets.

### *Structure of Bank's liabilities, equity and reserves – comparison to the previous year:*

**Liability structure (000) BAM**




### *Current accounts and deposits from clients*

Total current accounts and deposits from clients at the end of 2016 amount to BAM 3,579.0 million and are increased by BAM 262.1 million (+7.9%) compared to the previous year. This position comprises 75.9% of Bank's liabilities.

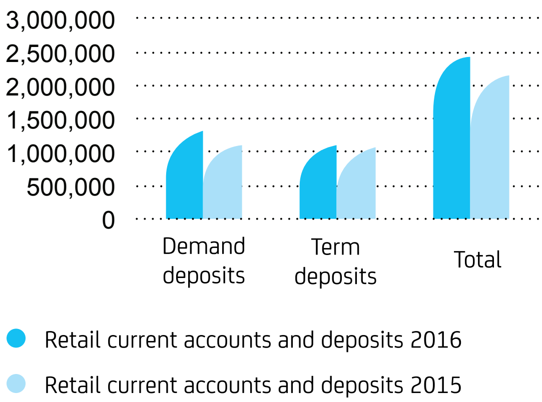
Current accounts and deposits of corporate clients (including state and public institutions) amount to BAM 1.152.5 million and were decreased by BAM 1.6 million (-0.1%), compared to previous year. Their share in total current accounts and deposits of clients amounted to 32.2%.

The share of total corporate demand deposits (including state and public institutions) amounts to 84.8%, and fixed-term deposits 15.2%.

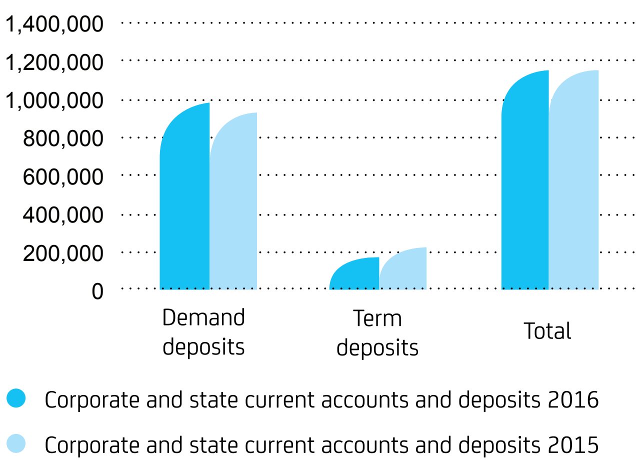
Current accounts, savings and fixed-term deposits of retail clients at the end of 2016 amounted to BAM 2,426.5 million, and are higher compared to previous year by BAM 263.7 million (+12.2%). Their share in total current accounts and client deposits amounted to 67.8%. Within the total retail deposits, fixed-term deposits make up 45.9% and a vista deposits make up 54.1%.

***Structure of current accounts and deposits from clients of the Bank – comparison with previous year:***

**Retail current accounts and deposits**




**Corporate and state current accounts and deposits**




***Current accounts and deposits with banks, and borrowings***

Current accounts and bank deposits at the end of 2016 amounted to BAM 186.8 million and are increased by BAM 58.9 million (+46.0%) compared to the previous year.

Borrowings at the end of 2016 amounted to BAM 103.8 million and are decreased by BAM 3.1 million (-2.9%) compared to the previous year, due to servicing of scheduled liabilities on borrowings.

Borrowings consist of assets of UniCredit Bank Austria AG, EIB ), the EBRD2), KfW, Foundation for Sustainable Development "OdRaz" (World Bank funds).

The share of bank deposits in total liabilities of the Bank is 4.0%, while the share of borrowings is 2.2%. Compared to the previous year, the share of bank deposits and borrowings in total liabilities and equity of the Bank was increased by 0.8 pp.

***Equity and reserve***

The Bank's equity amounted to BAM 711.2 million and compared to the end of previous year is decreased by BAM 8.2 million, as a result of dividend payment and inclusion of current year profit into the Bank’s reserves.

Equity and reserves make 15.2% of the total funding which in an increase of 1.4% decrease in comparison to the end of previous year.

The capital adequacy ratio, presented according to the local regulator methodology, is 15.7%, and it is higher compared to the previous year for 0.5 pp.

The capital adequacy according to the Basel III methodology for 2016 is also significantly above the prescribed limit.

***Key performance indicators***

The profitability ratio ROE is 11.4% and it’s below the last year’s level (-0.4 pp).

ROA is at the same level as previous year and it amounts to 2.0%.

The efficiency indicator (cost to income ratio) is 50.5% and it’s improved by 2.2 pp compared to the previous year, as a result of significant revenue growth.

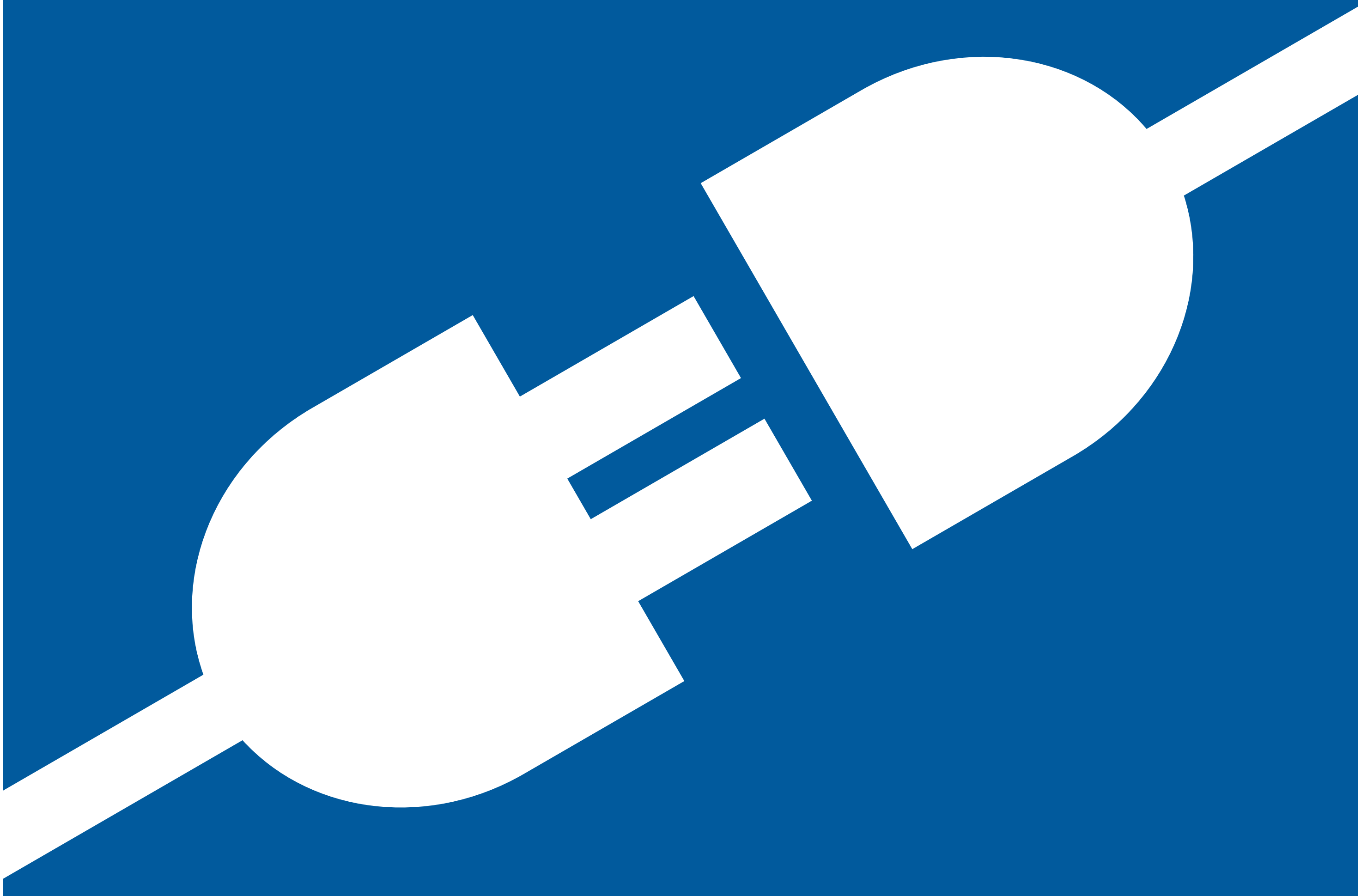
Net loans to deposits ratio is 77.7% and it continuously confirms the ability to maintain high level of self-sustainability, i.e. financing of loans from the Bank's own resources.

Profitability per employee (gross operating profit in relation to the number of employees) is BAM 94.5 thousand and it has increased by BAM 7.6 thousand compared to the previous year, as a result of operating revenue growth and optimization of number of employees.

1 European Investment Bank

2 European Bank for Reconstruction and Development

# 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.

# Management and Corporate governance

Pursuant to the provisions of the Banks Act, Companies Act, and the Bank's Articles of Incorporation, managing bodies of the Bank are: General Assembly, Supervisory Board and Management Board.

### *General Assembly*

The General Assembly is the Bank's supreme managing body. The General Assembly consists of the Bank's shareholders.

The General Assembly method of functioning and decision-making is regulated by the Rulebook on operations of the Bank's General Assembly.

Audited financial statements will be submitted to the General Assembly for approval.

As of 31 December 2016, the Bank had 36 shareholders. The top shareholder was Zagrebačka banka d.d. Zagreb with 118,189 ordinary shares and 176 prefered shares, which represented an equity stake of 99.3%.

Bank's share capital is established at the level of BAM 119,195,000 and it is divided into: 119,011 ordinary "A" class shares (with the face value of BAM 1,000 per share) and 184 prefered "D" class shares (with the face value of BAM 1,000 per share).

An ordinary "A" class share gives its holder the right to have one vote at the General Assembly, the right to participate in the Bank's management as stipulated by the Articles of Incorporation, the right to participate in the Bank's profit in proportion to the face value of the share, as well as other rights foreseen by the Articles of Incorporation and the law.

A preferred "D" class share gives its holder the right of priority collection of dividend from the Bank's profit in proportion to the face value of the share, and the right of priority collection in case of the Bank's bankruptcy or liquidation from the unallocated part of the bankruptcy/liquidation estate.

### *Supervisory Board*

The Supervisory Board supervises the Bank's operations and work of the Management Board, it shapes business policy, passes Bank's general internal by-laws, issues business and other policies and procedures, and decides on the issues defined by the law, Articles of Incorporation and Bank's other rules and regulations. The Supervisory Board consists of 7 members elected to a four-year term by shareholders at the General Assembly.

The Supervisory Board's method of functioning and decision-making is regulated by the Rulebook on operation of the Bank's Supervisory Board.

### Members of the Bank's Supervisory Board in 2016 are:

| | | | |
|---|---|---|---|
| 1. | Miljenko Živaljić | Chairman | Zagrebačka banka d.d., Zagreb, Croatia |
| 2. | Claudio Cesario | Deputy Chairman (since 20 October 2016) | Zagrebačka banka d.d., Zagreb, Croatia |
| | Romeo Collina | Deputy Chairman (until 19 October 2016) | Zagrebačka banka d.d., Zagreb, Croatia |
| 3. | Marko Remenar | Member | Zagrebačka banka d.d., Zagreb, Croatia |
| 4. | Dijana Hrastović | Member | Zagrebačka banka d.d., Zagreb, Croatia |
| 5. | Jasna Mandac | Member | Zagrebačka banka d.d., Zagreb, Croatia |
| 6. | Helmut Franz Haller | Member | UniCredit Bank Austria AG, Vienna, Austria |
| 7. | Georg Günther Horndasch | Member (since 20 October 2016) | UniCredit S.p.A., Munchen subsidiary, Germany |
| | Christian Emil Michalek | Member (until 19 October 2016) | UniCredit Bank Austria AG, Vienna, Austria |

**Management Board**

The Management Board organises operations and governs the Bank's business.

The Management Board is composed of the director (CEO) and executive directors, appointed by the Supervisory Board to a four-year term, with prior consent of the Banking Agency of the Federation of Bosnia and Herzegovina.

The CEO chairs the Board, manages operations, represents the Bank and bears responsibility for the Bank's lawful operations.

The Management Board's method of functioning and decision-making is regulated by the Rulebook on operation of the Bank's Management Board.

**In 2016, the Bank Management Board comprise the following members:**

| | | |
|---|---|---|
| 1. | Dalibor Ćubela | Director of the Bank (since 1 August 2016) |
| | Ivan Vlaho | Director of the Bank (until 31 July 2016) |
| 2. | Igor Bilandžija | Executive Director for Corporate and Investment Banking (new term since 1 August 2016) |
| 3. | Amina Mahmutović | Executive Director for Risk Management (new term since 1 August 2016) |
| 4. | Viliam Pätoprstý | Executive Director for Finance management / CFO (since 1 November 2016) |
| | Gordan Pehar | Executive Director for Finance management / CFO (until 31 July 2016) |
| 5. | Davor Pavlić | Executive Director for Support to banking bussines (new term since 1 August 2016) |
| | Stefano Gison | Executive Director for Support to banking bussines (until 29 February 2016) |
| 6. | Slaven Rukavina | Executive Director for Retail (since 1 August 2016) |
| | Edin Gajević | Executive Director for Retail (until 30 April 2016) |

**Audit Committee**

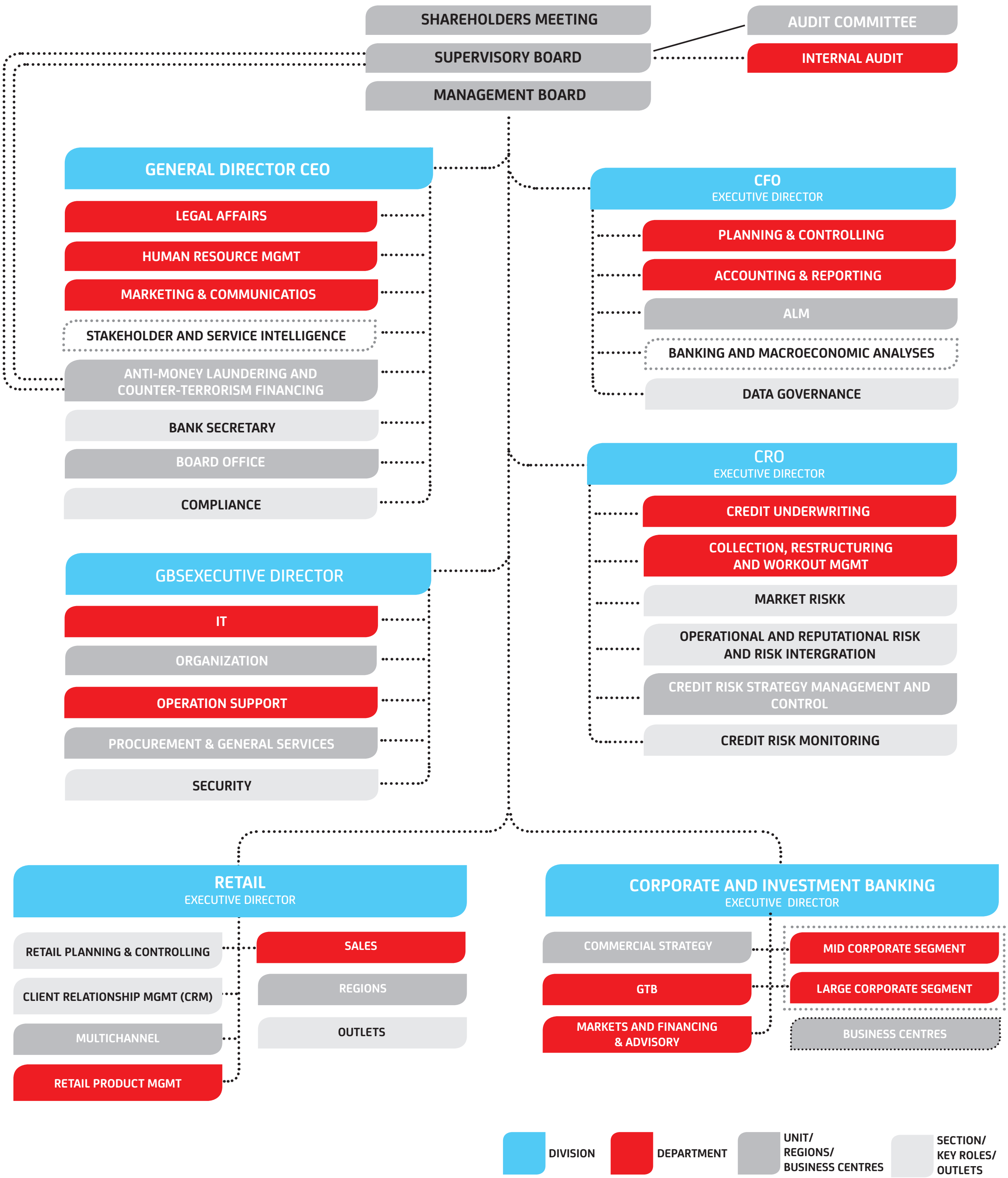
The Audit Committee is responsible for supervising performance and appointment of an external audit company that will conduct an audit of the annual financial statements, and supervises the work of the internal audit, including annual calculation control. The Audit Committee has 5 members who are appointed by the Supervisory Board for a period of 4 years.

The Audit Committee's method of functioning is regulated by the Rulebook on operation of the Bank's Audit Committee.

**In 2016, members of the Audit Committee are as follows:**

| | | |
|---|---|---|
| 1. | Danimir Gulin | President |
| 2. | Marijana Brcko | Member |
| 3. | Hrvoje Matovina | Member |
| 4. | Christian Pieschel | Member |
| 5. | Ante Križan | Member (since 23 December 2016) |
| | Angelika Glavanovits | Member (until 22 December 2016) |

**Organisational structure of the Bank as of 31 December 2016 - key organisational units of the Bank:**



## Employees

As of 31 December 2016, the Group employed 1,279 employees (head counts), whereas the Bank employed 1,225 employees, and UniCredit Leasing 54 employees (head counts).

The Bank implements a policy of continuous improvement and internal mobility of employees in order to adapt the requirements of the Bank and Group to regulatory requirements and the current economic environment, new competition and technological innovations that affect operations of the Bank. Today's challenging business environment and increased complexity require a proactive approach and the dynamic organization of the Bank, which puts employees in the first place, as well as taking care of their development and benefits. To this end, the Bank is continuously working to simplify and strengthen the process of performance management, as well as encouraging timely feedback culture.

We invest in the development programs in order to improve the professional skills of employees, as well as the quality and accountability of managers. We believe that diversity at all levels of our organization is essential to generate value for employees, clients, community and owners. Our diverse workforce allows us a better understanding of different cultures, business opportunities and client needs. That is why we continue to invest in building a culture of inclusion through the promotion of gender equality and respect for age differences.

According to the results of organisational climate research, employees state high level of work satisfaction, and high level of devotion and dedication to work. We continuously and devotedly find solutions that positively affect the employee satisfaction, their motivation and loyalty. Employee education and strengthening their competences are always in the first place.

## Rewarding employee performance

Rewarding employees is also support to Bank's strategy. Through a system of variable remuneration, the right for a variable award can be realised by every employee of the Bank, where the reward is realized depending on: individual employee performance, the performance of the organizational unit and finally the performance of the Bank and UniCredit Group as a whole.

In order to ensure sustainable variable rewarding, with the key aim of motivating and retaining employees, clear and transparent guidelines for determining variable reward are defined.

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

## Top shareholders

As at 31 December 2016, the Bank had the following shareholder structure:

| | Shareholders | % Participation of all owned shares | Amount of equity BAM 000 |
|---|---|---|---|
| 1. | Zagrebačka banka d.d., Zagreb, Croatia | 99.30% | 118,365 |
| 2. | Other shareholders | 0.70% | 830 |
| | **TOTAL** | **100%** | **119,195** |

Pursuant to the Law on Accounting and Auditing in Federation of Bosnia and Herzegovina ("Official Gazette" No. 83/09), the Management Board is responsible for ensuring that financial statements are prepared for each financial period in accordance with International Financial Reporting Standards ("IFRS") which give a true and fair view of the state of affairs and results of UniCredit Bank d.d. (the "Bank"), and its subsidiaries and associates (together the "Group") for that period. IFRS are published by the International Accounting Standards Board.

After making enquiries, the Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with the Accounting and Auditing Law in the Federation of Bosnia and Herzegovina. Moreover, the Management Board is also responsible for safeguarding the assets of the Bank and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management board

UniCredit Bank dioničko društvo

**Director**
Dalibor Ćubela

**Chief Financial Officer**
Viliam Pätoprstý

UniCredit Bank d.d. Mostar
Kardinala Stepinca b.b.
88000 Mostar
Bosna i Hercegovina

15. February 2017.

# Independent Auditor's report

***To the shareholders of UniCredit Bank d.d. Mostar:***

We have audited the accompanying consolidated financial statements of UniCredit Bank d.d. Mostar (the Bank) and its subsidiaries and associates (together the Group), which comprise of the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In addition, we have audited the accompanying unconsolidated financial statements of UniCredit Bank d.d. Mostar which comprise of the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

***Management's responsibility for the financial statements***

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

***Auditor's responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and other 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 entity'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 Group's and Bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

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

## Other reporting and regulatory obligations

### *Requirements of the Law on Accounting and Auditing*

As required by the Law on Accounting and Auditing in the Federation of Bosnia and Herzegovina, Article 44, the Bank submits its annual consolidated and unconsolidated financial statements to the Financial–intelligence Agency ("FIA") in the form prescribed per Rulebook on content and form of financial statements for banks and financial organizations ("Official Gazette of Federation of Bosnia and Herzegovina", no. 82/10).

The Management Board of the Bank created forms disclosed as an appendix to these consolidated and unconsolidated financial statements on pages 137 to 154, and they contain the consolidated and consolidated statement of financial position as at 31 December 2016, the consolidated and unconsolidated statement of profit or loss and other comprehensive income, and they do not represent an integral part of the consolidated and unconsolidated financial statements presented on pages 30 to 36. The financial information presented in the accompanying forms have been derived from the basic financial statements of the Bank and the Group.

### *Annual business report*

The Management of the Bank prepared the Annual business report. Our responsibility is to express an opinion, based on our audit and in accordance with the Law on Accounting and Auditing and applicable audit standards in the Federation of Bosnia and Herzegovina, whether information in the published Annual report correspond to the consolidated and unconsolidated financial statements. Our audit did not encompanss any information except financial information derived from the consolidated and unconsolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial information presented in the Annual report correspond in all material respects with the stated consolidated and unconsolidated financial statements as at 31 December 2016.

Deloitte d.o.o.

Sead Bahtanović, director and licensed auditor

Deloitte
d.o.o.
Jadranska bb
71000 Sarajevo
ID 4200047380000

Sabina Softić, partner and licensed auditor

Sarajevo , Bosna i Hercegovina

15. February 2017.

# Statement of profit or loss and other comprehensive income for the year ended 31 December 2016

*(all amounts are expressed in thousands of BAM, unless otherwise stated)*

| | Notes | Group 2016 | Bank 2016 | Group and Bank 2015 |
|---|---|---|---|---|
| Interest and similar income | 6 | 199,762 | 192,746 | 189,569 |
| Interest expense and similar charges | 7 | (36,640) | (33,209) | (37,288) |
| **Net interest income** | | **163,122** | **159,537** | **152,281** |
| Fee and commission income | 8 | 64,505 | 64,395 | 61,161 |
| Fee and commission expenses | 9 | (2,648) | (2,618) | (2,655) |
| **Net fee and commission income** | | **61,857** | **61,777** | **58,506** |
| Dividend income | | 12 | 12 | 12 |
| Net gains from foreign exchange trading and translation of monetary assets and liabilities | 10 | 10,694 | 10,694 | 9,719 |
| Net gains from security investments | | | | 1 |
| Other income | 11 | 3,949 | 1,840 | 1,380 |
| **Operating income** | | **239,634** | **233,860** | **221,899** |
| Depreciation and amortization | 24, 25, 26 | (11,505) | (10,002) | (9,677) |
| Operating expenses | 12 | (111,518) | (108,115) | (107,187) |
| **Profit before impairment losses and taxation** | | **116,611** | **115,743** | **105,035** |
| Impairment losses and provisions, net | 13 | (29,948) | (23,427) | (15,864) |
| Share in profit of associates | | 173 | - | - |
| **Profit before taxation** | | **86,836** | **92,316** | **89,171** |
| Income tax expense | 14 | (10,923) | (10,789) | (9,587) |
| **NET PROFIT** | | **75,913** | **81,527** | **79,584** |

*(all amounts are expressed in thousands of BAM, unless otherwise stated)*

| | Notes | Group 2016 | Bank 2016 | Group and Bank 2015 |
|---|---|---|---|---|
| **Profit for the year** | | **75,913** | **81,527** | **79,584** |
| Other comprehensive income: | | | | |
| *Items that will be reclassified subsequently to profit or loss when specific conditions are met:* | | | | |
| Net change in fair value of financial assets available-for-sale | | 225 | 225 | (192) |
| *Items that may be reclassified subsequently to profit or loss:* | | | | |
| FX differences on fair value of financial assets available-for-sale | | 36 | 36 | (24) |
| | | **261** | **261** | **(216)** |
| **TOTAL COMPREHENSIVE INCOME** | | **76,174** | **81,788** | **79,368** |
| Basic and diluted earnings per share (KM) | 36 | 638.27 | 685.48 | 669.13 |

# Statement of financial position
# for the year ended 31 December 2016

*(all amounts are expressed in thousands of BAM, unless otherwise stated)*

| | Notes | Group 31 December 2016 | Bank 31 December 2016 | Group 31 December 2015 | Bank 31 December 2015 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | 15 | 745,516 | 745,515 | 776,736 | 776,735 |
| Obligatory reserve at the CBBH | 16 | 366,379 | 366,379 | 302,868 | 302,868 |
| Loans and receivables from banks | 17 | 282,158 | 282,149 | 151,819 | 151,809 |
| Financial assets available-for-sale | 18 | 433,698 | 433,698 | 428,547 | 428,547 |
| Financial assets at fair value through profit or loss | 19 | 4 | 4 | 8 | 8 |
| Loans and receivables from clients | 20 | 2,783,464 | 2,782,558 | 2,618,456 | 2,617,373 |
| Financial lease receivables | 21 | 115,463 | - | 116,894 | - |
| Other assets and receivables | 22 | 47,837 | 37,238 | 47,276 | 34,011 |
| Investments in associates | 23 | 633 | 460 | 460 | 460 |
| Investment property | 24 | 4,245 | 1,653 | 4,453 | - |
| Property and equipment | 25 | 56,480 | 50,921 | 56,329 | 50,788 |
| Intangible assets | 26 | 13,293 | 13,183 | 13,191 | 13,057 |
| **TOTAL ASSETS** | | **4,849,170** | **4,713,758** | **4,517,037** | **4,375,656** |
| **LIABILITIES** | | | | | |
| Current accounts and deposits from banks | 27 | 186,794 | 186,794 | 127,921 | 127,921 |
| Clients' current accounts and deposits | 28 | 3,573,891 | 3,578,950 | 3,313,688 | 3,316,882 |
| Loan users' participation deposits | 29 | 765 | - | 553 | - |
| Financial liabilities at fair value through profit or loss | 19 | 2 | 2 | 6 | 6 |
| Borrowings | 30 | 241,862 | 103,782 | 243,512 | 106,864 |
| Other liabilities | 31 | 106,029 | 105,747 | 82,256 | 81,840 |
| Provisions for liabilities and charges | 32 | 25,006 | 24,825 | 19,824 | 19,699 |
| Current tax liability | | 1,310 | 1,300 | 1,767 | 1,701 |
| Deferred tax liability | 14 | 1,129 | 1,129 | 1,301 | 1,301 |
| **TOTAL LIABILITIES** | | **4,136,788** | **4,002,529** | **3,790,828** | **3,656,214** |
| **EQUITY** | | | | | |
| Share capital | 33 | 119,195 | 119,195 | 119,195 | 119,195 |
| Treasury shares | | (81) | (81) | (81) | (81) |
| Share premium | | 48,317 | 48,317 | 48,317 | 48,317 |
| Revaluation reserve for investments | | (89) | (89) | (334) | (334) |
| Revaluation reserve for actuarial gain/loss | | 16 | 16 | - | - |
| Regulatory reserves for credit losses | | 20,682 | 20,682 | 20,682 | 20,682 |
| Retained earnings | | 524,342 | 523,189 | 538,430 | 531,663 |
| **TOTAL EQUITY** | | **712,382** | **711,229** | **726,209** | **719,442** |
| **TOTAL LIABILITIES AND EQUITY** | | **4.849.170** | **4.713.758** | **4.517.037** | **4.375.656** |

The accompanying notes form an integral part of these financial statements.

# Statement of cash flows
# for the year ended 31 December 2016

*(all amounts are expressed in thousands of BAM, unless otherwise stated)*

| | Group 2016 | Bank 2016 | Group 2015 | Bank 2015 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Interest received | 200,858 | 193,296 | 188,121 | 188,121 |
| Fee and commission received | 64,487 | 64,377 | 61,056 | 61,056 |
| Interest paid | (40,190) | (36,756) | (37,323) | (37,323) |
| Fee and commission paid | (2,055) | (2,025) | (2,603) | (2,603) |
| Operating expenses paid | (111,449) | (108,046) | (102,768) | (102,768) |
| Net proceeds from trading activities | 10,692 | 10,692 | 9,718 | 9,718 |
| Other proceeds | 2,972 | 863 | 1,379 | 1,379 |
| ***Net cash from operating activities before changes in operating assets and liabilities*** | ***125,315*** | ***122,401*** | ***117,580*** | ***117,580*** |
| ***(Increase) / decrease in operating assets:*** | | | | |
| Obligatory reserve with Central Bank of BiH | (63,511) | (63,511) | (35,453) | (35,453) |
| Loans and receivables from banks | (125,430) | (125,431) | 188,765 | 188,765 |
| Loans and receivables from clients | (185,143) | (183,366) | (151,249) | (151,249) |
| Other assets | (7,362) | (6,499) | (3,546) | (3,546) |
| ***Net increase in operating assets*** | ***(381,446)*** | ***(378,807)*** | ***(1,483)*** | ***(1,483)*** |
| ***Increase / (decrease) in operating liabilities:*** | | | | |
| Current accounts and deposits in banks | 59,118 | 59,118 | 32,163 | 32,163 |
| Current accounts and deposits from clients | 258,188 | 259,841 | 337,200 | 337,200 |
| Other liabilities | 24,944 | 23,279 | 10,730 | 10,730 |
| ***Net increase in operating liabilities, net*** | ***342,250*** | ***342,238*** | ***380,063*** | ***380,063*** |
| ***Net cash inflow from operating activities before corporate income tax paid*** | ***86,119*** | ***86,832*** | ***496,160*** | ***496,160*** |
| Corporate income tax paid | (11,380) | (11,190) | (8,252) | (8,252) |
| **Net cash from operating activities** | **74,739** | **74,642** | **487,908** | **487,908** |
| **Cash flow from investing activities** | | | | |
| Acquisition of property and equipment | (9,335) | (7,520) | (5,601) | (5,601) |
| Proceeds from sale of property and equipment | 1,631 | 1,273 | 225 | 225 |
| Acquisition of intangible assets | (3,495) | (3,420) | (5,709) | (5,709) |
| (Losses) / receipts on redemption of financial assets available-for-sale | 106,210 | 106,210 | 161,066 | 161,066 |
| Purchases of financial assets available-for-sale | (109,743) | (109,743) | (266,102) | (266,102) |
| Acquisition of associates | - | - | (460) | (460) |
| Dividend paid | (90,001) | (90,001) | - | - |
| Dividend receipts | 12 | 12 | 12 | 12 |
| **Cash acquired from the subsidiary** | **-** | **-** | **1** | **-** |
| **Net cash used in investing activities** | **(104,721)** | **(103,189)** | **(116,568)** | **(116,569)** |

# Statement of cash flows
# for the year ended 31 December 2016 (CONTINUED)

*(all amounts are expressed in thousands of BAM, unless otherwise stated)*

| | Group 2016 | Bank 2016 | Group 2015 | Bank 2015 |
|---|---|---|---|---|
| **Cash flows from financing activities** | | | | |
| Repayment of subordinated debt | - | - | (19,558) | (19,558) |
| Proceeds from interest-bearing borrowings | 80,189 | 14,669 | 20,828 | 20,828 |
| Repayment of interest-bearing borrowings | (81,767) | (17,682) | (72,352) | (72,352) |
| **Net cash used in financing activities** | **(1,578)** | **(3,013)** | **(71,082)** | **(71,082)** |
| **Net cash inflow** | **(31,560)** | **(31,560)** | **300,258** | **300,257** |
| Effect of foreign exchange rate fluctuations on cash and cash equivalents | 340 | 340 | 5,002 | 5,002 |
| Net (decrease) / increase in cash and cash equivalents | (31,220) | (31,220) | 305,259 | 305,259 |
| **Cash and cash equivalents at the beginning of the year** | **776,736** | **776,735** | **471,476** | **471,476** |
| **Cash and cash equivalents at the end of the year** | **745,516** | **745,515** | **776,736** | **776,735** |

The accompanying notes form an integral part of these financial statements.

# Statement of changes in equity
# for the year ended 31 December 2016

*(all amounts are expressed in thousands of BAM, unless otherwise stated)*

**The accompanying notes form an integral part of these financial statements.**

| Group | Share capital | Treasury shares | Share premium | Revaluation reserve for securities | Reserve of fair value at actuarial gain/loss | Regulatory reserves for credit losses | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2015** | **119,195** | **(81)** | **48,317** | **(118)** | **-** | **20,682** | **452,079** | **640,074** |
| Effects of subsidiary acquisition (Note 34) | - | - | - | - | - | - | 6,767 | 6,767 |
| Net profit for the year | - | - | - | - | - | - | 79,584 | 79,584 |
| Change in fair value of financial assets available for sale | - | - | - | (216) | - | - | - | (216) |
| FX differences on fair value of financial assets available for sale | - | - | - | (24) | - | - | - | (24) |
| Deferred tax on financial assets available for sale (Note 14) | - | - | - | 24 | - | - | - | 24 |
| *Other comprehensive income* | - | - | - | *(216)* | | - | - | *(216)* |
| ***Total comprehensive income*** | **-** | **-** | **-** | ***(216)*** | **-** | **-** | ***79,584*** | ***79,368*** |
| **Balance as at 31 December 2015** | **119,195** | **(81)** | **48,317** | **(334)** | **-** | **20,682** | **538,430** | **726,209** |
| Net profit for the year | - | - | - | - | - | - | 75,913 | 75,913 |
| Change in fair value of financial assets available for sale | - | - | - | 236 | - | - | - | 236 |
| Change in fair value at actuarial gain/loss | - | - | - | - | 18 | - | - | 18 |
| FX differences on fair value of financial assets available for sale | - | - | - | 36 | - | - | - | 36 |
| Deferred tax on revaluation reserve at actuarial gain/loss (Note 14) | - | - | - | - | (2) | - | - | (2) |
| Deferred tax on financial assets available for sale (Note 14) | - | - | - | (27) | - | - | - | (27) |
| *Other comprehensive income* | - | - | - | *245* | *16* | - | - | *261* |
| ***Total comprehensive income*** | **-** | **-** | **-** | ***245*** | ***16*** | **-** | ***75,913*** | ***76,174*** |
| Dividend payment for the year | - | - | - | - | - | - | (90,001) | (90,001) |
| **Balance as at 31 December 2016** | **119,195** | **(81)** | **48,317** | **(89)** | **16** | **20,682** | **524,342** | **712,382** |

The accompanying notes form an integral part of these financial statements.

# Statement of changes in equity
# for the year ended 31 December 2016 (CONTINUED)

*(all amounts are expressed in thousands of BAM, unless otherwise stated)*

**The accompanying notes form an integral part of these financial statements.**

| Bank | Share capital | Treasury shares | Share premium | Revaluation reserve for securities | Reserve of fair value at actuarial gain/ loss | Regulatory reserves for credit losses | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2015** | **119,195** | **(81)** | **48,317** | **(118)** | | **20,682** | **452,079** | **640,074** |
| Net profit for the year | - | - | - | - | - | - | 79,584 | 79,584 |
| Change in fair value of financial assets available-for-sale | - | - | - | (216) | | - | - | (216) |
| FX differences on fair value of financial assets available-for-sale | - | - | - | (24) | - | - | - | (24) |
| Deferred tax on financial assets available-for-sale (Note 14) | - | - | - | 24 | - | - | - | 24 |
| *Other comprehensive income* | - | - | - | *(216)* | - | - | - | *(216)* |
| ***Total comprehensive income*** | **-** | **-** | **-** | ***(216)*** | **-** | **-** | ***79,584*** | ***79,368*** |
| **Balance as at 31 December 2015** | **119,195** | **(81)** | **48,317** | **(334)** | **-** | **20,682** | **531,663** | **719,442** |
| Net profit for the year | - | - | - | - | - | - | 81,527 | 81,527 |
| Dividend payment | - | - | - | - | - | - | (90,001) | (90,001) |
| Change in fair value of financial asset available-for-sale | - | - | - | 236 | - | - | - | 236 |
| Change in fair value at actuarial gain/loss | - | - | - | - | 18 | - | - | 18 |
| FX differences on fair value of financial assets available-for-sale | - | - | - | 36 | | - | - | 36 |
| Deferred tax on revaluation reserve at actuarial gain/loss (Note 14) | - | - | - | - | (2) | - | - | (2) |
| Deferred tax on financial assets available-for-sale (Note 14) | - | - | - | (27) | - | - | - | (27) |
| *Other comprehensive income* | - | - | - | *245* | *16* | - | - | *261* |
| ***Total comprehensive income*** | **-** | **-** | **-** | ***245*** | ***16*** | **-** | ***81,527*** | ***81,788*** |
| **Balance as at 31 December 2016** | **119,195** | **(81)** | **48,317** | **(89)** | **16** | **20,682** | **523,189** | **711,229** |

# 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.

# 1. REPORTING ENTITY

UniCredit Bank d.d. Mostar (the Bank) is a joint stock company incorporated and headquartered in Bosnia and Herzegovina. The registered office is at Kardinala Stepinca bb, Mostar. The Bank is a parent company of the Group UniCredit Bank d.d. Mostar (the Group), operating in Bosnia and Herzegovina. The Group consists of UniCredit Bank d.d. and its subsidiaries and associates. The Group provides a full range of services including retail and corporate banking, risk operations, and finance and operating lease operations. The Bank is a member of Zagrebačka banka Group (Zagrebačka banka d.d., a bank headquartered in Zagreb, Republic of Croatia, is its immediate parent company) and UniCredit Group. The ultimate parent company is UniCredit Bank SpA., a bank headquartered in Milan, Italy.

On 22 December 2015, the Bank became the owner of the company UniCredit Leasing d.o.o. Sarajevo, headquartered in Bosnia and Herzegovina, Ložionička 7, Sarajevo, with 100% equity share (main operations in financial and operating leasing), and 49% equity share in the company UniCredit Broker d.o.o., Obala Kulina Bana 15, Sarajevo (main operations in insurance intermediation).

The financial statements encompass separate financial statements of the Bank and consolidated financial statements of the Group (together "financial statements"), as defined by International Financial Reporting Standard 10: "Consolidated Financial Statements".

For 2016, the Bank, consolidated the Statement of profit or loss and Balance sheet of the subsidiary UniCredit Leasing d.o.o. Sarajevo, and UniCredit Broker d.o.o. using equity method.

Comparative data for 2015 are consolidated, and the data in the Statement of profit or loss of the subsidiary UniCredit Leasing d.o.o. Sarajevo for the period from 22 to 31 December 2015 were not consolidated because the Bank deemed that the effects on the consolidated financial statements of the Group were immaterial, and they were recognized as a portion of negative goodwill (arising from acquisition of the subsidiary) to the benefit of Group's retained earnings.

In addition, the Bank did not consolidatein the previous year the share in the financial result of the associate UniCredit Broker d.o.o. Sarajevo for the period from 22 to 31 December 2015, because these effects were also considered as immaterial to the Group's financial statements.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## 2.1 Statement of compliance

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

## 2.2 Going concern

The financial statements have been prepared on the going concern basis, which assumes continuity of Group's normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

## 2.3 Basis of presentation

The Group's financial statements have been prepared on a historical cost basis, except for financial assets and liabilities at fair value through profit or loss and debt securities available-for-sale which are stated at fair value.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.3 Basis of presentation (continued)

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability wich market participants would take into account when pricing the asset or liabilty at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for measurement that have some similiarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements are presented in Convertible marks since that are the functional currency of the Company. The Convertible mark (BAM) is officially tied to the Euro (EUR 1 = BAM 1.95583).

The preparation of financial statements in compliance with IFRS requires Management to make estimates and assumptions that affect the application of accounting policies and disclosed assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Information on amounts where significant uncertainty exists in their estimate and critical judgments in applying accounting policies that have the most significant impact on the amounts disclosed in these financial statements are disclosed in Note 4.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

## 2.4 Consolidation

Consolidated financial statements include financial statements of the Bank and entities controlled by the Bank and its subsidiaries (together the "Group"), together with Group's shares in associates.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.4 Consolidation (continued)

***Business combinations***

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an investee when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes in one or more of the elements of control. This includes circumstances in which protective rights held by the Group (for example, those resulting from lending activity) become substantive and lead to the Group having power over an investee. The Group measures goodwill at the acquisition date as the total of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities.

When this total is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. These amounts are regularly recognised in profit or loss. Acquisition-related costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

***Subsidiaries***

Subsidiaries are entities controlled by the Group. Their financial statements are included in the consolidated financial statements starting with the date of acquisition until the date the control ceases.

Accounting policies of subsidiaries are revised as necessary to be adjusted to Group’s policies. Losses relating to non-controlling shares in the subsidiary are allocated to owners of non-controlling shares, even though they may have negative balance as a result.

In the Bank’s separate financial statements, investments in subsidiaries are stated at cost less any impairment in the value of individual investments if needed.

***Effects of acquisition of entities under common control***

Business mergers resulting from transfer of share in subjects, which are under common control of ultimate shareholder that controls the Group, are recognised at the expense/to the benefit of Group’s retained earnings.

***Transactions eliminated during consolidation***

Intragroup positions and transactions, and non-performed revenues and expenses (except FX revenues and expenses), which result from intragroup transactions, are eliminated during preparation of consolidated financial statements. Non-performed losses are eliminated in the same manner as non-performed revenues, but only if there is no evidence of impairment.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.4 Consolidation (continued)

***Associates***

Associates are all companies in which the Group has significant influence, but no control over them. Investments in associates are initially recognised at acquisition cost basis, and are subsequently valued in consolidated financial statements applying share method basis. Group's investments in associates also include goodwill (reduced for accumulated impairment loss) identified during acquisition. In separate financial statements of the Bank, investments in associates are valued at acquisition cost basis reduced for potential impairments.

Group's share in profit or losses of its associates after acquisition is recognised in the statement of profit or loss, and its share in reserve changes after acquisition is recognised in reserves.

Carrying value of investment is corrected for total movements after acquisition. When the Group's share in losses of the associate is equal or higher than its share in the associate, including any uncollateralised receivables, the Group ceases to recognise further losses, except when it has further liabilities toward the associate or it completed payments to the benefit of the associate. The dividend received from associates is recognised as the decrease of investment in associaties in the consolidated statement of financial position of the Group, and as revenue from dividends in the separate statement of profit or loss of the Bank.

Non-performed gains from transactions between the Group and its associates are eliminated up to the size of Group's share in the associate.

Non-performed losses are also eliminated, except when the transaction offers evidence of impairment of transferred assets. Accounting policies of associate are revised as necessary to be adjusted to Group's policies.

## 2.5 Interest income and expense

Interest income and expense are recognised in the statement profit or loss as they accrue using the effective interest rate method. Effective interest rate is the rate that discounts estimated future cash flows (including all paid or received transaction costs, fees and points that form an integral part of the effective interest rate) through the expected life of the financial asset / liability, or, where appropriate, a shorter period.

## 2.6 Fee and commission income and expense

Fees and commissions that are an integral part of effective interest rates on financial assets and financial liabilities are included in interest income and interest expense.

Other fee and commission income includes fees which relate to credit card business, the issue of guarantees, letters of credit, domestic and foreign payments and other services, and are recognised in the statement of profit or loss and other comprehensive incomeof profit or loss and comprehensive income upon performance of the relevant service.

Other fee and commission expense, mainly service and transaction fees, are recognised as an expense upon incurrence of services.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 Leases

A lease where the Group transfers all essential risks and benefits related to the ownership of assets to the receiver of the lease, is classified as financial lease. All other lease forms are classified as operating lease.

***Financial lease***

The amount owed by lessees under financial lease are booked as receivables in the amount of Group's net investment in leases equal to the present value of expected lease collections. The difference between the gross finance lease receivable and present value of future collections per finance lease receivable represents unearned financial income. Initial direct costs incurred in negotiating and arranging a finance lease are added to the carrying amount of the leased asset and reduce the amount of income over the lease term.

***Operating lease***

Assets that are subject to operating lease are presented in the statement of financial position by the nature of the assets. Rental income from operating lease contracts is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned. For operating leases in which the Group is a lessor, the corresponding asset is recognised as an item of Property and equipment (refer to accounting policy 2.12). For operating leases of Group's investment property the corresponding asset is recognised on the Group statement of financial position as an item of Investment property (accounting policy 2.14). Amortisation policy for these assets is consistent with Group's policy for amortisation of similar assets.

### 2.8 Employee benefits

On behalf of its employees, the Group pays personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set legal rates during the course of the year on the gross salary. The Bank pays the tax and contributions in the favour of the pension and health funds of the Federation of Bosnia and Herzegovina (on federal and cantonal level) and Republika Srpska.

In addition, transport allowances, meal allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recognised in the statement of profit or loss and comprehensive income in the period in which the salary expense is incurred.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.8 Employee benefits (continued)

### 2.8.1 Long-term employee awards

Participants for each cycle of the so-called "Long-term Incentive Plan" are defined based on criteria related to their contribution to the Bank's long-term sustainable profitability. The estimated amount is recognized as personnel costs in profit or loss as earned by participants.Participants for each cycle of the Long-term Incentive Plan are defined based on criteria related to their contribution to the banks long-term sustainable and growing profitability. The estimated amount is recognised as personnel costs in profit or loss in the year when it is earned.

### 2.8.2 Other employee benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory severance payments, are recorded at the net present value of the liability for defined benefits at the reporting date. The projected credit unit method is used for the calculation of the present value of the liability. The rate of average long-term borrowing of corporate clients is used as a discount rate in the absence of an active corporate debt securities market.

## 2.9 Foreign currency translation

Transactions in foreign currencies are translated into BAM at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into BAM at the reporting date at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in the statement of profit or loss, except in case of differences arising on non-monetary financial assets available-for-sale, which are recognised in other comprehensive income. Non-monetary assets and liabilities in foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction and are not retranslated at the reporting date.

The Bank values its assets and liabilities by middle rate of Central Bank of Bosnia and Herzegovina ("CBBH") valid at the reporting period date, which is approximate to market rates. The exchange rates set forth by CBBH and used in the preparation of the Group's and Bank's statement of financial position at the reporting dates were as follows:

| | | |
|---|---|---|
| **31 December 2016** | EUR 1 = BAM 1.95583 | USD 1 = BAM 1.85545 |
| **31 December 2015** | EUR 1 = BAM 1.95583 | USD 1 = BAM 1.79007 |

## 2.10 Cash and cash equivalents

For the purpose of preparation of the cash flow statement and statement of financial position, cash and cash equivalents comprise cash in hand, items in the course of collection and current accounts.

Cash and cash equivalents exclude the compulsory minimum reserve with CBBH as these funds are not available for the Bank's day to day operations. The compulsory minimum reserve with CBBH is a required reserve to be held by all commercial banks licensed in Bosnia and Herzegovina.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.11 Financial instruments

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value increased for transaction costs that are directly attributable to the acquisition or issue except for financial assets and financial liabilities at fair value through profit and loss.

Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### 2.11.1 Financial assets – classification and valuation

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', "held-to-maturity investments" 'available-for-sale' (AFS), 'loans and receivables', and "financial lease".

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Currently, the Bank has no held-to-maturity investments.

***a) Effective interest rate method***

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for financial instruments: 'available-for-sale' and 'loans and receivables'.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.11 Financial instruments (continued)

### 2.11.1 Financial assets – classification and valuation (continued)

***b) Financial assets at fair value through profit or loss ("FVTPL")***

Financial assets are classified by the Group as at FVTPL when the financial asset is either "held for trading", for the purpose of selling or purchasing it in the near term, for the purpose of short-term profit taking, or designated as at FVTPL by Management at initial recognition.

A financial asset is classified as "held for trading" if:

- it has been acquired principally for the purpose of selling it in the near term; or
- it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset "held for trading" may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, whose performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and pursuant to IAS 39 that permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the statement of profit or loss. The net gain or loss recognised in statement of profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 41.

***c) Financial assets available-for-sale ("AFS")***

Financial assets available-for-sale are non-derivatives that are either designated in this category or not classified in any of the other categories. Financial assets classified as available-for-sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Financial assets available-for-sale include debt and equity securities.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.11 Financial instruments (continued)

### 2.11.1 Financial assets – classification and valuation (continued)

#### *c) Financial assets available-for-sale ("AFS")*

Financial assets available-for-sale are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset.  Subsequent to initial recognition, "available-for-sale" financial assets are measured at fair value. Fair value is determined in the manner described in Note 41. Exceptionally, equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at acquisition cost, less potential impairment.

Gains and losses arising from changes in fair value are recognised directly in equity, i.e. the revaluation reserve for securities with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on financial assets "available-for-sale" are recognised in profit or loss when the Group's right to receive payments is established. The fair value of financial assets "available-for-sale" denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting period date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

#### *d) Loans and receivables*

Loans and other receivables that have fixed or determinable payments that are not quoted in an active market may be classified as loans and receivables. Loans and receivable arise when the Group provides money directly to a debtor with no intention of trading with the receivable or disposal in the near future.

Loans and receivables are initially recognised at fair value plus incremental costs. After initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any potential impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Loans and receivables include loans to and receivables from banks, loans and receivables from clients, cash and cash equivalents, and obligatory reserves with CBBH.

#### *e) Financial Lease*

Amount owed by lessees under financial lease is booked as receivables in the amount of net investment in leases. Financial lease income is allocated to accounting periods in a manner that it reflects periodical constant return rate on the outstanding net investment in relation to leases.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.11 Financial instruments (continued)

### 2.11.2 Impairment of financial assets

#### *a) Financial assets carried at amortised cost*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that it would not otherwise consider;
- becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for the financial asset because of financial difficulties;
- available data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for the individual financial assets in the group.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed on group basis.

Those individually significant assets which are not identified as impaired are subsequently included in the basis for impairment assessment on group basis. For the purposes of a group evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

For the purposes of group evaluation of impairment for incurred but not reported losses (IBNR) and specific provisions calculated on a group basis the Group uses statistical models and historical data on the probability of events that cause impairment, the time required to recover and total loss incurred, adjusted for Management's judgment as to whether the current economic and credit conditions are such that it is likely that the actual losses will be higher or lower of those calculated by historical modelling. The Group regularly reviews the loss rate and the expected rate of recovery at each reporting date, to ensure accurate reporting.

Impairment loss for financial assets measured at amortised cost is calculated as the difference between the carrying amount of the assets and the present value of expected future cash flows discounted at the original effective interest rate of financial assets.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.11 Financial instruments (continued)

### 2.11.2 Impairment of financial assets (continued)

***a) Financial assets carried at amortised cost (continued)***

The carrying value of the asset is reduced through an impairment allowance account and the amount of loss is recognised through profit or loss. If loan and receivable have a variable interest rate, the discount rate for determining the impairment loss is the current effective interest rate.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit worthiness), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

When a loan is uncollectible, it is written off against the related impairment allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as a reversal of impairment losses in profit or loss.

The adjustment for impairment of receivables on financial lease is booked if there is objective evidence that the Group will not be able to collect the whole amount of receivable upon maturity. Amounts of adjustments for impairment on financial leases presented in the report are calculated pursuant to IFRS in a manner that it is first assessed whether there is objective evidence of impairment separately for assets that are individually material and on portfolio basis for assets that are not individually material.

Assets assessed separately as assets that are not impaired are included in the group of assets with similar credit risk characteristics and it is considered on portfolio basis for impairment as such.

When assessing collective impairment for receivables on financial lease, the following general guidelines are considered:

- future cash flows for clients estimated based on experience on historical loss for clients with similar credit risk characteristics;
- information on return rates that are applied consistently to defined assets categories;
- methodology and assumptions used for estimating future cash flows that are regularly revised and updated as necessary.

When assessing individual impairment for receivables on financial lease, the following items are considered:

- estimated value of immovable/movable property based on independent court appraiser's opinion.

The Group estimates adjustments for impairment monthly to maintain adequate amount of provisions for receivables impairment.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.11 Financial instruments (continued)

### 2.11.2 Impairment of financial assets (continued)

***a) Financial assets available-for-sale***

In the case of financial assets available-for-sale, a significant or prolonged decline in the fair value of the investment below its acquisition cost is additionally considered in determining whether the assets are impaired.

If any such evidence exists for financial assets available-for-sale, 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 recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

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 recognised in profit or loss, the impairment loss is reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is subsequently recognised in other comprehensive income until derecognition of that asset.

Exceptions from above are equity securities classified as available-for-sale for which there is no reliable measure of fair value. The Group assesses at each reporting date whether there is objective evidence that a financial asset or such group of financial assets is impaired. An impairment loss is calculated as the difference between the carrying amount of the financial asset and the present value of expected future cash flows discounted by the required market return for similar financial assets. Impairment losses on such instruments, recognised in profit or loss, are not subsequently reversed through profit or loss.

***2.11.2.1 Derecognition of financial assets***

Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the financial asset.

On derecognition of a financial asset the difference between the carrying amount of the asset, and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.11 Financial instruments (continued)

### 2.11.3 Financial liabilities and equity instruments issued by the Bank

***a) Classification***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

***Financial liabilities***

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

***Financial liabilities at fair value through profit or loss ("FVTPL")***

The Group classifies financial liabilities as at FVTPL when the financial liability is either "held for trading" or it is initially designated as financial liability at FVTPL.

A financial liability is classified as "held for trading" if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability "held for trading" may be designated as at FVTPL if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- he financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, pursuant to IAS 39 that permits the entire combined contract (asset or liability) to be designated as financial liability at FVTPL.

Financial liabilities recognised as financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 41.

***Other financial liabilities***

Other financial liabilities, including current and deposit account, issued debt securities, subordinated debt and borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.11 Financial instruments (continued)

### 2.11.4 Financial liabilities and equity instruments issued by the Bank (continued)

***a) Classification (continued)***

***Financial liabilities (continued)***

***Other financial liabilities (continued)***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

***b) Derecognition of financial liabilities***

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs

***Financial guarantee contract liabilities***

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37: "Provisions, Contingent Liabilities and Contingent Assets"; or
- the amount initially recognised less, where appropriate, cumulative amortization recognised in accordance with the revenue recognition policies set out at above.

### 2.11.5 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and it tends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Revenues and expenses are presented on a net basis only when that is allowed pursuant to IFRS, and for gains and losses from the group of similar transactions, e.g. based on trade activity.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.11 Financial instruments (continued)

### 2.11.6 Derivative financial instruments

The Group uses derivative financial instruments to hedge economically its exposure to foreign exchange risk arising from operating, financing and investing activities. The Group does not hold or issue derivative financial instruments for speculative trading purposes. All derivatives are classified as financial instruments held for trading.

Derivative financial instruments including foreign exchange forward contracts and foreign exchange swap contracts are initially recognised at trade date and subsequently measured at their fair value in the statement of financial position. Fair values are obtained from discounted cash flow models.

All derivatives are classified as financial assets at fair value through profit or loss when their fair value is positive and as financial liabilities at fair value through profit or loss when it is negative.

## 2.12 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses. Cost includes all expenditure that is directly attributable to the acquisition of the items.

Subsequent cost is included in the asset's carrying amount or is recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is provided on all property and equipment except for land and assets not yet brought into use on a straight-line basis at prescribed rates designed to write off the cost to estimated residual value over the estimated useful life of the asset. The estimated useful lives are as follows:

| | |
|---|---|
| Buildings | 2% - 3% |
| Computers | 20% - 30% |
| Leasehold improvement | Lease term |
| Other equipment | 7% - 15% |

Depreciation methods, the useful lives and residual values of property and equipment are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit or loss as other income or other expense.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.13 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. The cost includes all expenditure that is directly attributable to the acquisition of the items.

Intangible assets except for intangible assets not yet brought into use are amortised on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Software | 20% |
| Other intangible assets | 20% |

## 2.14 Investment property

Investment property encompass property held for earning lease profits or for increase of value of capital property, or both, and they are measured at acquisition const, including transaction costs.

Amortisation of such assets starts at the moment when the property is ready for use.

Amortisation is calculated using linear method during estimated useful life of property, where the amortisation rate for buildings is 3%.

## 2.15 Taxation

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

### 2.15.1 Current income tax

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

### 2.15.2 Deferred income tax

Deferred income taxes are recognised reflecting the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority.

Deferred tax assets and liabilities are not discounted and are classified as a non-current assets and/or liabilities in the statement of financial position.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.15 Taxation (continued)

### 2.15.2 Deferred income tax (continued)

Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Group reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets, which are reduced to the extent at which it is no longer probable that tax benefits can be used.

## 2.16 Impairment of non-financial assets

Non-financial assets (other than deferred tax assets) of the Group are tested for impairment only when there is indication of impairment and their recoverable amount is then estimated. An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of individual assets or cash-generating units 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 or cash-generating unit. The recoverable amount of assets that do not generate independent cash flows (e.g. corporate assets) is determined by assessing cash flows of the group to which the asset belongs.

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, net of depreciation or amortisation, as if no impairment loss had been recognised.

## 2.17 Provisions

Provisions are recognised if the Group has a present obligation (legal or constructive) as a result of a past event, if is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.18 Equity and reserves

### 2.18.1 Share capital

Share capital represents the nominal value of paid-in ordinary and preference shares and is denominated in BAM.

### 2.18.2 Treasury shares

When the Bank purchases its own equity instruments (treasury shares), the consideration paid is deducted from equity until the shares are cancelled. When such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in issued share capital.

### 2.18.3 Regulatory reserves for credit losses

Regulatory reserves for credit losses are recognised in accordance with regulations of the Banking Agency of Federation of Bosnia and Herzegovina. Regulatory reserves for credit losses are non-distributable.

### 2.18.4 Retained earnings

Profit for the period after appropriations to owners is transferred to retained earnings.

### 2.18.5 Revaluation reserve for securities

Revaluation reserve for securities comprises changes in fair value of financial assets available-for-sale, net of deferred tax.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.18 Equity and reserves

### 2.18.6 Dividends

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

## 2.19 Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Group enters into credit related commitments which are recorded off balance sheet and primarily comprise guarantees, letters of credit, undrawn loan commitments and credit card limits.

## 2.20 Managed funds for and on behalf of third parties

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

## 2.21 Segment reporting

A business segment is a distinguishable component of the Bank that is engaged in business activities, which may result in revenue or expenses. The Bank has identified four primary business segments: Retail, Corporate and Investment Banking, Assets and Liabilities Management, and Central Unit.

"Lease" segment in the segments notes is added for the purpose of presenting data for the Group and because of specificity of the company related to the Bank.
Segmental results are measured inclusive of the application of internal transfer prices, based on specific prices, appropriate currencies and maturities, with embedded additional adjustments.

Segmental business result are regularly monitored by the Management and Supervisory Board, based on management financial information.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.22 Earnings per share

The Bank publishes basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. During 2016 and 2015 there were no dilution effects.

### 2.23 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

During 2016 and 2015, there were neither qualifying assets nor capitalized borrowing costs.

### 2.24 Assets acquired in lieu of uncollectible receivables

The Group assesses the marketability of assets acquired in lieu of uncollectible receivables, loans and financial lease, the value of which can be measured reliably, and they are recognised as assets in the statement of financial position. The Group's intention is mainly to sell such assets, in which case they are classified as inventory for overtaken leasing product assets, and not amortised. The Bank presents overtaken assets as investment property. However, in certain limited cases they may end up being used by the Group and amortised within buildings, which are part of property and equipment.

The items acquired based on lease, property and equipment agreements are included in assets acquired in lieu of uncollectible receivables of the Group. These assets are recognised by cost or net realisable value, depending on which is lower.

Impairment of assets is described under the item impairment of non-financial assets 2.16.

# 3. ADOPTION OF NEW AND REVISED STANDARDS

## 3.1 Standards and Interpretations effective in current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

- IFRS 14 "Regulatory Deferral Accounts" (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 IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" -Bearer Plants (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016);
- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these standards, amendments and interpretations has not led to any changes in the Group's accounting policies.

## 3.2 Standards and Interpretations in issue not yet adopted

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

- FRS 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);

# 3. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

## 3.2 Standards and Interpretations in issue not yet adopted (continued)

- 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),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Group in the period of initial application. Management is currently analysing the impact of IFRS 9 on the Group's financial statements.

## 3.3 IFRS 9: "Financial Instruments"

Entity's business model for financial assets management and contractual characteristics of cash flow from financial assets are used basis for classification of debt assets. Accordingly, debt instruments should be measured at amortized cost if:

a) business model is holding financial assets exclusively for obtaining contractual cash flows,

b) contractual cash flows exclusively maintain payments of principal and interest.

All other debt instruments and equity instruments, including investments in complex loan instruments and capital investments, must be recognized at fair value and are presented in the statement of profit or loss, except for capital investments not held for trading, which can be recorded in profit or loss or in the reserve.

Requirements of the new standard in the area of impairment are based on the expected credit losses model, and it substitutes the current IAS 39 incurred losses model. The new expected credit loss model includes three phases of access, whereby financial assets are moved through phases as their credit quality changes. In the first phase, the expected credit loss is calculated for the period of 12 months, and for the following two phases, the expected losses are calculated for the entire life of an instrument.

# 3. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

## 3.3 IFRS 9: "Financial Instruments" (continued)

The Bank has already tested the contractual characteristics of the portfolio, and according to the current state, it is expected that the entire portfolio of loans and receivables will continue to be measured at amortized cost, and the portfolio of securities at fair value. Preliminary simulations and calculations demonstrate that the transition to the new standard will not have significant effects on the impairment losses in the Bank's balance.

In addition, according to the above, the Bank will update the current documents that are in effect.

The adoption of IFRS 9 will not affect the classification and measurement of Bank's financial liabilities.

It is planned that the Standard will be effective from 1 January 2018.

# 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the accounting policies, which are described in Note 2, the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Significant estimates of the Group as of 31 December 2016 and 2015 in these financial statements are presented below.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

## 4.1 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### 4.1.1 Useful lives of property and equipment

As described in Notes 2.12 and 2.14 above, the Group reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

# 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

## 4.1 Key sources of estimation uncertainty (continued)

### 4.1.1 Useful lives of property and equipment

During 2016, based on the amendments to the Corporate Income Tax Act of Federation of Bosnia and Herzegovina ("Official Gazette of Federation of Bosnia and Herzegovina", no. 15/16), and based on review of useful lives of long-term assets, the Management estimated that the useful lives of individual assets are longer than initially estimated, which resulted in decrease of depreciation costs and increase of net result for 2016 for the amount of BAM 342 thousand.

### 4.1.2 Impairment losses on loans and receivables

As described in Note 2.11.2 above, at each reporting period date, the Group assesses indicators for impairment of loans and receivables, and receivables on financial lease, and their impact on the estimated future cash flows from the loans and receivables.

***a) Impairment losses on loans and receivables and provisions for off-balance-sheet exposure***

The Group continuously monitors the creditworthiness of its clients on an ongoing basis. The need for impairment of the Group's on- and off-balance-sheet credit risk exposures is assessed on a monthly basis. Impairment losses are made mainly against the carrying value of loans to corporate and retail clients (summarised in Note 20), carrying value of financial lease (summarised in Note 21), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to clients, mainly in the form of unused loan facilities and guarantees (summarised in Note 32). 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 credit risk.

| | | Group | Bank | Group | Bank |
|---|---|---|---|---|---|
| | | 2016 | 2016 | 2015 | 2015 |
| | Note | BAM '000 | BAM '000 | BAM '000 | BAM '000 |
| **Allowances for impairment losses on credit risk exposure** | | | | | |
| Allowances for impairment losses on loans and receivables from clients | 20 | 306,592 | 306,348 | 296,417 | 296,134 |
| Provisions for financial lease | 21 | 17,635 | | 14,552 | - |
| Provisions for off-balance-sheet contingent liabilities | 32 | 17,582 | 17,581 | 13,117 | 13,112 |
| Allowances for impairment losses on loans to and receivables from banks | 17 | 124 | 124 | 124 | 124 |
| **Total** | | **341,933** | **324,053** | **324,053** | **309,370** |

***Financial assets carried at amortised cost***

The Group first assesses whether objective evidence of impairment exists individually for assets that are individually significant (significance defined by Group members' acts) and on portfolio basis for assets that are not individually significant or a group of clients. However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics and then assessed on portfolio basis for impairment.

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

## 4.1 Key sources of estimation uncertainty (continued)

### 4.1.2 Impairment losses on loans and receivables (continued)

***a) Impairment losses on loans and receivables and provisions for off-balance-sheet exposure (continued)***

***Financial assets carried at amortised cost (continued)***

In assessing collective impairment the following guidelines are used:

- future cash flows of a homogeneous segment/product group are estimated based on historical losses for assets with similar credit risk characteristics;
- information on historical loss rates are applied consistently to defined homogeneous segments/groups;
- historical losses are adjusted in line with current data which can be used consistently with the current conditions;
- the methodology and assumptions used to estimate future cash flows are regularly revised, and updated as necessary.

As explained further below, the Group also calculates provisions under FBA rules, as well as estimating impairment allowances under IFRS. The provisions calculated under FBA rules are not recognised by the Bank in its books (in accordance with FBA decision), but form the basis for capital adequacy calculations, and in previous periods, formed the basis for transfers to non-distributable reserves within equity.

The subsidiary recognises provisions calculated under FBA rules in its books.

***Non-performing portfolio – calculation in accordance with IFRS***

At the year end, the gross value of impaired loans and receivables and financial lease (NPL), and the rate of recognised impairment loss, calculated according to IFRS, were as follows:

| (in BAM '000) | 31 December 2016 | | | | 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| **Group** | **Corporate (including both state and public sector)** | **Retail** | **Financial lease** | **Total** | **Corporate (including both state and public sector** | **Retail** | **Financial lease** | **Total** |
| Gross exposure | 211,390 | 88,560 | 29,511 | 329,461 | 219,777 | 91,628 | 30,897 | 342,302 |
| Impairment rate for non-performing portfolio | 84.24% | 83.92% | 57.91% | 81.79% | 81.45% | 80.48% | 45.71% | 77.96% |

# 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

## 4.1 Key sources of estimation uncertainty (continued)

### 4.1.2 Impairment losses on loans and receivables (continued)

***a) Impairment losses on loans and receivables and provisions for off-balance-sheet exposure (continued)***

| (in BAM '000) | | | 31 December 2016 | | | 31 December 2015 |
|---|---|---|---|---|---|---|
| **Bank** | **Corporate (including both state and public sector)** | **Retail** | **Total** | **Corporate (including both state and public sector** | **Retail** | **Total** |
| Gross exposure | 211,177 | 88,327 | 299,504 | 219,564 | 91,365 | 310,929 |
| Impairment rate for non-performing portfolio | 84.22% | 84,12% | 84,19% | 81,44% | 80,64% | 81,20% |

Any additional increase in the impairment rate of 1 pp on the gross non-performing exposure, identified as of 31 December 2016, would lead to the recognition of an additional impairment loss of BAM 2,995 thousand (2015: BAM 3,109 thousand) for the Bank, and impairment loss of BAM 3,295 thousand for the Group.

**Non-performing portfolio – calculation in accordance with FBA regulations**

At year end, the gross value of impaired loans and receivables, and the rate of impairment loss, calculated as prescribed by FBA, were as follows:

| (in BAM '000) | | | | 31 December 2016 | | | | 31 December 2015 |
|---|---|---|---|---|---|---|---|---|
| **Group** | **Corporate (including both state and public sector)** | **Retail** | **Financial lease** | **Total** | **Corporate (including both state and public sector** | **Retail** | **Financial lease** | **Total** |
| Gross exposure | 210,586 | 68,074 | 4,873 | 283,533 | 212,988 | 66,566 | 23,280 | 302,834 |
| Impairment rate for non-performing portfolio | 78.26% | 93.79% | 14.96% | 80.91% | 79.86% | 92.42% | 48.58% | 80.22% |

| (in BAM '000) | | | 31 December 2016 | | | 31 December 2015 |
|---|---|---|---|---|---|---|
| **Bank** | **Corporate (including both state and public sector)** | **Retail** | **Total** | **Corporate (including both state and public sector** | **Retail** | **Total** |
| Gross exposure | 210,586 | 68,074 | 278,660 | 212,775 | 66,303 | 279,078 |
| Impairment rate for non-performing portfolio | 78.26% | 93.79% | 82.06% | 79.94% | 92.75% | 87.78% |

# 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

## 4.1 Key sources of estimation uncertainty (continued)

### *4.1.2 Impairment losses on loans and receivables (continued)*

#### *a) Impairment losses on loans and receivables and provisions for off-balance-sheet exposure (continued)*

Any additional increase in the impairment rate of 1 pp on the gross non-performing exposure identified as of 31 December 2016, would lead to additional impairment provisions of BAM 2,786 thousand (2015: BAM 2,791 thousand) and impairment of BAM 2,835 thousand for the Group.

Under FBA regulations, exposures with installments up to 90 days overdue are treated as performing. The Bank also calculates provisions on such performing loans with delays in repayment of up to 90 days (risk category B), at rates in the range from 5% to 15%, while the subsidiary calculates at the rate of 10%. Special reserve for credit losses for the Group at 31 December 2016, recognised for risk category B, amounted to BAM 5,786 thousand, while gross exposure amounted to BAM 63,065 thousand.

Special reserve for credit losses for the Bank at 31 December 2016, recognised for risk category B, amounted to BAM 5,667 thousand (2015: BAM 4,493 thousand), while gross exposure amounted to BAM 60,366 thousand (2015: BAM 53,173 thousand).

#### *IBNR*

In addition to identified losses on impaired loans, as described in previous paragraph, the Group also recognises impairment losses which are known to exist at the reporting date, but which have not yet been identified ("IBNR"). Amounts, for which an impairment loss has been identified, are excluded from this calculation.

Group's IBNR at 31 December 2016, amounted to BAM 68,863 thousand (2015: BAM 54,567 thousand) or 2.4% (2015: 2.0%) of loans and receivables from clients and financial lease, and 1.3% (2015: 0.9%) of total on- and off-balance-sheet credit risk exposure to clients, in both cases of amounts assessed as performing loans.

Bank's IBNR at 31 December 2016, amounted to BAM 68,307 thousand (2015.: BAM 54,117 thousand) or 2.4% (2015: 2.1%) of loans and receivables from clients, and 1.3% (2015: 1.1%) of total on- and off-balance-sheet credit risk exposure to clients, in both cases of amounts assessed as performing loans.

# 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

## 4.1 Key sources of estimation uncertainty (continued)

### 4.1.2 Impairment losses on loans and receivables (continued)

***Regulatory reserves calculated in accordance with FBA regulations (Bank only)***

For the purposes of assessing capital adequacy and recognising credit loss reserve formed from gains in equity and reserve, in accordance with local regulations and relevant FBA regulations, the Bank also calculates provisions in accordance with those regulations. In accordance with these regulations and for FBA's purposes, the relevant placements are classified into appropriate risk groups, depending on days past due, the financial position of the borrower and collateral, and are provided for at prescribed rates.

The regulatory provisions pursuant to FBA regulations include both specific reserves for credit losses and general credit loss reserves. The general credit loss reserves is added back as Tier 2 capital in the computation of capital adequacy under FBA rules. General reserve for credit losses of BAM 44,120 thousand as at 31 December 2016 added back as Tier 2 capital exceeds by BAM 4,325 thousand the combined amount of regulatory reserves of BAM 20,682 thousand excluded from Tier 1 capital and BAM 19,113 thousand further deducted from capital at that date (2015: regulatory reserves BAM 41,482 thousand).

### 4.1.3 Legal proceedings

The Bank makes individual assessment of all legal proceedings whose value exceeds BAM 25 thousand. All legal proceedings below BAM 25 thousand are monitored and provided for on a portfolio basis.

As of 31 December 2016 the Group has provided BAM 4,832 thousand, which Management estimates as sufficient for covering risk of potential liability from legal proceedings against the Group. It is not practicable to estimate the financial impact of changes to the assumptions based on which Management assesses the need for provisions.

The consolidated amount for UniCredit Leasing d.o.o. on the same legal basis amounts to BAM 4,974 thousand as at 31 December 2016.

### 4.1.4 Fair value of financial instruments

As described in Note 41, the Management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments, other than loans, are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 5. SEGMENT REPORTING

***The segments of the Bank include:***

1. "Retail": individuals, small business and sole traders;
2. "Corporate and Investment Banking": large and medium corporate clients, state and public sector, financial markets (trading activities)
3. "Assets and Liabilities Management": asset and liability management;
4. "Central Unit": other assets and liabilities not assigned to other segments.
5. "Lease": operations of the subsidiary UniCredit Leasing d.o.o. Sarajevo.

Segmentation of positions of the statement of profit or loss and the statement of financial position is based on financial statements prepared for parent company reporting purposes, which use different criteria for the calculation of fair value of assets available-for-sale and derivatives, as well as different classification of particular positions.

## Statement of profit or loss per segment

| Group<br>Year ended 31 December 2016 | Retail | Corporate and Investment Banking | Assets and Liabilities Management | Central Unit | Lease | Total by manage-ment reports | Adjust-ment before financial stateme-nts | Total |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 112,778 | 36,431 | 11,798 | (4,049) | 3,585 | 160,543 | 2,579 | 163,122 |
| Net fee and commission income | 47,397 | 15,221 | (841) | - | 80 | 61,857 | - | 61,857 |
| Dividend income | - | - | - | 12 | - | 12 | - | 12 |
| Net gains from investment securities | - | - | - | - | - | - | - | - |
| Net gains from foreign exchange trading and translation of monetary assets and liabilities | 6,573 | 3,887 | 236 | - | - | 10,696 | (2) | 10,694 |
| Other income | 890 | 579 | 6 | (1,067) | 2,109 | 2,517 | 1,432 | 3,949 |
| **Operating income** | **167,638** | **56,118** | **10,963** | **(5,104)** | **5,774** | **235,625** | **4,009** | **239,634** |
| Depreciation and amortization | (6,704) | (653) | (25) | (1,803) | (1,503) | (10,688) | (817) | (11,505) |
| Operating expenses | (89,038) | (20,050) | (1,394) | 1,911 | (3,403) | (111,974) | 456 | (111,518) |
| **Profit before impairment losses and taxation** | **71,896** | **35,415** | **9,780** | **(4,996)** | **868** | **112,963** | **3,648** | **116,611** |
| Impairment losses and provisions, net | (6,712) | (12,579) | - | (609) | (6,521) | (26,421) | (3,527) | (29,948) |
| Share in profit of subsidiaries | - | - | - | - | 173 | 173 | - | 173 |
| **Profit before taxation** | **65,184** | **22,836** | **9,780** | **(5,605)** | **(5,635)** | **86,542** | **121** | **86,663** |
| Income tax expense | (6,518) | (2,283) | (978) | (1,010) | (134) | (10,923) | - | (10,923) |
| **NET PROFIT** | **58,666** | **20,553** | **8,802** | **(6,615)** | **(5,787)** | **75,619** | **121** | **75,740** |

# 5. SEGMENT REPORTING (CONTINUED)

## Statement of profit or loss per segment (continued)

| Bank<br>Year ended 31 December 2016 | Retail | Corporate and Investing Banking | Assets and Liabilities Management | Central Unit | Total by management reports | Adjust-ment before financial statements | Total |
|---|---|---|---|---|---|---|---|
| Net interest income | 112,778 | 36,431 | 11,798 | (4,049) | 156,958 | 2,579 | 159,537 |
| Net fee and commission income | 47,397 | 15,221 | (841) | - | 61,777 | - | 61,777 |
| Dividend income | - | - | - | 12 | 12 | - | 12 |
| Net gains from investment securities | - | - | - | - | - | - | - |
| Net gains from foreign exchange trading and translation of monetary assets and liabilities | 6,573 | 3,887 | 263 | - | 10,696 | (2) | 10,694 |
| Other income | 890 | 579 | 6 | (1,067) | 408 | 1,432 | 1,840 |
| **Operating income** | **167,638** | **56,118** | **11,199** | **(5,104)** | **229,851** | **4,009** | **233,860** |
| Depreciation and amortization | (6,704) | (653) | (25) | (1,803) | (9,185) | (817) | (10,002) |
| Operating expenses | (89,038) | (20,050) | (1,394) | 1,911 | (108,571) | 456 | (108,115) |
| **Profit before impairment losses and taxation** | **71,896** | **35,415** | **9,780** | **(4,996)** | **112,095** | **3,648** | **115,743** |
| Impairment losses and provisions, net | (6,712) | (12,579) | - | (609) | (19,900) | (3,527) | (23,427) |
| **Profit before taxation** | **65,184** | **22,836** | **9,780** | **(5,605)** | **92,195** | **121** | **92,316** |
| Income tax expense | (6,518) | (2,283) | (978) | (1,010) | (10,789) | - | (10,789) |
| **NET PROFIT** | **58,666** | **20,553** | **8,802** | **(6,615)** | **81,406** | **121** | **81,527** |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

## 5. SEGMENT REPORTING (CONTINUED)

### Statement of profit or loss per segment (continued)

| Group and Bank<br>Year ended 31 December 2015 | Retail | Corporate and Investing Banking | Assets and Liabilities Management | Central Unit | Total by management reports | Adjust-ment before financial statements | Total |
|---|---|---|---|---|---|---|---|
| Net interest income | 107,067 | 36,775 | 7,781 | (1,819) | 149,804 | 2,477 | 152,281 |
| Net fee and commission income | 43,822 | 15,726 | (1,042) | - | 58,506 | - | 58,506 |
| Dividend income | - | - | - | 12 | 12 | - | 12 |
| Net gains from investment securities | - | - | - | - | - | 1 | 1 |
| Net gains from foreign exchange trading and translation of monetary assets and liabilities | 6,332 | 3,391 | - | - | 9,723 | (4) | 9,719 |
| Other income | 342 | 147 | 1 | 10 | 500 | 880 | 1,380 |
| **Operating income** | **157,563** | **56,039** | **6,740** | **(1,797)** | **218,545** | **3,354** | **221,889** |
| Depreciation and amortization | (7,069) | (702) | (29) | (1,892) | (9,692) | 15 | (9,667) |
| Operating expenses | (88,098) | (19,847) | (1,065) | 1,418 | (107,592) | 405 | (107,187) |
| **Profit before impairment losses and taxation** | **62,396** | **35,490** | **5,646** | **(2,271)** | **101,261** | **3,774** | **105,035** |
| Impairment losses and provisions, net | (6,038) | (4,996) | - | (930) | (11,964) | (3,900) | (15,864) |
| **Profit before taxation** | **56,358** | **30,494** | **5,646** | **(3,201)** | **89,297** | **(126)** | **89,171** |
| Income tax expense | (5,636) | (3,049) | (565) | (337) | (9,587) | - | (9,587) |
| **NET PROFIT** | **50,722** | **27,445** | **5,081** | **(3,538)** | **79,710** | **(126)** | **79,584** |

# 5. SEGMENT REPORTING (CONTINUED)

## Statement of financial position per segment

### Group

| 31 December 2016 | Retail (banking) | Corporate and Investment Banking | Assets and Liabilities Manageme-nt | Central Unit | Lease | Total by manage-ment reports | Adjust-ment before financial stateme-nts | Total |
|---|---|---|---|---|---|---|---|---|
| Segment assets | 1,670,345 | 1,112,213 | 1,597,347 | 332,783 | 141,498 | 4,854,186 | 1,070 | 4,849,170 |
| **Total assets** | **1,670,345** | **1,112,213** | **1,597,347** | **332,783** | **141,498** | **4,854,186** | **1,070** | **4,849,170** |
| Segment liabilities | 2,676,542 | 882,179 | 290,576 | 858,808 | 134,665 | 4,842,770 | - | 4,134,349 |
| Current tax liability | - | - | - | 1,300 | 66 | 1,366 | - | 1,310 |
| Deferred tax liability | - | - | - | 3,283 | - | 3,283 | (2,154) | 1,129 |
| **Total liabilities** | **2,676,542** | **882,179** | **290,576** | **863,391** | **134,731** | **4,847,419** | **(710,630)** | **4,136,788** |
| Acquisition of property, equipment and intangible assets | - | - | - | 12,830 | - | - | - | - |

### Bank

| 31 December 2016 | Retail | Corporate and Investing Banking | Assets and Liabilities Management | Central Unit | Total by management reports | Adjustment before financial statements | Total |
|---|---|---|---|---|---|---|---|
| Segment assets | 1,670,345 | 1,112,213 | 1,597,347 | 332,783 | 4,712,688 | 1,070 | 4,713,758 |
| **Total assets** | **1,670,345** | **1,112,213** | **1,597,347** | **332,783** | **4,712,688** | **1,070** | **4,713,758** |
| Segment liabilities | 2,676,542 | 882,179 | 290,576 | 858,808 | 4,708,105 | - | 4,000,100 |
| Current tax liability | - | - | - | 1,300 | 1,300 | - | 1,300 |
| Deferred tax liability | - | - | - | 3,283 | 3,283 | (2,154) | 1,129 |
| **Total liabilities** | **2,676,542** | **882,179** | **290,576** | **863,391** | **4,712,688** | **(710,158)** | **4,002,529** |
| Acquisition of property, equipment and intangible assets | - | - | - | 10,940 | - | - | - |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 5. SEGMENT REPORTING (CONTINUED)

## Statement of financial position per segment (continued)

### Group

| 31 December 2016 | Retail | Corporate and Investment Banking | Assets and Liabilities Manageme-nt | Central Unit | Lease | Total by manage-ment reports | Adjust-ment before financial stateme-nts | Total |
|---|---|---|---|---|---|---|---|---|
| Segment assets | 1,589,647 | 1,084,511 | 1,428,511 | 271,158 | 141,498 | 4,515,325 | 1,712 | 4,517,037 |
| **Total assets** | **1,589,647** | **1,084,511** | **1,428,511** | **271,158** | **141,498** | **4,515,325** | **1,712** | **4,517,037** |
| Segment liabilities | 2,381,143 | 912,321 | 234,750 | 124,998 | 134,665 | 3,787,877 | (117) | 3,787,760 |
| Current tax liability | - | - | - | 1,701 | 66 | 1,767 | - | 1,767 |
| Deferred tax liability | - | - | - | 3,283 | - | 3,283 | (1,982) | 1,301 |
| **Total liabilities** | **2,381,143** | **912,321** | **234,750** | **129,982** | **134,731** | **3,792,927** | **(2,099)** | **3,790,828** |
| Acquisition of property, equipment and intangible assets | - | - | - | 11,310 | - | | | 11,310 |

### Bank

| 31 December 2015 | Retail | Corporate and Investing Banking | Assets and Liabilities Management | Central Unit | Total by management reports | Adjustment before financial statements | Total |
|---|---|---|---|---|---|---|---|
| Segment assets | 1,589,647 | 1,084,511 | 1,428,511 | 271,158 | 4,373,827 | 1,829 | 4,375,656 |
| **Total assets** | **1,589,647** | **1,084,511** | **1,428,511** | **271,158** | **4,373,827** | **1,829** | **4,375,656** |
| Segment liabilities | 2,381,143 | 912,321 | 234,750 | 124,998 | 3,653,212 | - | 3,653,212 |
| Current tax liability | - | - | - | 1,701 | 1,701 | - | 1,701 |
| Deferred tax liability | - | - | - | 3,283 | 3,283 | (1,982) | 1,301 |
| **Total liabilities** | **2,381,143** | **912,321** | **234,750** | **129,982** | **3,658,196** | **(1,982)** | **3,656,214** |
| Acquisition of property, equipment and intangible assets | - | - | - | 11,310 | | | 11,310 |

# 6. INTEREST AND SIMILAR INCOME

## Analysis by source

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 2016 | 2016 | 2015 |
| Retail | 121,919 | 121,440 | 119,596 |
| Corporate | 50,989 | 44,452 | 45,306 |
| State and public sector | 24,822 | 24,822 | 22,711 |
| Banks and other financial institiutions | 2,032 | 2,032 | 1,956 |
| | **199,762** | **192,746** | **189,569** |

Banks and other financial institutions include CBBH.

## Analysis by product

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 2016 | 2016 | 2015 |
| Loans and receivables from clients | 185.554 | 178.538 | 178.124 |
| Debt securities (financial assets available-for-sale) | 13.076 | 13.076 | 10.744 |
| Loans to and receivables from banks | 1.132 | 1.132 | 701 |
| Obligatory reserves and cash reserves with CBBH | - | - | - |
| | **199.762** | **192.746** | **189.569** |

Interest income on impaired loans and receivables of the Group amounted to BAM 7,305 thousand. Interest income on impaired loans and receivables of the Bank amounted to BAM 5,837 thousand. (2015: BAM 5,423 thousand). In 2015, recognised effects of unwinding in interest income are BAM 2,578 thousand (2015: BAM 2,476 thousand).

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

## 6. INTEREST EXPENSE AND SIMILAR CHARGES

### Analysis by recipient

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 2016 | 2016 | 2015 |
| Retail | 25,627 | 25,627 | 27,690 |
| Banks and other financial institutions | 6,790 | 2,689 | 4,166 |
| Corporate | 3,663 | 3,664 | 3,772 |
| Negative interest on placements to banks | 669 | 669 | 127 |
| State and public sector | 560 | 560 | 1,533 |
| | **36,640** | **33,209** | **37,288** |

### Analysis by product

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 2016 | 2016 | 2015 |
| Current accounts and deposits from retail clients | 25,627 | 25,627 | 27,690 |
| Current accounts and deposits from corporate, and state and public sector | 4,226 | 4,227 | 5,308 |
| Borrowings | 5,751 | 2,319 | 3,597 |
| Current accounts and deposits from banks | 1,036 | 1,036 | 563 |
| Subordinated debt | - | - | 130 |
| | **36,640** | **33,209** | **37,288** |

## 7. FEE AND COMMISSION INCOME

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 2016 | 2016 | 2015 |
| Credit cards | 22,948 | 22,948 | 20,924 |
| Domestic payment transactions | 17,835 | 17,832 | 17,085 |
| Foreign payment transactions | 10,578 | 10,578 | 10,233 |
| Guarantees and letters of credit | 5,374 | 5,374 | 5,558 |
| Other | 7,770 | 7,663 | 7,361 |
| | **64,505** | **64,395** | **61,161** |

## 8. FEE AND COMMISSION EXPENSES

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 2016 | 2016 | 2015 |
| Domestic payment transactions | 1.271 | 1.266 | 1.141 |
| Foreign payment transactions | 824 | 800 | 754 |
| Other | 553 | 552 | 760 |
| | **2.648** | **2.618** | **2.655** |

## 9. NET GAINS FROM FOREIGN EXCHANGE TRADING AND TRANSLATION OF MONETARY ASSETS AND LIABILITIES

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 2016 | 2016 | 2015 |
| Net foreign exchange spot trading gains | 11,145 | 11,145 | 9,808 |
| Net (losses) / gains from FX forwards | (449) | (449) | (87) |
| Net foreign exchange loss from translation of monetary assets and liabilities | (2) | (2) | (2) |
| | **10,694** | **10,694** | **9,719** |

## 10. OTHER INCOME

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 2016 | 2016 | 2015 |
| Rent income | 1,933 | 119 | 89 |
| Net income from repossessed collaterals | 935 | 935 | 160 |
| Income from expenses recharged to clients | 257 | 257 | 249 |
| Write-offs of other liabilities and reversal of accrued expenses | 220 | 93 | 188 |
| Income from IT services | 141 | 141 | 109 |
| Net gains on disposal of property and equipment | 42 | 42 | 225 |
| Income from claims settled by insurance companies | 34 | 34 | 169 |
| Other | 387 | 219 | 191 |
| | **3,949** | **1,840** | **1,380** |

## 11. OPERATING EXPENSES

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 2016 | 2016 | 2015 |
| Personnel costs | 55,342 | 53,752 | 54,506 |
| Administration and marketing expenses | 39,613 | 38,416 | 37,807 |
| Savings deposit insurance expenses | 7,821 | 7,821 | 7,133 |
| Rental costs | 6,467 | 6,412 | 6,489 |
| State contributions (excluding personnel-related) | 1,390 | 1,164 | 822 |
| Other expenses | 885 | 550 | 430 |
| | **111,518** | **108,115** | **107,187** |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

## 12. OPERATING EXPENSES (CONTINUED)

Personnel costs of the Group include BAM 10,662 thousand of defined contributions paid into the state-owned pension plans.

Personnel costs of the Bank include BAM 10,122 thousand of defined contributions paid into the state-owned pension plans (2015: BAM 9,542 thousand).

## 13. IMPAIRMENT LOSSES AND PROVISIONS, NET

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 2016 | 2016 | 2015 |
| Loans and receivables from clients (Note 20) | 17,368 | 17,406 | 11,738 |
| Off-balance-sheet exposure to credit risk (Note 32) | 4,460 | 4,463 | 1,773 |
| Finance lease receivables (Note 21) | 2,877 | - | - |
| Provisions for legal proceedings (Note 32) | 953 | 856 | 684 |
| Impairment of investment property (Note 24) | 853 | - | - |
| Impairment of tangible assets (Note 25) | 495 | 315 | - |
| Impairment of intangible assets (Note 26) | 113 | 113 | 1,340 |
| Provisions for other items (Note 32) | (246) | (246) | 246 |
| Other assets (Note 22) | 3,075 | 520 | 83 |
| | **29,948** | **23,427** | **15,864** |

## 14. INCOME TAX EXPENSE

**Total tax recognised in the income statement may be presented as follows:**

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 2016 | 2016 | 2015 |
| Current income tax | 11,124 | 10,990 | 9,646 |
| Deferred income tax | (201) | (201) | (59) |
| | **10,923** | **10,789** | **9,587** |

**Adjustment between income tax presented in tax balance and accounting income tax is presented as follows:**

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 2016 | 2016 | 2015 |
| Profit before income tax | 86,836 | 92,316 | 89,171 |
| Tax calculated at rate of 10% | 9,232 | 9,232 | 8,917 |
| Effects of non-deductible expenses | 1,759 | 1,759 | 730 |
| Effects of expenses not deducted in prior years | (1) | (1) | (1) |
| Additional income tax in subsidiary for the branch in RS | 134 | - | - |
| **Current income tax** | **11,124** | **10,990** | **9,646** |
| **Average effective income tax rate** | **12.8%** | **11.9%** | **10.8%** |

# 14. INCOME TAX EXPENSE (CONTINUED)

**Movements in temporary differences of deferred tax assets and deferred tax liabilities in profit of loss and other comprehensive income are presented as follows:**

| | Group and Bank | Group and Bank | Group and Bank |
|---|---|---|---|
| | Deferred tax assets | Deferred tax liabilities | Net deferred tax assets / (liabilities) |
| **Balance at 1 January 2015** | **-** | **1,385** | **1,385** |
| Change in fair value of financial assets available-for-sale, recognised in other comprehensive income | (25) | | (25) |
| Other provisions for loans and receivables from clients through profit or loss | - | (59) | (59) |
| Net tax assets / (liabilities) | 25 | (25) | - |
| **Balance as at 31 December 2015** | **-** | **1,301** | **1,301** |
| Change in fair value of financial assets available-for-sale, recognised in other comprehensive income | 27 | - | 27 |
| Changes in revaluation reserves at actuarial gain/loss | - | 2 | 2 |
| Other provisions for loans and receivables from clients through profit or loss | - | (201) | (201) |
| Net tax assets / (liabilities) | (27) | 27 | - |
| **Balance as at 31 December 2016** | **-** | **1,129** | **1,129** |

**Balances of deferred tax assets and deferred tax liabilities were as follows:**

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 2016 | 2016 | 2015 |
| **Deferred tax assets** | **-** | **-** | **-** |
| | | | |
| **Deferred tax liabilities** | | | |
| Net deferred tax liability for financial assets available-for-sale | 10 | 10 | 38 |
| Net deferred tax assets in revaluation reserves at actuarial gain/loss | (2) | (2) | - |
| Net deferred tax liability for other provisions for loans and receivables from clients | (1,137) | (1,137) | (1,339) |
| | | | |
| **Net deferred tax liabilities** | **(1,129)** | **(1,129)** | **(1,301)** |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

## 15. CASH AND CASH EQUIVALENTS

| | Group | Bank | Group | Bank |
|---|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 | 31 December 2015 |
| Current accounts with other banks | 255,115 | 255,115 | 197,311 | 197,311 |
| Giro account with CBBH | 341,117 | 341,117 | 419,404 | 419,404 |
| Cash in hand | 149,198 | 149,197 | 159,897 | 159,896 |
| Items in the course of collection | 86 | 86 | 124 | 124 |
| | **745,516** | **745,515** | **776,736** | **776,735** |

## 16. OBLIGATORY RESERVE AT THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA

| | Group | Bank | Group | Bank |
|---|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 | 31 December 2015 |
| Obligatory reserve at CBBH | 366,379 | 366,379 | 302,868 | 302,868 |
| | **366,379** | **366,379** | **302,868** | **302,868** |

In the period 1 January 2015 – 30 June 2016, the base for calculation of the obligatory reserve of commercial banks comprised deposits and borrowed funds, except for assets borrowed fro non-residents and assets placed by entity governments in development projects.

The rates of deposits and borrowed funds comprising the base for calculation of obligatory reserves in the period 1 January 2015 – 30 June 2016 amounted as follows:

| | |
|---|---|
| Short-term deposits and borrowed assets | 10% |
| Long-term deposits and borrowed assets | 7% |

Since 1 May 2015, the fee was calculated on the amount of obligatory reserve, which is an average of Euro OverNight Index Average (“EONIA”) recorded in the same period on the market, less 10 base points, or zero as a minimum, in case the average of EONIA, less 10 base points, has negative value, and the zero fee rate was calculated on the surplus over the amount of obligatory reserve.

Since 1 July 2016, the basis for calculation of the obligatory reserve of commercial banks comprised all deposits and borrowed funds, regardless of currency. In addition, the unified rate of obligatory reserve of 10% was determined, which is applied by CBBiH on the base for calculation of obligatory reserve.

CBBiH does not calculate fee to the amount of obligatory reserve funds, while the fee, equal to 50% of the rate applied by the European Central Bank on deposits of commercial banks that amounted to -0.20% in the stated period, is calculated on the amount of funds over the obligatory reserve.

## 17. LOANS TO AND RECEIVABLES FROM BANKS

| | Group | Bank | Group | Bank |
|---|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 | 31 December 2015 |
| Placements with other banks – gross | 282,282 | 282,273 | 151,943 | 151,933 |
| Loans to banks – gross | - | - | - | - |
| | 282,282 | 282,273 | 151,943 | 151,933 |
| Less: Impairment allowance | (124) | (124) | (124) | (124) |
| | **282,158** | **282,149** | **151,819** | **151,809** |
| **Expected to be recovered:** | | | | |
| - no more than twelve months after the reporting period | 273,548 | 273,539 | 151,943 | 151,933 |
| - more than twelve months after the reporting period | 8,734 | 8,734 | - | - |
| Less: Allowance for impairment losses | (124) | (124) | (124) | (124) |
| | **282,158** | **282,149** | **151,819** | **151,809** |

Loans and receivables from banks included BAM 5,033 thousand pledged as collateral for the Bank's liabilities to Visa and MasterCard in respect of credit card operations (2015: BAM 4,836 thousand).

Loans to and receivables from banks include BAM 53,503 thousand (2015: BAM 51,294 thousand) of placements and loans to related parties.

The movement in impairment allowance for loans to and receivables from banks is as follows:

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 |
| Balance as at 1 January | 124 | 124 | 124 |
| Changes | - | - | - |
| **Balance as at 31 December** | **124** | **124** | **124** |

## 18. FINANCIAL ASSETS AVAILABLE-FOR-SALE

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 |
| Debt securities available-for-sale | 433,484 | 433,484 | 428,333 |
| Equity securities available-for-sale | 214 | 214 | 214 |
| | **433,698** | **433,698** | **428,547** |

During 2016 and 2015, there were no overdue and unpaid financial assets available-for-sale or impairment losses on available-for-sale financial assets.

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 18. FINANCIAL ASSETS AVAILABLE-FOR-SALE (CONTINUED)

## Debt securities available-for-sale

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 |
| Bonds of the Government of Federation of BiH | 294,958 | 294,958 | 236,236 |
| Bonds of the Government of Republika Srpska | 74,555 | 74,555 | 74,751 |
| Treasury bills of the Government of Federation of BiH | - | - | 16,976 |
| Treasury bills of the Government of Republika Srpska | - | - | 8,422 |
| Treasury bills of the Government of Republic of Croatia | 3,487 | 3,487 | 3,444 |
| Foreign bank bonds | 60,484 | 60,484 | 88,504 |
| | **433,484** | **433,484** | **428,333** |

## Equity securities available-for-sale

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 |
| Listed or quoted | 214 | 214 | 214 |
| Unlisted or unquoted | - | - | - |
| | **214** | **214** | **214** |

# 19. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

## Derivatives classified as held for trading – OTC products (all of them with related parties)

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| **Bank** | **Nominal value** | **Fair value** | **Nominal value** | **Fair value** |
| **Financial assets** | | | | |
| Forward foreign exchange contracts | 5,845 | 3 | 1,911 | 8 |
| Foreign exchange swap contracts | 4,281 | 1 | 54,206 | - |
| | **10,126** | **4** | **56,117** | **8** |
| **Financial liabilities** | | | | |
| Forward foreign exchange contracts | 352 | 2 | 842 | 5 |
| Foreign exchange swap contracts | 200 | - | 117 | 1 |
| | **552** | **2** | **959** | **6** |

## 20. LOANS AND RECEIVABLES FROM CLIENTS

| | Group | Bank | Group | Bank |
|---|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 | 31 December 2015 |
| *Corporate (including state and public sector)* | | | | |
| - in domestic currency | 1,393,431 | 1,393,066 | 1,284,312 | 1,283,801 |
| - in foreign currency | 32,694 | 32,694 | 35,404 | 35,404 |
| | 1,426,125 | 1,425,760 | 1,319,716 | 1,319,205 |
| *Retail* | | | | |
| - in domestic currency | 1,663,564 | 1,662,779 | 1,594,772 | 1,593,917 |
| - in foreign currency | 367 | 367 | 385 | 385 |
| | 1,663,931 | 1663,146 | 1,595,157 | 1,594,302 |
| **Total loans before allowance** | **3,090,056** | **3,088,906** | **2,914,873** | **2,913,507** |
| Less: allowance for impairment losses | (306,592) | (306,348) | (296,417) | (296,134) |
| **Net loans** | **2,783,464** | **2,782,558** | **2,618,456** | **2,617,373** |
| **Expected to be recovered:** | | | | |
| - no more than twelve months after the reporting period | 1,317,454 | 1,317,019 | 1,209,697 | 1,208,809 |
| - more than twelve months after the reporting period | 1,772,602 | 1,771,887 | 1,705,176 | 1,704,698 |
| Less: Allowance for impairment losses | (306,592) | (306,348) | (296,417) | (296,134) |
| | **2,783,464** | **2,782,558** | **2,618,456** | **2,617,373** |

Included in Group's retail lons in domestic currency is BAM 663,793 thousand of gross loans (2015: BAM 869,074 thousand), and in corporate loans and the state in BAM 699,208 thousand, which have an EUR countervalue (2015: BAM 731,838 thousand).

Included in Bank's retail loans in domestic currency is BAM 663,008 thousand of gross loans (2015: BAM 869,073 thousand), and in corporate loans in domestic currency BAM 699,207 thousand (2015: BAM 731,838 thousand) which have a EUR countervalue. Repayments of principal and interest are determined with reference to the EUR countervalue and are paid in the BAM equivalent translated at the rate applicable at the date of payment.

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 20. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

**The movements in allowance for impairment losses are summarized as follows:**

| Group | Retail | Corporate | Total |
|---|---|---|---|
| **Balance as at 1 January 2015** | **94,102** | **201,830** | **295,932** |
| Effects of acquisition of subsidiary | 70 | 213 | 283 |
| Increase in provisions for impairment losses | 22,207 | 9,237 | 31,444 |
| Release of provisions due to exposure | (7,364) | (360) | (7,724) |
| Release on the basis of recoveries of amounts previously reserved | (10,080) | (1,902) | (11,982) |
| **Provisisons for impairment losses recognised in the profit or loss (Note 13)** | **4,763** | **6,975** | **11,738** |
| Release due to writte-offs | (202) | (8,715) | (8,917) |
| Other movements | (138) | (2,464) | (2,602) |
| Effect of foreign exchange | 2 | (19) | (17) |
| **Balance as at 31 December 2015** | **98,597** | **197,820** | **296,417** |
| Effects of acquisition of subsidiary | | | |
| Increase in provisions for impairment losses | 21,333 | 16,987 | 38,320 |
| Release of provisions due to exposure | (9,293) | (4,703) | (13,996) |
| Release on the basis of recoveries of amounts previously reserved | (5,580) | (1,376) | (6,956) |
| **Provisisons for impairment losses recognised in the profit or loss (Note 13)** | **6,460** | **10,908** | **17,368** |
| Release due to writte-offs | (117) | (4,479) | (4,596) |
| Costs of special provisions for interest stated in the interst income (Note 6) | (156) | (2,422) | (2,578) |
| Effect of foreign exchange | (7) | (12) | (19) |
| **Balance as at 31 December 2016** | **104,777** | **201,815** | **306,592** |

# 20. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

| Bank | Retail | Corporate | Total |
|---|---|---|---|
| **Balance as at 1 January 2015** | **94,102** | **201,830** | **295,932** |
| Increase in provisions for impairment losses | 22,207 | 9,237 | 31,444 |
| Release of provisions due to exposure | (7,364) | (360) | (7,724) |
| Release on the basis of recoveries of amounts previously reserved | (10,080) | (1,902) | (11,982) |
| **Provisisons for impairment losses recognised in the profit or loss (Note 13)** | **4,763** | **6,975** | **11,738** |
| Release due to writte-offs | (202) | (8,715) | (8,917) |
| Other movements | (138) | (2,464) | (2,602) |
| Effect of foreign exchange | 2 | (19) | (17) |
| **Balance as at 31 December 2015** | **98,527** | **197,607** | **296,134** |
| Increase in provisions for impairment losses | 21,269 | 16,972 | 38,241 |
| Release of provisions due to exposure | (9,293) | (4,703) | (13,996) |
| Release on the basis of recoveries of amounts previously reserved | (5,470) | (1,369) | (6,839) |
| **Provisisons for impairment losses recognised in the profit or loss (Note 13)** | **6,506** | **10,900** | **17,406** |
| Release due to writte-offs | (117) | (4,479) | (4,596) |
| Other movements | (156) | (2,422) | (2,578) |
| Effect of foreign exchange | (6) | (12) | (18) |
| **Balance as at 31 December 2016** | **104,754** | **201,594** | **306,348** |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

## 20. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

**The Bank's loan portfolio, net of impairment allowance, is analysed by industry in the table below:**

| | Group | Bank | Group | Bank |
|---|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 | 31 December 2015 |
| **Corporate (including state and public sector)** | | | | |
| **Industry:** | | | | |
| Food and drinks | 70,847 | 70,847 | 69,204 | 69,204 |
| Wood and paper | 84,749 | 84,749 | 64,621 | 64,621 |
| Electricity, gas and water | 26,171 | 26,171 | 42,900 | 42,900 |
| Metal and engineering | 29,150 | 29,150 | 34,557 | 34,557 |
| Chemicals | 28,639 | 28,639 | 23,650 | 23,650 |
| Electrical and optical equipment | 3,331 | 3,331 | 2,201 | 2,201 |
| Textile and leather | 5,580 | 5,580 | 1,993 | 1,993 |
| Tobacco | 739 | 739 | 897 | 897 |
| Other manufacturing | 41,474 | 41,474 | 38,207 | 38,207 |
| **Total loans before allowance** | **290,680** | **290,680** | **278,230** | **278,230** |
| | | | | |
| Retail and wholesale trade | 389,084 | 389,084 | 381,763 | 381,748 |
| Central and local governments | 136,845 | 136,845 | 138,763 | 138,763 |
| Construction | 81,536 | 81,536 | 98,896 | 98,896 |
| Real estate | 98,939 | 98,939 | 58,010 | 58,010 |
| Transport and communications | 47,428 | 47,283 | 53,973 | 53,690 |
| Health and social care | 29,281 | 29,281 | 34,577 | 34,577 |
| Tourism | 69,625 | 69,625 | 27,583 | 27,583 |
| Agriculture, forestry and fisheries | 13,389 | 13,389 | 11,861 | 11,861 |
| Financial intermediaries | 4,195 | 4,195 | 4,217 | 4,217 |
| Education and other public services | 3,497 | 3,497 | 991 | 991 |
| Other | 59,812 | 59,812 | 33,032 | 33,032 |
| **Total corporate** | **1,224,310** | **1,224,166** | **1,121,896** | **1,121,598** |
| | | | | |
| **Retail** | | | | |
| Non-purpose loans | 1,133,022 | 1,133,022 | 1,067,708 | 1,067,708 |
| Housing loans | 235,664 | 235,664 | 241,142 | 241,142 |
| Other retail loans | 190,467 | 189,706 | 187,710 | 186,925 |
| **Total retail** | **1,559,154** | **1,558,392** | **1,496,560** | **1,495,775** |
| | | | | |
| **Total loans and receivables from clients** | **2,783,464** | **2,782,558** | **2,618,456** | **2,617,373** |

# 21. RECEIVABLES ON FINANCIAL LEASE

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 |
| Within one year | 56,277 | 54,557 | 51,046 | 48,250 |
| In the second to fifth year inclusive | 75,562 | 76,423 | 66,885 | 64,731 |
| Over five years | 18,033 | 21,262 | 15,167 | 18,465 |
| **Gross lease investments** | **149,872** | **152,242** | **133,098** | **131,446** |
| Less: unearned lease income | (16,774) | (20,796) | - | - |
| Less: allowance for impairment loss | (17,635) | (14,552) | (17,635) | (14,552) |
| | **115,463** | **116,894** | **115,463** | **116,894** |

The Group provides financial lease for equipment, vehicles and property. Average term of financial lease is 26 months for vehicles and equipment, and 91 months for property. Interest rate is variable and depends on market conditions.

Movements in allowance for impairment losses are presented as follows:

| | 2016 |
|---|---|
| **Balance at 1 January** | **14,552** |
| Additional allowance after re-measurement (Note 13) | 2,877 |
| Release due to write-offs | (22) |
| Other movements | 228 |
| **Balance at 31 December** | **17,635** |

# 22. OTHER ASSETS AND RECEIVABLES

| | Group | Bank | Group | Bank |
|---|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 | 31 December 2015 |
| Receivables from debit and credit cards | 29,968 | 29,968 | 26,980 | 26,980 |
| Assets acquired in lieu of uncollectible receivables | 14,559 | - | 20,909 | 5,056 |
| Accrued fees | 621 | 621 | 603 | 603 |
| Other assets | 13,854 | 12,183 | 12,416 | 10,070 |
| | **59,002** | **42,772** | **60,908** | **42,709** |
| Less: allowance for impairment loss | (11,165) | (5,534) | (13,632) | (8,698) |
| | **47,837** | **37,238** | **47,276** | **34,011** |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

## 22. OTHER ASSETS AND RECEIVABLES (CONTINUED)

The movements in allowance for impairment losses are summarized as follows:

| | Group | Bank | Group | Bank |
|---|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 | 31 December 2015 |
| **Balance as at 1 January** | **13,632** | **8,698** | **9,377** | **9,377** |
| Effects of acquisition of subsidiary | | | 4,934 | - |
| Net charge to profit or loss (Note 13) | 3,075 | 520 | 83 | 83 |
| Reversal of impairment in transfer to investment property | (1,740) | - | - | - |
| Reversal of impairment in transfer to tangible assets | (13) | - | - | - |
| Release due to writte-offs | (425) | (320) | (759) | (759) |
| Transfer to investment property (Note 24) | (3,364) | (3,364) | - | - |
| Effects of foreign exchange | - | - | (3) | (3) |
| **Balance as at 31 December** | **11,165** | **5,534** | **13,632** | **8,698** |

Assets acquired in lieu of uncollectible receivables are assets (property, vehicles and other equipment) related to the collection of the overdue receivables from financial lease clients.

## 23. INVESTMENTS IN ASSOCIATES

The Bank purchased 49% of share in UniCredit Broker d.o.o. Sarajevo on 22 December 2015, whose 100% owner was the related party UniCredit Insurance Management CEE GmbH Austria. Acquisition costs of purchased share is BAM 460 thousand (EUR 235 thousand). The value of share increased in 2016 to BAM 633 thousand due to acquisition of share in the profit of the associate.

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Total assets | 690 | 296 |
| Total liabilities | 46 | 5 |
| Net assets | 291 | 4 |
| Net profit for the year | 353 | 287 |

## 24. INVESTMENT PROPERTY

Fair value measurement of investment property was conducted by ZANE BH, member company of UniCredit Group, whose personnel has adequate qualification and experience in assessing fair value of property in relevant locations.

Fair value of investment property was ascertained using income approach, which reflects current market expectations related to future amounts – cash flows (revenues and expenses) that arise from investment property which discount into a single amount.

The Bank made a reclassification of investment properties overtaken for the non-performing portfolio from other assets to investment property in the net amount of BAM 1,653 thousand, out of which total net sales amount to BAM 73 thousand. In estimating the fair value of properties, the Group concluded that their current use is the highest and best use.

# 24. INVESTMENT PROPERTY (CONTINUED)

| | Group 2016 | Bank 2016 |
|---|---|---|
| **COST** | | |
| **Balance as at 1 January 2015** | | |
| Effects of acquisition of subsidiary | 10,838 | - |
| **Balance as at 31 December 2015** | **10,838** | **-** |
| Transfer from other assets | 4,206 | 5,090 |
| Sales | (637) | (637) |
| **Balance as at 31 December 2016** | **14,407** | **4,453** |
| **ACCUMULATED DEPRECIATION** | | |
| **Balance as at 1 January 2015** | | **-** |
| Effects of acquisition of subsidiary | 6,385 | - |
| **Balance as at 31 December 2015** | **6,385** | **-** |
| Transfer from other assets (Note 22) | 3,364 | 3,364 |
| Depreciation charge for the year | 124 | - |
| Sales | (564) | (564) |
| Impairment (Note 13) | 853 | - |
| **Balance as at 31 December 2016** | **10,162** | **2,800** |
| **NET CARRYING AMOUNT** | | |
| **Balance as at 31 December 2016** | **4,245** | **1,653** |
| **Balance as at 31 December 2015** | **4,453** | **-** |

Information about the fair value hierarchy as at 31 December 2016 is as follows:

| Level 1 | Level 2 | Level 3 |
|---|---|---|
| - | - | 4,245 |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

## 25. PROPERTY AND EQUIPMENT

| Group | Land and buildings | Vehicles under operating lease | Motor vehicles and equipment | Computers | Leasehold improvement | Assets in progress | Total |
|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | |
| **Balance as at 31 December 2014** | **51,875** | **-** | **34,308** | **52,488** | **28,908** | **2,027** | **169,606** |
| Effects of acquisition of subsidiary | - | 6,621 | 743 | 397 | - | - | 7,761 |
| Additions | - | - | - | - | - | 5,601 | 5,601 |
| Write-offs | - | - | (921) | (3,363) | (6,806) | - | (11,090) |
| Disposals | - | - | (835) | (908) | - | - | (1,743) |
| Transfers (from) / to | 158 | - | 1,674 | 2,242 | 848 | (4,922) | - |
| Other movements | - | - | 1 | 36 | - | - | 37 |
| **Balance as at 31 December 2015** | **52,033** | **6,621** | **34,970** | **50,892** | **22,950** | **2,706** | **170,172** |
| Additions | - | 1,809 | 1 | 5 | - | 7,520 | 9,335 |
| Write-offs | - | (104) | (2,756) | (8,862) | (253) | (87) | (12,062) |
| Disposals | - | (682) | (222) | (4) | - | - | (908) |
| Transfers (from) / to | 264 | - | 1,459 | 3,214 | 1,132 | (6,069) | - |
| Transfer from / (to) other assets | 118 | (140) | - | - | - | - | (22) |
| Transfer from intangible assets | - | - | - | - | - | (100) | (100) |
| Other movements | - | - | - | - | 7 | (126) | (119) |
| **Balance as at 31 December 2016** | **52,415** | **7,504** | **33,452** | **45,245** | **23,836** | **3,844** | **166,296** |
| **ACCUMULATED DEPRECIATION** | | | | | | | |
| **Balance as at 31 December 2014** | **17,121** | **-** | **25,885** | **47,890** | **26,456** | **-** | **117,352** |
| Effects of acquisition of subsidiary | - | 1,418 | 512 | 291 | - | - | 2,221 |
| Depreciation charge for the year | 1,003 | - | 2,155 | 2,535 | 1,324 | - | 7,017 |
| Write offs | - | - | (910) | (3,348) | (6,805) | - | (11,063) |
| Disposals | - | - | (835) | (884) | - | - | (1,719) |
| Other movements | - | - | - | 35 | - | - | 35 |
| **Balance as at 31 December 2015** | **18,124** | **1,418** | **26,807** | **46,519** | **20,975** | **-** | **113,843** |
| Effects of acquisition of subsidiary | | | | | | | |
| Depreciation charge for the year | 1,007 | 1,154 | 2,061 | 2,579 | 1,245 | - | 8,046 |
| Write offs | - | (26) | (2,712) | (8,901) | (252) | - | (11,891) |
| Disposals | - | (384) | (205) | (4) | - | - | (593) |
| Impairment (Note 13) | 267 | 179 | - | 49 | - | - | 495 |
| Transfer to other property | - | (84) | - | - | - | - | (84) |
| **Balance as at 31 December 2016** | **19,398** | **2,257** | **25,951** | **40,242** | **21,968** | **-** | **109,816** |
| **NET BOOK VALUE** | | | | | | **-** | |
| **31 December 2016** | **33,017** | **5,247** | **7,501** | **5,002** | **1,868** | **3,843** | **56,480** |
| **31 December 2015** | **33,909** | **5,203** | **8,163** | **4,372** | **1,975** | **2,706** | **56,329** |

## 25. PROPERTY AND EQUIPMENT (CONTINUED)

| Bank | Land and buildings | Motor vehicles and equipment | Computers | Leasehold improvement | Assets in progress | Total |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| **Balance as at 31 December 2014** | **51,875** | **34,308** | **52,488** | **28,908** | **2,027** | **169,606** |
| Additions | - | - | - | - | 5,601 | 5,601 |
| Write-offs | - | (921) | (3,363) | (6,806) | - | (11,090) |
| Disposals | - | (835) | (908) | - | - | (1,743) |
| Transfers (from) / to | 158 | 1,674 | 2,242 | 848 | (4,922) | - |
| Other movements | - | 1 | 36 | - | - | 37 |
| **Balance as at 31 December 2015** | **52,033** | **34,227** | **50,495** | **22,950** | **2,706** | **162,411** |
| Additions | - | - | - | - | 7,520 | 7,520 |
| Write-offs | - | (2,687) | (8,799) | (253) | (87) | (11,826) |
| Disposals | - | (127) | - | - | - | (127) |
| Transfers (from) / to | 264 | 1,459 | 3,214 | 1,132 | (6,069) | - |
| Transfer to intangible assets | - | - | - | - | (100) | (100) |
| Other movements | - | - | - | 7 | (127) | (120) |
| **Balance as at 31 December 2016** | **52,297** | **32,872** | **44,910** | **23,836** | **3,843** | **157,758** |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| **Balance as at 31 December 2014** | **17,121** | **25,885** | **47,890** | **26,456** | **-** | **117,352** |
| Depreciation charge for the year | 1,003 | 2,155 | 2,535 | 1,324 | - | 7,017 |
| Write offs | - | (910) | (3,348) | (6,805) | - | (11,063) |
| Disposals | - | (835) | (884) | - | - | (1,719) |
| Other movements | - | - | 36 | - | - | 36 |
| **Balance as at 31 December 2015** | **18,124** | **26,295** | **46,229** | **20,975** | **-** | **111,623** |
| Depreciation charge for the year | 1,007 | 1,988 | 2,526 | 1,245 | - | 6,766 |
| Write-offs | - | (2,648) | (8,841) | (252) | - | (11,741) |
| Disposals | - | (127) | - | - | - | (127) |
| Impairment (Note 13) | 267 | - | 49 | - | - | 316 |
| **Balance as at 31 December 2016** | **19,398** | **25,508** | **39,963** | **21,968** | **-** | **106,837** |
| **NET BOOK VALUE** | | | | | **-** | |
| **31 December 2016** | **32,909** | **7,364** | **4,947** | **1,868** | **3,843** | **50,921** |
| **31 December 2015** | **33,909** | **7,932** | **4,266** | **1,975** | **2,706** | **50,788** |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

## 25. PROPERTY AND EQUIPMENT (CONTINUED)

The Group's assets in progress as at 31 December 2016 and 2015 represent equipment, motor vehicles and investment for long-term business lease that have not been activated yet.

The carrying value of the Group's and Bank's non-depreciating land within land and buildings amounted to BAM 404 thousand on 31 December 2016 (2015: BAM 404 thousand).

During 2016 and 2015, the Group and the Bank did not capitalise any borrowing costs related to the acquisition of property and equipment. During 2016 and 2015, property and equipment were not pledged as collateral for the Group's and the Bank's borrowings.

Operating lease relates to vehicles owned by the Group with the lease term of 3 to 5 years. Lessee does not have the option to purchase leased object after contract expiration. The following table summarises non-cancellable receivables on operating lease:

| | Group<br>31 December<br>2016 | Group<br>31 December<br>2015 |
|---|---|---|
| Maturity up to one year | 2,694 | 2,318 |
| Maturity of one to five years | 5,333 | 5,501 |
| Maturity over five years | - | - |
| | **8,027** | **7,819** |

## 26. INTANGIBLE ASSETS

| Group | Software | Other intangible assets | Assets in progress | Total |
|---|---|---|---|---|
| COST | | | | |
| **Balance as at 31 December 2014** | **38,838** | **7,123** | **6,858** | **52,819** |
| Additions | - | - | 5,709 | 5,709 |
| Disposals | (3,364) | (4) | (788) | (4,156) |
| Transfer to tangible assets | 176 | 505 | - | 681 |
| Transfers (from) / to | 5,637 | 56 | (5,693) | - |
| Other movements | - | - | (99) | (99) |
| **Balance as at 31 December 2015** | **41,287** | **7,680** | **5,987** | **54,954** |
| Additions | 30 | 45 | 3,420 | 3,495 |
| Disposals | (1,024) | (407) | (113) | (1,544) |
| Transfers (from) / to | 1,625 | 420 | (2,045) | - |
| Transfer from tangible assets | - | - | 100 | 100 |
| Transfer within intangible assets | (29) | 29 | - | - |
| Other changes | - | - | (13) | (13) |
| **Balance as at 31 December 2016** | **41,889** | **7,767** | **7,336** | **56,992** |
| ACCUMULATED DEPRECIATION | | | | |
| **Balance as at 31 December 2014** | **35,061** | **6,311** | **-** | **41,372** |
| Effects of acquisition of subsidiary | 122 | 425 | - | 547 |
| Depreciation charge for the year | 2,236 | 424 | - | 2,660 |
| Disposals | (3,364) | (4) | (788) | (4,156) |
| Impairment (Note 13) | - | - | 1,340 | 1,340 |
| **Balance as at 31 December 2015** | **34,055** | **7,156** | **552** | **41,763** |
| Effects of acquisition of subsidiary | - | - | - | - |
| Depreciation charge for the year | 2,924 | 411 | - | 3,335 |
| Disposals | (1,105) | (407) | - | (1,512) |
| Impairment (Note 13) | 113 | - | - | 113 |
| **Balance as at 31 December 2016** | **35,987** | **7,160** | **552** | **43,699** |
| NET BOOK VALUE | | | | |
| **31 December 2016** | **5,902** | **607** | **6,784** | **13,293** |
| **31 December 2015** | **7,232** | **524** | **5,435** | **13,191** |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

## 26. INTANGIBLE ASSETS (CONTINUED)

| Bank | Software | Other intangible assets | Assets in progress | Total |
|---|---|---|---|---|
| **COST** | | | | |
| **Balance as at 31 December 2014** | **38,838** | **7,123** | **6,858** | **52,819** |
| Additions | - | - | 5,709 | 5,709 |
| Disposals | (3,364) | (4) | (788) | (4,156) |
| Transfers (from) / to | 5,637 | 56 | (5,693) | - |
| Other movements | - | - | (99) | (99) |
| **Balance as at 31 December 2015** | **41,111** | **7,175** | **5,987** | **54,273** |
| Additions | - | - | 3,420 | 3,420 |
| Disposals | (1,024) | (407) | (113) | (1,544) |
| Transfers (from) / to | 1,625 | 420 | (2,045) | - |
| Transfer to tangible assets | - | - | 100 | 100 |
| Transfer within intangible assets | (29) | 29 | - | , |
| Other movements | - | - | (13) | (13) |
| **Balance as at 31 December 2016** | **41,683** | **7,217** | **7,336** | **56,236** |
| **ACCUMULATED DEPRECIATION** | | | | |
| **Balance as at 31 December 2014** | **35,061** | **6,311** | **-** | **41,372** |
| Depreciation charge for the year | 2,236 | 424 | - | 2,660 |
| Disposals | (3,364) | (4) | (788) | (4,156) |
| Impairment (Note 13) | - | - | 1,340 | 1,340 |
| **Balance as at 31 December 2015** | **33,933** | **6,731** | **552** | **41,216** |
| Depreciation charge for the year | 2,903 | 333 | - | 3,236 |
| Disposals | (1,105) | (407) | - | (1,512) |
| Impairment (Note 13) | 113 | - | - | 113 |
| **Balance as at 31 December 2016** | **35,844** | **6,657** | **552** | **43,053** |
| **NET BOOK VALUE** | | | | |
| **31 December 2016** | **5,839** | **560** | **6,784** | **13,183** |
| **31 December 2015** | **7,178** | **444** | **5,435** | **13,057** |

The Group's and Bank's assets in progress as at 31 December 2016 and 2015 represent software that was not activated.

During 2016 and 2015, the Group and the Bank did not capitalise any borrowing costs related to the acquisition of intangible assets. During 2016 and 2015, intangible assets were not pledged as collateral for the Group's and the Bank's borrowings.

## 27. CURRENT ACCOUNTS AND DEPOSITS FROM BANKS

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 |
| **Demand deposits** | | | |
| - in foreign currency | 6,491 | 6,491 | 7,870 |
| - in BAM | 34,879 | 34,879 | 5,965 |
| **Fixed-term deposits** | | | |
| - in foreign currency | 140,612 | 140,612 | 107,545 |
| - in BAM | 4,812 | 4,812 | 6,541 |
| | **186,794** | **186,794** | **127,921** |

Current accounts and deposits from banks include BAM 170,651 thousand due to related parties (2015: BAM 115,881 thousand).

## 28. CURRENT ACCOUNTS AND DEPOSITS FROM CLIENTS

| | Group | Bank | Group | Bank |
|---|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 | 31 December 2015 |
| **Retail** | | | | |
| Current and savings accounts and term deposits - foreign currency | 1,386,800 | 1,386,800 | 1,289,880 | 1,289,880 |
| Current and savings accounts and term deposits - BAM | 1,039,670 | 1,039,670 | 872,910 | 872,910 |
| | **2,426,470** | **2,426,470** | **2,162,790** | **2,162,790** |
| **Corporate (including state and public sector)** | | | | |
| **Demand deposits** | | | | |
| - in BAM | 794,099 | 797,827 | 722,120 | 724,512 |
| - in foreign currency | 178,215 | 179,546 | 201,282 | 202,084 |
| **Fixed-term deposits** | | | | |
| - in BAM | 133,989 | 133,989 | 155,497 | 155,497 |
| - in foreign currency | 41,118 | 41,118 | 71,999 | 71,999 |
| | **1,147,421** | **1,152,480** | **1,150,898** | **1,154,092** |
| | **3,573,891** | **3,578,950** | **3,313,688** | **3,316,882** |

The Bank's retail deposits in BAM include BAM 681 thousand (2015: BAM 825 thousand) and corporate deposits in BAM include BAM 62,137 thousand (2015: BAM 85,328 thousand) which have a EUR currency clause, with payments in BAM equivalent translated at the rate applicable at the date of payment.

Current accounts and deposits from clients of the Bank also include BAM 7,047 thousand from related parties (2015: BAM 13,383 thousand).

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

## 29. RECEIVED DOWN PAYMENTS OF LEASE USERS

| | Group<br>31 December 2016 | Bank<br>31 December 2016 | Group and Bank<br>31 December 2015 |
|---|---|---|---|
| Client down payments | 765 | - | 553 |
| | **765** | **-** | **553** |

Client participations present deposits received on lease agreements to which interest is not calculated.

All deposits have maturity of up to one year.

## 30. BORROWINGS

| | Group<br>31 December 2016 | Bank<br>31 December 2016 | Group<br>31 December 2015 | Bank<br>31 December 2015 |
|---|---|---|---|---|
| Foreign banks | 229,923 | 91,843 | 227,583 | 90,935 |
| Domestic banks | 11,939 | 11,939 | 15,929 | 15,929 |
| | **241,862** | **103,782** | **243,512** | **106,864** |
| **Maturity analysis:** | | | | |
| Within one year | 176,347 | 73,192 | 55,384 | 14,764 |
| In the second year | 32,054 | 13,194 | 131,582 | 70,478 |
| Third to fifth year | 28,190 | 15,031 | 46,247 | 18,224 |
| After five years | 5,271 | 2,365 | 10,299 | 3,398 |
| | **241,862** | **103,782** | **243,512** | **106,864** |

Bank's interest-bearing borrowings include BAM 58,751 thousand (2015: BAM 58,789 thousand) related to borrowings from related parties.

## 31. OTHER LIABILITIES

| | Group<br>31 December 2016 | Bank<br>31 December 2016 | Group<br>31 December 2015 | Bank<br>31 December 2015 |
|---|---|---|---|---|
| Liabilities for items in the course of settlement | 66,624 | 66,624 | 47,049 | 47,049 |
| Accrued expenses | 19,656 | 19,522 | 19,849 | 19,646 |
| Credit card payables | 8,411 | 8,411 | 6,352 | 6,352 |
| Deferred income | 2,608 | 2,560 | 2,926 | 2,870 |
| Other liabilities | 8,730 | 8,630 | 6,080 | 5,923 |
| | **106,029** | **105,747** | **82,256** | **81,840** |

## 32. PROVISIONS FOR LIABILITIES AND CHARGES

| Group | Provisions for off-balance-sheet items | Provisions for legal proceedings | Long-term provisions for employees | Provisions for other items | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **11,338** | **3,592** | **1,837** | **-** | **16,767** |
| Net charge in profit or loss | 4 | 88 | 33 | | 125 |
| Release due to use of provisions | 1,773 | 684 | 656 | 246 | 3,359 |
| Transfer from other liabilities | - | (154) | (274) | - | (428) |
| Foreign currency differences | 1 | - | - | - | 1 |
| **Balance as at 31 December 2015** | **13,116** | **4,210** | **2,252** | **246** | **19,824** |
| Effects of acquisition of subsidiary | | | | | |
| Net charge in profit or loss | 4,460 | 953 | 399 | (246) | 5,566 |
| Release due to use of provisions | - | (189) | (183) | - | (372) |
| Actuarial gain/loss for the period | - | - | (18) | - | (18) |
| Foreign currency differences | 6 | - | - | - | 6 |
| **Balance as at 31 December 2016** | **17,582** | **4,974** | **2,450** | **-** | **25,006** |

| Bank | Provisions for off-balance-sheet items | Provisions for legal proceedings | Long-term provisions for employees | Provisions for other items | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **11,338** | **3,592** | **1,837** | **-** | **16,767** |
| Net charge in profit or loss | 1,773 | 684 | 656 | 246 | 3,359 |
| Release due to use of provisions | - | (154) | (274) | - | (428) |
| Foreign currency differences | 1 | - | - | - | 1 |
| **Balance as at 31 December 2015** | **13,112** | **4,122** | **2,219** | **246** | **19,699** |
| Net charge in profit or loss | 4,463 | 856 | 399 | (246) | 5,472 |
| Release due to use of provisions | - | (146) | (188) | - | (334) |
| Actuarial gain/loss for the period | - | - | (18) | - | (18) |
| Foreign currency differences | 6 | - | - | - | 6 |
| **Balance as at 31 December 2016** | **17,581** | **4,832** | **2,412** | **-** | **24,825** |

Except for long-term provisions for employees, which are presented within personnel costs in Note 12, provisions for liabilities and charges are presented within impairment losses and provisions in Note 13.

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

## 33. ISSUED SHARE CAPITAL

| | Class A Ordinary shares | Class D Preference shares | Total |
|---|---|---|---|
| Number of shares | 119,011 | 184 | 119,195 |
| Nominal value (in BAM) | 1,000 | 1,000 | 1,000 |
| **Total** | **119,011** | **184** | **119,195** |

## 34. INVESTMENTS IN SUBSIDIARIES

On 22 December 2015, the Bank acquired 100% share in UniCredit Leasing d.o.o. Sarajevo in the amount of BAM 1.95 (EUR 1). There were no additional investments in subsidiaries during 2016.

**Acquired assets and liabilities can be presented as follows:**

| | 2016 | 2015 |
|---|---|---|
| Acquired share | 100% | 100% |
| Acquisition cost | - | - |
| Fair value of acquired assets | 144,575 | 144,575 |
| Fair value of acquired liabilities | (137,808) | (137,808) |
| **Negative goodwill** | **6,767** | **6,767** |

Effects of acquisition (negative goodwill) is recognised in Group's retained earnings.

## 35. BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares. For the purpose of calculating basic earnings per share, preferred shares are considered as ordinary shares as they do not bear preferential dividend right.

| | Group 2016 | Bank 2016 | Bank 2015 |
|---|---|---|---|
| Net profit for the year attributable to ordinary shareholders | 75,912 | 81,527 | 79,584 |
| Weighted average number of ordinary shares during the period | 118,935 | 118,935 | 118,935 |
| **Basic earnings per share (BAM)** | **638.27** | **685.48** | **669.14** |

Diluted earnings per share are not presented, as the Bank has not issued dilutive equity instruments.

1.Since the Bank acquired the subsidiary on 22 December 2015, positions in the Statement of profit or loss in prior period are presented as related party relations, while the mentioned transactions are treated as intragroup transactions and eliminated on Group level in 2016.

# 36. COMMITMENTS AND CONTINGENT LIABILITIES

During its operations, the Group has commitments and contigent liabilities recoreded in off-balance, which are related to guarantees, credentials and unused part of loan facilities.

| | Group | Bank | Group | Bank |
|---|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 | 31 December 2015 |
| Unused loan facilities | 501,371 | 500,675 | 493,823 | 492,977 |
| Payment and custom guarantees | 163,207 | 163,207 | 172,919 | 172,919 |
| Performance bonds | 122,486 | 122,486 | 112,704 | 112,704 |
| Letters of credit | 11,236 | 11,236 | 12,493 | 12,493 |
| | **798,300** | **797,604** | **791,939** | **791,093** |

# 37. FUNDS MANAGED ON BEHALF OF THIRD PARTIES AND CUSTODY SERVICES

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 |
| Assets under custody | 493,847 | 493,847 | 443,292 |
| Loans managed on behalf of third parties | 55,549 | 55,549 | 70,937 |
| | **549,396** | **549,396** | **514,229** |

These funds are not part of the statement of the financial position of the Group and Bank, nor part of the assets of the Group and Bank, and they are managed separately. The Group and Bank earn fee income for provision of the related services.

2. Since the Bank acquired the subsidiary on 22 December 2015, positions in the Statement of profit or loss in prior period are presented as related party relations, while the mentioned transactions are treated as intragroup transactions and eliminated on Group level in 2016.

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

## 38. RELATED PARTY TRANSACTIONS

The Bank is a member of the UniCredit Group ("UCI Group"). The key shareholder of the Bank is Zagrebačka banka d.d. with a holding of 99.30% (2015: 99.30%). The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; Supervisory Board members, Management Board members and other key management personnel (together "key management personnel"); close family members of key management personnel; and entities controlled, or significantly influenced by key management personnel and their close family members

Related party transactions are part of the Bank's regular operations

**An overview of related party transactions as of 31 December 2016 is presented in the table below:**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **Bank** | **Income** | **Expenses** | **Income** | **Expenses** |
| UniCredit Bank Austria AG Vienna, Austria | 216 | 1,471 | 1,423 | 2,712 |
| UniCredit Bank a.d. Banja Luka | 797 | 192 | 616 | 153 |
| Zagrebačka banka d.d. Zagreb, Croatia | 231 | 843 | 235 | 779 |
| UniCredit Bank Slovenija d.d. Ljubljana, Slovenia | 21 | - | 10 | - |
| UniCredit Broker d.o.o. Sarajevo | 2 | - | 4 | 24 |
| BACA Nekretnine d.o.o. Sarajevo | 3 | 1 | 2 | 1 |
| Bamcard d.d. Sarajevo | - | - | 1 | - |
| UniCredit Global Information Services | - | 4,762 | - | 4,705 |
| UniCredit S.p.A Milano, Italy | 954 | 720 | - | 431 |
| UniCredit Bank AG Munich, Germany | 241 | 1 | - | 261 |
| Bank Polska Kasa Opieki S.A. Warsaw, Poland | - | - | - | 130 |
| Public Joint Stock Company Ukrsotsbank | - | - | - | 75 |
| ZANE BH d.o.o. Sarajevo | 1 | 74 | - | 64 |
| I-Faber SPA | - | 44 | - | 51 |
| UniCredit Bussines Integrated Solutions S.C.p.A. | - | 445 | - | - |
| UniCredit Bank Czech Republic and Slovakia a.s. | - | 38 | - | - |
| UniCredit Bank Srbija a.d. Belgrade, Serbia | - | 1 | - | - |
| **Total related parties** | **2,466** | **8,592** | **2,291** | **9,386** |
| **Subsidiaries** | | | | |
| UniCredit Leasing d.o.o. Sarajevo[1] | 123 | 1 | 87 | 3 |
| **Total subsidiaries** | **123** | **1** | **87** | **3** |
| Management Board and other key management personnel, and parties related to the Management Board and other key management personnel | 151 | 6,496 | 130 | 5,835 |
| | **2,740** | **15,089** | **2,508** | **15,224** |

There were no transactions with the members of the Supervisory Board during 2016 and 2015.

## 38. RELATED PARTY TRANSACTIONS (CONTINUED)

Income from UniCredit Group members in 2016 includes interest income in the amount of BAM 1,640 thousand (2015: BAM 1,769 thousand) and fee and commission income in the amount of BAM 462 thousand (2015: BAM 407 thousand). Income in 2016 also includes other income in the amount of BAM 488 thousand (2015: BAM 202 thousand).

Expenses towards UniCredit Group members in 2016 include interest expense in the amount of BAM 1,732 thousand (2015: BAM 3,178 thousand), fees in the amount of BAM 743 thousand (2015: BAM 400 thousand), other administrative expenses in the amount of BAM 5,703 thousand (2015: BAM 5,514 thousand) and other expenses in the amount of BAM 415 thousand (2014: BAM 297 thousand).

**An overview of balances at 31 December 2016 and 31 December 2015 is presented below:**

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| **Bank** | **Exposure*** | **Liabilities** | **Exposure*** | **Liabilities** |
| UniCredit Bank Austria AG Vienna, Austria | 66,518 | 82,785 | 93,674 | 157,333 |
| UniCredit Bank a.d. Banja Luka | 49,973 | 4,805 | 41,555 | 6,544 |
| Zagrebačka banka d.d. Zagreb, Croatia | 10,297 | 4,828 | 11,499 | 11,117 |
| UniCredit Global Information Services | 2,037 | 2,811 | 2,797 | - |
| UniCredit S.p.A Milano, Italy | 3,936 | 137,778 | 1,092 | 686 |
| UniCredit Bank AG Munich, Germany | 1,471 | 66 | 881 | 6 |
| BACA Nekretnine d.o.o. Sarajevo | - | - | - | 7,563 |
| ZANE BH d.o.o. Sarajevo | - | 1,535 | - | 1,463 |
| Interkonzum d.o.o. Sarajevo | - | - | - | 599 |
| UniCredit Leasing Nekretnine | - | - | - | 375 |
| UniCredit Broker d.o.o. Sarajevo | - | 453 | - | 189 |
| UniCredit Bank Slovenija d.d. Ljubljana, Slovenia | 1 | 395 | - | 90 |
| UniCredit Business Integrated Solutions S.C.p.A. | - | 82 | - | - |
| I-Faber SPA | - | 44 | - | - |
| | | | | |
| **Total related parties** | **134,233** | **235,582** | **151,498** | **185,965** |
| **Subsidiary** | | | | |
| UniCredit Leasing d.o.o. Sarajevo[2] | - | 5,059 | - | 3,194 |
| **Total subsidiaries** | **-** | **5,059** | **-** | **3,194** |
| | | | | |
| Management Board and other key management personnel, and parties related to Management Board and other key management personnel | 2,233 | 10,216 | 2,185 | 9,240 |
| | **136,466** | **250,857** | **153,683** | **198,399** |

** Exposure includes loans, interest receivables, other receivables and off-balance-sheet exposure.*

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

## 38. RELATED PARTY TRANSACTIONS (CONTINUED)

Regarding exposure toward the related parties, the Bank did not have any impairment losses in 2016 and 2015, and the balance of impairment allowance at 31 December 2016 and 31 December 2015 was nil.

Further, the Bank received guarantees from UniCredit Bank Austria AG at 31 December 2016 in the amount BAM 11,124 thousand (31 December 2015: BAM 85,657 thousand), while as at 31 December 2015 the Bank had BAM 3,905 thousand of given guarantees (31 December 2015: 18,309).

**Remuneration paid to Management Board and other key management personnel:**

| | Bank | Bank |
|---|---|---|
| | **2016** | **2015** |
| Gross salaries | 3,877 | 4,004 |
| Bonuses | 1,079 | 859 |
| Other benefits | 584 | 366 |
| | **5,540** | **5,229** |

39 employees were included in the Management Board and other key management personnel (2015: 37 employees).

## 39. RISK MANAGEMENT

The Bank's risk management is conducted through a system of policies, programmes, procedures and approved 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 the Group.

The most important types of risk to which the Group is exposed are credit risk, market risk and operating risk.

The Supervisory Board and the Management Board define the principles of risk management and internal acts related to risk management.

### 39.1 Credit risk

The Group is, in its ordinary course of business, exposed to credit risk, which can be defined as the possibility that a borrower will default on its obligations defined in lending agreements, which may result in a financial loss for the Group.

Credit risk management encompasses the organizational structure of the Bank based on precisely defined authorities and responsibilities among employees, internal acts system, internal controls, and methods for measuring, monitoring and managing credit risk.

The exposure to credit risk is managed in accordance with the Group's applicable programmes and policies, as well as other internal regulations prescribed by the Supervisory Board and the Management Board. The exposure to credit risk is managed, in a way that exposures to portfolios and individual client/group exposures are reviewed by taking into account prescribed limits.

Credit risk exposure on portfolios and individual clients/groups of related parties is regularly monitored taking into account the prescribed limits. Each proposed significant increase of credit risk exposure is considered by the Risk Management before approval, and during monitoring credit exposure, to be approved on the adequate decision-making level.

The limits of credit risks are determined in relation to the Bank's regulatory capital.

# 39. RISK MANAGEMENT (CONTINUED)

## 39.1 Credit risk (continued)

In order to manage the level of credit risk, the Bank deals with counterparties of good credit standing and when appropriate, obtains collateral.

### 39.1.1 Maximum exposure to credit risk

The choice of collateral instruments for covering the Group's receivables depends on:

- the assessment of the borrower's credit standing,
- risk evaluation of the lending product itself,
- evaluation of the value of the offered collateral and
- external regulations.

In accordance with the requirements of the UniCredit Group, the Group has implemented standardized approach to the international standard Basel III.

The majority of credit risk exposures are secured with collateral in the form of cash deposits, mortgages and guarantees, and so-called primary collateral or execution instruments consisting of promissory notes giving the Bank full contractual authority for collection of outstanding debts from the clients' accounts as well as a preapproval for seizure of income verified by the competent local authority (applicable to individual clients).

The Group continuously applies prudent methods and tools in the credit risk assessment process. The maximum exposure to credit risk relating to items in the statement of financial position and commitments (off-balance-sheets items) is as follows:

| | Group | Bank | Group | Bank |
|---|---|---|---|---|
| | **31 December 2016** | **31 December 2016** | **31 December 2015** | **31 December 2015** |
| **Statement of financial position** | | | | |
| Current accounts at CBBH and other banks (Note 15) | 596,318 | 596,318 | 616,839 | 616,839 |
| Obligatory reserve at CBBH (Note 16) | 366,379 | 366,379 | 302,868 | 302,868 |
| Loans to and receivables from banks (Note 17) | 282,158 | 282,149 | 151,819 | 151,809 |
| Debt securities within financial assets available-for-sale (Note 18 ) | 433,484 | 433,484 | 428,333 | 428,333 |
| Financial assets at fair value through profit or loss (Note 19) | 4 | 4 | 8 | 8 |
| Financial lease receivables (Note 21) | 115,463 | - | 116,894 | - |
| Loans and receivables from clients (Note 20) | 2,783,464 | 2,782,558 | 2,618,456 | 2,617,373 |
| Other assets exposed to credit risk (part of Note 22) | 46,000 | 35,666 | 45,036 | 32,022 |
| **Total credit risk exposure relating to assets** | **4,623,270** | **4,496,558** | **4,280,253** | **4,149,252** |
| | | | | |
| ***Off-balance-sheet items (Note 36)*** | | | | |
| Unused loan facilities | 501,371 | 500,675 | 493,823 | 492,977 |
| Guarantees | 285,693 | 285,693 | 285,623 | 285,623 |
| Letters of credit | 11,236 | 11,236 | 12,493 | 12,493 |
| **Total off-balance sheet credit risk exposure** | **798,300** | **797,604** | **791,939** | **791,093** |
| | **5,421,570** | **5,294,162** | **5,072,192** | **4,940,345** |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 39. RISK MANAGEMENT (CONTINUED)

## 39.1 Credit risk (continued)

### 39.1.1 Maximum exposure to credit risk (continued)

The above table represents the maximum credit risk exposure of the Group as at 31 December 2016 and 2015, without taking into account any collateral held or other credit enhancements attached. For items in the statement of financial position, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. For commitments the maximum credit risk exposure equals the total undrawn amounts.

As shown above, 51.34% of the Group's total maximum exposure to credit risk in 2016 is derived from loans and receivables from clients (2015: 51.6%), while 5.2% refers to loans to and receivables from banks (2015: 2.9%), and investments in financial assets available for sale 8.4% (2015: 8.4%). 52.6% of the Bank's total maximum exposure to credit risk is derived from loans and receivables from clients (2015: 52.9%), while 5.3% refers to loans and receivables from banks (2015: 3%), and investments in financial assets available for sale 8.2% (2015: 8.6%%). The Management is confident in its ability to continue to control and sustain acceptable exposure to credit risk.

### 39.1.2 Concentration of assets and liabilities toward state sector

The table below shows the concentration of placements and liabilities to the State of Bosnia and Herzegovina and the entities: the Federation of Bosnia and Herzegovina and Republika Srpska

| | Group | Bank | Group | Bank |
|---|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 | 31 December 2015 |
| Current account with CBBH (Note 15) | 341,117 | 341,117 | 419,404 | 419,404 |
| Obligatory reserve at CBBH (Note 16) | 366,379 | 366,379 | 302,868 | 302,868 |
| Bonds of the Government of Federation of Bosnia and Herzegovina (Note 18) | 294,958 | 294,958 | 236,236 | 236,236 |
| Treasury bills of the Government of Federation of Bosnia and Herzegovina (Note 18) | - | - | 16,976 | 16,976 |
| Bonds of the Government of Republika Srpska | 74,555 | 74,555 | 74,751 | 74,751 |
| Treasury bills of the Government of Republika Srpska (Note 18) | - | - | 8,422 | 8,422 |
| Current tax liability | (1,310) | (1,300) | (1,765) | (1,701) |
| Deferred tax liability (Note 14) | (1,129) | (1,129) | (1,301) | (1,301) |
| | **1,074,570** | **1,074,580** | **1,055,589** | **1,055,655** |

The Bank had no off-balance sheet sovereign risk exposure at 31 December 2016 and 31 December 2015.

In addition, liabilities to state institutions are as follows:

| | Group | Bank | Group and Bank |
|---|---|---|---|
| | 31 December 2016 | 31 December 2016 | 31 December 2015 |
| Short-term deposits | (1,816) | (1,816) | (4,232) |
| Off-balance-sheet exposure | 4 | 4 | 5 |

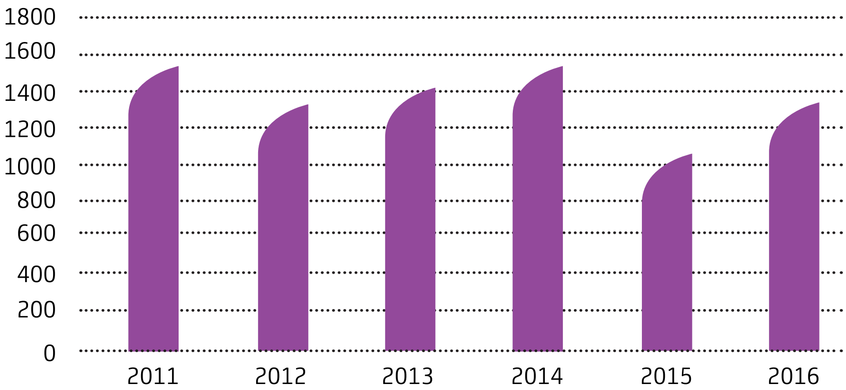
# 39. RISK MANAGEMENT (CONTINUED)

## 39.1 Credit risk (continue)

### 39.1.3 Real estate market trends

According to latest information from the Agency for Statistics of Bosnia and Herzegovina in the first nine months of 2016, the number of completed dwellings was 1,353, which is 24.5% more than in the same period of 2015 (1,087). Unfinished apartments at the end of the third quarter of 2016 was 2,976, which is 3.6% less compared to the same period last year (3,086).

**Number of completed dwellings in Bosnia and Herzegovina by the end of third quarter per year**




In the first nine months of 2016, the average price of sold new dwellings records decrease of 10.5% compared to the first nine months of 2015. The average price of sold new dwellings in the first quarter of 2016 amounts to BAM 1,462. Compared to the average price of sold new dwellings in 2015, the average price is 11.1% lower, and compared to the third quarter of 2015 it is 9.2% lower. The number of sold new dwellings in the third quarter of 2016 compared to the third quarter of 2015 is 32.4% higher. The number of sold new dwellings compared to 2015 is 0.9% higher.

The prices of properties did not significantly change during 2016 on the BiH real estate market. Small apartments in good locations are the most attractive. Prices of newly constructed dwellings record decrease due to a large number of newly constructed dwellings on the outskirts of Sarajevo, which affect the lower average price of dwellings in BiH due to an unfavourable location. Even though the average price of dwellings is slightly decreasing, a continuous growth of value of small apartments in good locations is apparent, which is cca 3% on annual level.

In Bosnia and Herzegovina there is insufficient continuously tracked and accurate statistics that can provide precise information on developments in real estate prices.

# 39. RISK MANAGEMENT (CONTINUED)

## 39.1 Credit risk (continued)

### 39.1.4 Reprogramed and restructured receivables

Clients of the Restructuring Department are the ones the focus of the business relationship shifted from making profit to mitigating losses on lending exposure at a stage when legal action for mitigating losses is not yet needed. The objective is timely identification of clients where restructuring would enable them to continue in business and to mitigate or prevent further losses for the Group.

Restructuring Department activities are based on cooperation with other organisational parts of the Group, which identify clients/exposures that should be the subject of restructuring, work on defining the appropriate restructuring strategy, analysing restructuring applications, suggesting measures and making recommendations for restructuring, monitoring progress, monitoring the portfolio, assessing the level of provisions and the Group's proposed measures to improve collateral coverage in order to strengthen its position in the collection of receivables.

The restructured corporate portfolio of the Restructuring Department on Group level was BAM 144,720 thousand in 2016, while the restructured retail portfolio was BAM 4,666 thousand.

The restructured corporate portfolio on Bank level has decreased in volume by 18% in 2016 compared to the end of 2015, amounting to BAM 126,139 thousand (2015: BAM 154,104 thousand), with the portfolio coverage by provisions of 39% (2015: 28%). The decrease in the portfolio is the result of migration from the point of client jurisdiction with regular collection of portfolio.

The restructured retail portfolio on Bank level recorded decrease of 3%, amounting to BAM 3,619 thousand (2015: BAM 3,725 thousand), with provisions amounting to 27% of the portfolio (2015: 19%). An apparent decline in the portfolio is a result of pre-segmentation of clients from the restructuring portfolio to the standard portfolio as a result of the realisation of return criteria.

***Received collateral and other instruments of credit security***

The Group defines the policy for managing techniques for mitigating credit risk, which has the objective to ensure optimum management by collateral instruments, and mitigate potential losses on placements in case of default.

The efficient implementation of credit risk mitigation techniques in Bank's business processes leads to optimization of capital use.

Collateral valuation is one of the basic elements of loan approval process, in addition to the assessment of client's credit worthiness.

Client quality is based on the credit worthiness assessment and the quality of business relationship with the Bank. The collateral can never be substitute for client rating. If client rating or credit worthiness are not adequate, the loan cannot be approved. Collateral instruments serve for the Bank to protect itself in case of default, when the debtor is not able to make payments.

Basic condition for accepting collateral instruments is the legal enforcement. It is necessary to employ due care and diligence to ensure that the possibility for collection from collateral instruments is not endangered due to legal reasons

# 39. RISK MANAGEMENT (CONTINUED)

## 39.1 Credit risk (continued)

### 39.1.4 Reprogramed and restructured receivables (continued)

***Received collateral and other instruments of credit security (continued)***

Careful and adequate collateral management is required, in the sense of continuous monitoring and assessment. Assessed collateral must be regularly monitored, at least annually. The more regular monitoring and supervision is required in case of significant changes of market conditions.

| | Group | Bank |
|---|---|---|
| **Coverage on loans and financial lease** | **31 December 2016** | **31 December 2016** |
| **Loans – retail** | **1,663,931** | **1,663,146** |
| Uncovered | 1,447,593 | 1,447,464 |
| Covered | 216,338 | 215,682 |
| Deposits | 13,899 | 13,899 |
| State guarantees | - | - |
| Mortgage on housing objects | 202,439 | 201,783 |
| Other | - | - |
| | | |
| **Loans - corporate** | **1,426,125** | **1,425,760** |
| Uncovered | 835,245 | 834,895 |
| Covered | 590,880 | 590,865 |
| Deposits | 67,932 | 67,932 |
| State guarantees | 25,758 | 25,758 |
| Mortgage on housing objects | 491,590 | 491,590 |
| Other | 5,600 | 5,585 |
| **Finance lease** | **133,098** | **-** |
| Uncovered | 112,065 | - |
| Covered | 21,033 | - |
| Deposits | - | - |
| State guarantees | - | - |
| Mortgage on housing objects | 1,153 | - |
| Other | 19,880 | - |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 39. RISK MANAGEMENT (CONTINUED)

## 39.1 Credit risk (continued)

### 39.1.4 Reprogramed and restructured receivables (continued)

***Received collateral and other instruments of credit security (continued)***

| | Group | Bank |
|---|---|---|
| **Coverage on loans and financial lease** | **31 December 2015** | **31 December 2015** |
| **Loans – retail** | **1,595,157** | **1,594,302** |
| Uncovered | 1,384,331 | 1,383,721 |
| Covered | 210,826 | 210,581 |
| Deposits | 13,609 | 13,609 |
| State guarantees | - | - |
| Mortgage on housing objects | 197,217 | 196,972 |
| Other | - | - |
| | | |
| **Loans - corporate** | **1,319,716** | **1,319,205** |
| Uncovered | 830,082 | 829,571 |
| Covered | 489,634 | 489,634 |
| Deposits | 61,168 | 61,168 |
| State guarantees | 32,430 | 32,430 |
| Mortgage on housing objects | 392,905 | 392,905 |
| Other | 3,131 | 3,131 |
| **Finance lease** | **131,446** | **-** |
| Uncovered | 108,665 | - |
| Covered | 22,781 | - |
| Deposits | - | - |
| State guarantees | - | - |
| Mortgage on housing objects | 22,781 | - |
| Other | - | - |

### 39.1.5 Analysis by overdue receivables (non-performing loan portfolio) and collateral

Impairment allowance coverage of the non-performing loan portfolio in 2016 is 81,79 % for the Group (2015: 77.9%), while it is 84.19% for the Bank (2015: 81.2%).

Total impairment allowances for loans and receivables from clients of the Group for 2016 are BAM 306,592 thousand, of which BAM 252,383 thousand relates to impairment allowances for loans for which individual impairment had been identified, and the rest of the value of BAM 54,209 thousand relates to impairment allowances on portfolio basis.

# 39. RISK MANAGEMENT (CONTINUED)

## 39.1 Credit risk (continued)

### 39.1.5 Analysis by overdue receivables (non-performing loan portfolio) and collateral (continued)

Total impairment allowances for loans and receivables from clients of the Bank are BAM 306,348 thousand (2015: BAM 296,134 thousand), of which BAM 252,149 thousand (2015: BAM 252,485 thousand) relates to impairment allowances for loans for which individual impairment had been identified, while the rest of the value of BAM 54,199 thousand (2015: BAM 43,649 thousand) relates to impairment allowances on portfolio basis.

Total impairment allowances for financial lease for the Group in 2016 are BAM 17,635 thousand, of which BAM 17,090 thousand relates to individually identified impairment allowances, and the rest of the value of BAM 545 thousand relates to impairment allowances on portfolio basis.

| | Group | Bank | Group | Bank |
|---|---|---|---|---|
| | **31 December 2016** | **31 December 2016** | **31 December 2015** | **31 December 2015** |
| **Retail loans** | | | | |
| Loans that are neither past due nor impaired | 1,518,199 | 1,517,647 | 1,444,048 | 1,443,456 |
| Past due loans that are not impaired | 57,172 | 57,172 | 59,481 | 59,481 |
| Impaired loans | 88,560 | 88,327 | 91,628 | 91,365 |
| **Gross** | **1,663,931** | **1,663,146** | **1,595,157** | **1,594,302** |
| Less: allowance for impairment losses | (104,777) | (104,754) | (98,597) | (98,527) |
| **Net** | **1,559,154** | **1,558,392** | **1,496,560** | **1,495,775** |
| | | | | |
| **Corporate, including state and public sector** | | | | |
| Loans that are neither past due nor impaired | 1,157,650 | 1,157,498 | 1,070,902 | 1,070,604 |
| Past due loans that are not impaired | 57,085 | 57,085 | 29,037 | 29,037 |
| Impaired loans | 211,390 | 211,177 | 219,777 | 219,564 |
| **Gross** | **1,426,125** | **1,425,760** | **1,319,716** | **1,319,205** |
| Less: impairment allowance | (201,815) | (201,594) | (197,820) | (197,607) |
| **Net** | **1,224,310** | **1,224,166** | **1,121,896** | **1,121,598** |
| **Finance lease** | | | | |
| Financial lease receivables that are not past due | 85,660 | - | 80,965 | - |
| Past due receivables on financial leasing that are not impaired (Note 21) | 17,927 | - | 19,584 | - |
| Non-performing receivables on financial leasing (impaired receivables on financial leasing) | 29,511 | - | 30,897 | - |
| **Gross** | **133,098** | **-** | **131,446** | **-** |
| Less: impairment allowances | (17,635) | - | (14,552) | - |
| **Net** | **115,463** | **-** | **116,894** | **-** |

(all amounts are expressed in thousands of KM, unless otherwise stated)

# 39. RISK MANAGEMENT (CONTINUED)

## 39.1 Credit risk (continued)

### 39.1.5 Analysis by overdue receivables (non-performing loan portfolio) and collateral (continued)

***a) Loans that are neither past due nor impaired***

Loans to clients are monitored and systematically reviewed. The objective of the loan portfolio monitoring is to reduce credit risk cost and improve the quality of the Group's loan portfolio by timely identification of potentially risky clients and a structured and targeted management of the business relationship with those clients.

| | Retail | | | | | Corporate, including state and public sector | | | | Finance lease |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group** | **Cash and consumer loans** | **Credit cards and overdrafts** | **Housing loans** | **Sole traders** | **Total** | **Large** | **Medium** | **Small** | **Total** | **Total** |
| **31 December 2016** | | | | | | | | | | |
| Standard monitoring | 1,110,708 | 177,795 | 229,611 | 85 | 1,518,199 | 509,408 | 375,885 | 101,508 | 986,801 | 85,660 |
| Special monitoring | - | - | - | - | - | 100,869 | 62,197 | 7,783 | 170,849 | - |
| | **1,110,708** | **177,795** | **229,611** | **85** | **1,518,199** | **610,277** | **438,082** | **109,291** | **1,157,650** | **85,660** |
| **Bank** | | | | | | | | | | |
| **31 December 2016** | | | | | | | | | | |
| Standard monitoring | 1,110,708 | 177,795 | 229,059 | 85 | 1,517,647 | 509,256 | 375,885 | 101,508 | 986,649 | - |
| Special monitoring | - | - | - | - | - | 100,869 | 62,197 | 7,783 | 170,849 | - |
| | **1,110,708** | **177,795** | **229,059** | **85** | **1,517,647** | **610,125** | **438,082** | **109,291** | **1,157,498** | **-** |
| **Bank** | | | | | | | | | | |
| **31 December 2015** | | | | | | | | | | |
| Standard monitoring | 1,039,633 | 173,545 | 230,262 | 16 | 1,443,456 | 462,525 | 307,950 | 93,930 | 864,405 | - |
| Special monitoring | - | - | - | - | - | 122,115 | 81,729 | 2,355 | 206,199 | - |
| | **1,039,633** | **173,545** | **230,262** | **16** | **1,443,456** | **584,640** | **389,679** | **96,285** | **1,070,604** | **-** |

# 39. RISK MANAGEMENT (CONTINUED)

## 39.1 Credit risk (continued)

### 39.1.5 Analysis by overdue receivables (non-performing loan portfolio) and collateral (continued)

***b) Past due loans that are not impaired***

| | Retail | | | | | Corporate, including state and public sector | | | | Financial lease |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group** | **Cash and consumer loans** | **Credit cards and overdrafts** | **Housing loans** | **Sole traders** | **Total** | **Large** | **Medium** | **Small** | **Large** | **Total** |
| **31 December 2016** | | | | | | | | | | |
| Past due up to 30 days | 32,050 | 13,447 | 4,691 | - | 50,188 | 34,401 | 18,400 | 3,375 | 56,176 | 14,114 |
| Past due 31 to 60 days | 3,896 | 990 | 1,170 | - | 6,056 | - | 837 | 23 | 860 | 3,317 |
| Past due 61 to 90 days | 666 | 262 | - | - | 928 | - | - | 49 | 49 | 484 |
| Past due over 90 days | - | - | - | - | - | - | - | - | - | 12 |
| | **36,612** | **14,699** | **5,861** | **-** | **57,172** | **34,401** | **19,237** | **3,447** | **57,085** | **17,927** |
| **Estimated value of collateral** | **826** | **-** | **2,181** | **-** | **3,007** | **8,051** | **1,467** | **417** | **9,935** | **5,304** |

(all amounts are expressed in thousands of KM, unless otherwise stated)

# 39. RISK MANAGEMENT (CONTINUED)

## 39.1 Credit risk (continued)

### 39.1.5 Analysis by overdue receivables (non-performing loan portfolio) and collateral (continued)

***b) Past due loans that are not impaired (continued)***

| | Retail | | | | | Corporate, including state and public sector | | | |
|---|---|---|---|---|---|---|---|---|---|
| Bank | Cash and consumer loans | Credit cards and overdrafts | Housing loans | Sole traders | Total | Large | Medium | Small | Total |
| **31 December 2016** | | | | | | | | | |
| Past due up to 30 days | 32,050 | 13,447 | 4,691 | - | 50,188 | 34,401 | 18,400 | 3,375 | 56,176 |
| Past due 31 to 60 days | 3,896 | 990 | 1,170 | - | 6,056 | - | 837 | 23 | 860 |
| Past due 61 to 90 days | 666 | 262 | - | - | 928 | - | - | 49 | 49 |
| | **36,612** | **14,699** | **5,861** | **-** | **57,172** | **34,401** | **19,237** | **3,447** | **57,085** |
| **Estimated value of collateral** | **826** | **-** | **2,181** | **-** | **3,007** | **8,051** | **1,467** | **417** | **9,935** |
| | | | | | | | | | |
| **31 December 2015** | | | | | | | | | |
| Past due up to 30 days | 33,292 | 13,174 | 6,764 | 4 | 53,234 | 1,995 | 24,145 | 2,155 | 28,295 |
| Past due 31 to 60 days | 3,771 | 947 | 848 | - | 5,566 | - | - | 260 | 260 |
| Past due 61 to 90 days | 370 | 172 | 139 | | 681 | - | 0 | 482 | 482 |
| | **37,433** | **14,293** | **7,751** | **4** | **59,481** | **1,995** | **24,145** | **2,897** | **29,037** |
| **Estimated value of collateral** | **889** | **-** | **2,820** | **-** | **3,709** | **-** | **3,927** | **487** | **4,414** |

Estimated values of properties pledged as collateral are based on valuations done by authorised surveyors/agency upon initial approval of a loan or possible subsequent re-evaluation, weighted by the value of the loan in the total exposure secured by the same collateral, up to the estimated value of collateral. The value of deposits and State guarantees is weighted in the same manner up to the outstanding balance of related secured exposure. Guarantors, co-debtorship and bills of exchange are not valued in the table above although they are usually required as collateral.

# 39. RISK MANAGEMENT (CONTINUED)

## 39.1 Credit risk (continued)

### 39.1.5 Analysis by overdue receivables (non-performing loan portfolio) and collateral (continued)

***c) Non-performing loans (impaired loans)***

Gross amount of non-preforming loans to clients and financial lease receivables for the Group as of 31 December 2016 amounts to BAM 329,461 thousand (2015: BAM 342,302), while on net level before cash flows from received collateral instruments they amount to BAM 59,988 thousand (2015: BAM 75,428 thousand).

Gross amount of non-preforming loans to clients for the Bank amounts to BAM 299,504 thousand (2015: BAM 310,929 thousand). Net non-performing loans from cliante before cash flows from collateral instruments amount to BAM 47,355 thousand (2015: BAM 58,444 thousand). The breakdown of the net amount of the individually impaired loans to clients, along with the fair value of related collateral held by the Bank as security, is as follows:

| | | | | | Retail | | | | Corporate, including state and public sector | Financial lease |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group** | **Cash and consumer loans** | **Credit cards and overdrafts** | **Housing loans** | **Sole traders** | **Total** | **Large** | **Medium** | **Small** | **Total** | **Total** |
| **31 December 2016** | | | | | | | | | | |
| Non-performing loans | 8,810 | 757 | 4,675 | - | 14,242 | **23,205** | 8,127 | 1,993 | **33,325** | **12,420** |
| | | | | | | | | | | |
| **Estimated value of collateral** | **959** | **-** | **2,827** | **-** | **3,786** | **15,508** | **2,751** | **213** | **18,472** | **11,742** |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 39. RISK MANAGEMENT (CONTINUED)

## 39.1 Credit risk (continued)

### 39.1.5 Analysis by overdue receivables (non-performing loan portfolio) and collateral (continued)

***c) Non-performing loans (impaired loans) (continued)***

| | | | | | Retail | Corporate, including state and public sector | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Bank** | **Cash and consumer loans** | **Credit cards and overdrafts** | **Housing loans** | **Sole traders** | **Total** | **Large** | **Medium** | **Small** | **Total** |
| **31 December 2016** | | | | | | | | | |
| Non-performing loans | 8,810 | 757 | 4,463 | - | **14,030** | 23,205 | 8,127 | 1,993 | **33,325** |
| **Estimated value of collateral** | **959** | **-** | **2,631** | **-** | **3,590** | **15,508** | **2,751** | **213** | **18,472** |
| **31 December 2015** | | | | | | | | | |
| Non-performing loans | 9,875 | 902 | 6,915 | 1 | **17,693** | 29,520 | 8,435 | 2,888 | **40,843** |
| **Estimated value of collateral** | **1,327** | **-** | **3,870** | **-** | **5,197** | **18,900** | **313** | **723** | **19,936** |

The Group and the Bank expect to collect the excess in the carrying value of non-performing loans from the estimated value of the related collateral from sources other than collateral.

# 39. RISK MANAGEMENT (CONTINUED)

## 39.2 Liquidity risk

Liquidity risk is the potential risk that the Group will not be able to meet its obligations as scheduled, in full and without delay. It arises in the Group's financing activities and assets and liabilities management. Adjusting its business with regard to liquidity risk is achieved through compliance with the relevant legislation, internal policies for maintenance of liquidity reserves, compliance of assets and liabilities, setting limits and planned liquidity indicators.

ALM Department manages liquidity reserves on a daily basis, to enable the funding of clients' needs and to ensure an optimum balance between continuity and flexibility of financing through use of sources with different maturities.

The Group has access to a diverse funding base including various types of retail and corporate and bank deposits, borrowings, subordinated debt, issued debt securities, share capital and reserves. These enhance funding flexibility and limit dependence on any one source of funds as well as generally ensure better funding cost management.

Liquidity needs are planned every month for a period of six months and controlled and matched on a daily basis.

The process of liquidity management includes developments of annual plans and development of back-up liquidity plans.

### 39.2.1 Structural liquidity risk

The profile of presented based on the remaining contractual maturity, with the following exceptions:

1) Certain balance positions are modified using a replication portfolio methodology: demand deposits and term deposits, overdrafts in current accounts and revolving loans to retail and corporate clients.

2) Securities available-for-sale are classified according to assigned codes of liquidity, which represent the timeframe needed to pledge the security as collateral with a central bank or sell it on the open market.

The classification of assets, liabilities and off-balance-sheet items in the tables below differs from the remaining part of the financial statements, as they have been prepared using management reports. Reconciliation is not practicable. Some of the main differences are as follows:

- Other assets include property and equipment, and other receivables.
- Other liabilities include provisions for other risky assets and other fees and liabilities.
- The obligatory reserve includes a part of other funds with CBBH.
- Assets are presented on a gross basis i.e. without deduction of impairment allowances.
- The nominal value of derivatives is presented within off-balance sheet assets and liabilities, as appropriate.
- Cash in the tables below includes only cash in hand and items in the course of collection, with current accounts being presented within loans and receivables from banks.

(all amounts are expressed in thousands of KM, unless otherwise stated)

# 39. RISK MANAGEMENT (CONTINUED)

## 39.2 Liquidity risk (continued)

### 39.2.1 Structural liquidity risk (continued)

**Group**

| **31 December 2016** *(in BAM million)* | TOTAL | Overnight | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 3 years | 3 to 10 years | Over 10 years |
|---|---|---|---|---|---|---|---|---|
| **Gap** | **-** | **998** | **242** | **6** | **(66)** | **401** | **(1,067)** | **(514)** |
| **Assets** | **5,241** | **1,164** | **581** | **170** | **794** | **978** | **1,105** | **449** |
| ***Statement of financial position*** | ***5,195*** | ***1,159*** | ***540*** | ***170*** | ***794*** | ***978*** | ***1,105*** | ***449*** |
| *Loans to and receivables from clients* | 2,710 | 38 | 141 | 167 | 518 | 866 | 932 | 48 |
| Retail | 1,282 | 6 | 26 | 49 | 193 | 410 | 577 | 21 |
| Corporate | 1,428 | 32 | 115 | 118 | 325 | 456 | 355 | 27 |
| *Mortgage loans to clients* | 198 | - | 1 | 3 | 14 | 35 | 92 | 53 |
| Retail | 198 | - | 1 | 3 | 14 | 35 | 92 | 53 |
| *Securities* | *429* | *3* | *183* | - | *93* | *69* | *81* | - |
| Financial assets available-for-sale | 429 | 3 | 183 | - | 93 | 69 | 81 | - |
| *Loans and receivables from banks* | *1,236* | *960* | *223* | - | *45* | *8* | - | - |
| Current accounts | 253 | 253 | - | - | - | - | - | - |
| Deposits | 276 | - | 223 | - | 45 | 8 | - | - |
| Obligatory reserve at CBBH | 707 | 707 | - | - | - | - | - | - |
| *Other assets* | *622* | *158* | *(8)* | - | *124* | - | - | - |
| Cash | 158 | 158 | - | - | - | - | - | - |
| Impaired loans | 285 | - | - | - | - | - | - | 285 |
| Investments in subsidiaries and associates | 1 | - | - | - | - | - | - | 1 |
| Other assets | 178 | - | (8) | - | 124 | - | - | 62 |
| | | | | | | | | |
| ***Off-balance sheet*** | | | | | | | | |
| *Derivatives* | *41* | - | *41* | - | - | - | - | - |
| *Unused credit facilities* | - | - | - | - | - | - | - | - |
| | | | | | | | | |
| **Liabilities** | **5,241** | **166** | **339** | **164** | **860** | **577** | **2,172** | **963** |
| | | | | | | | | |
| ***Statement of financial position*** | ***5,196*** | ***162*** | ***298*** | ***164*** | ***860*** | ***577*** | ***2,172*** | ***963*** |
| *Demand deposits* | *2,678* | *118* | *134* | *93* | *200* | *275* | *1,858* | - |
| Retail | 1,680 | 18 | 25 | 20 | 47 | 74 | 1,496 | - |
| Corporate | 998 | 100 | 109 | 73 | 153 | 201 | 362 | - |
| *Time deposits* | *887* | *4* | *27* | *59* | *237* | *262* | *298* | - |
| Retail | 592 | 4 | 21 | 34 | 113 | 184 | 236 | - |
| Corporate | 295 | - | 6 | 25 | 124 | 78 | 62 | - |
| *Liabilities to banks* | *406* | *40* | *137* | *12* | *161* | *40* | *16* | - |
| Borrowings | 170 | - | - | 12 | 102 | 40 | 16 | - |
| Current accounts and deposits | 236 | 40 | 137 | - | 59 | - | - | - |
| *Other liabilities and equity* | *1,225* | - | - | - | *262* | - | - | *963* |
| Equity | 631 | - | - | - | - | - | - | 631 |
| Other liabilities | 262 | - | - | - | 262 | - | - | - |
| Provisions | 332 | - | - | - | - | - | - | 332 |
| Issued debt securities | - | - | - | - | - | - | - | - |
| | | | | | | | | |
| ***Off-balance sheet*** | | | | | | | | |
| *Derivatives* | *41* | - | *41* | - | - | - | - | - |

# 39. RISK MANAGEMENT (CONTINUED)

## 39.2 Liquidity risk (continued)

### 39.2.1 Structural liquidity risk (continued)

**Bank**

| 31 December 2016 *(in BAM million)* | TOTAL | Overnight | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 3 years | 3 to 10 years | Over 10 years |
|---|---|---|---|---|---|---|---|---|
| **Gap** | **-** | **990** | **239** | **10** | **(13)** | **379** | **(1,078)** | **(527)** |
| **Assets** | **5,105** | **1,161** | **578** | **163** | **753** | **932** | **1,083** | **435** |
| ***Statement of financial position*** | ***5,063*** | ***1,159*** | ***537*** | ***164*** | ***753*** | ***932*** | ***1,083*** | **-** |
| *Loans and receivables from clients* | 2,588 | 38 | 138 | 161 | 487 | 820 | 910 | 34 |
| Retail | 1,277 | 6 | 26 | 49 | 192 | 408 | 576 | 20 |
| Corporate | 1,311 | 32 | 112 | 112 | 295 | 412 | 334 | 14 |
| *Mortgage loans to clients* | *198* | - | *1* | *3* | *14* | *35* | *92* | *53* |
| Retail | 198 | - | 1 | 3 | 14 | 35 | 92 | 53 |
| *Securities* | *429* | *3* | *183* | - | *93* | *69* | *81* | - |
| Financial assets available-for-sale | 429 | 3 | 183 | - | 93 | 69 | 81 | - |
| *Loans and receivables from banks* | *1,236* | *960* | *223* | - | *45* | *8* | - | - |
| Current accounts | 253 | 253 | - | - | - | - | - | - |
| Deposits | 276 | - | 223 | - | 45 | 8 | - | - |
| Obligatory reserve at CBBH | 707 | 707 | - | - | - | - | - | - |
| *Other assets* | *612* | *158* | *(8)* | - | *114* | - | - | *348* |
| Cash | 158 | 158 | - | - | - | - | - | - |
| Impaired loans | 285 | - | - | - | - | - | - | 285 |
| Investments in subsidiaries and associates | 1 | - | - | - | - | - | - | 1 |
| Other assets | 168 | - | (8) | - | 114 | - | - | 62 |
| | | | | | | | | |
| ***Off-balance sheet*** | ***40*** | **-** | ***41*** | ***(1)*** | **-** | **-** | **-** | **--** |
| *Derivatives* | | | | | | | | |
| *Unused credit facilities* | - | - | - | - | - | - | - | - |
| | | | | | | | | |
| **Liabilities** | **5,105** | **171** | **339** | **153** | **766** | **553** | **2,161** | **962** |
| | | | | | | | | |
| **Statement of financial position** | **5,060** | **167** | **298** | **153** | **766** | **553** | **2,161** | **962** |
| *Demand deposits* | *2,683* | *123* | *134* | *93* | *200* | *275* | *1,858* | - |
| Retail | 1,680 | 18 | 25 | 20 | 47 | 74 | 1,496 | - |
| Corporate | 1,003 | 105 | 109 | 73 | 153 | 201 | 362 | - |
| *Time deposits* | *887* | *4* | *27* | *59* | *237* | *262* | *298* | - |
| Retail | 592 | 4 | 21 | 34 | 113 | 184 | 236 | - |
| Corporate | 295 | - | 6 | 25 | 124 | 78 | 62 | - |
| *Liabilities to banks* | *268* | *40* | *137* | *1* | *69* | *16* | *5* | - |
| Borrowings | 32 | - | - | 1 | 10 | 16 | 5 | - |
| Current accounts and deposits | 236 | 40 | 137 | - | 59 | - | - | - |
| *Other liabilities and equity* | *1,222* | - | - | - | *260* | - | - | *962* |
| Equity | 630 | - | - | - | - | - | - | 630 |
| Other liabilities | 260 | - | - | - | 260 | - | - | - |
| Provisions | 332 | - | - | - | - | - | - | 332 |
| Issued debt securities | - | - | - | - | - | - | - | - |
| | | | | | | | | |
| ***Off-balance sheet*** | | | | | | | | |
| *Derivatives* | *41* | - | *41* | - | - | - | - | - |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 39. RISK MANAGEMENT (CONTINUED)

## 39.2 Liquidity risk (continued)

### 39.2.1 Structural liquidity risk (continued)

**Group**

| 31 December 2015 *(in BAM million)* | TOTAL | Overnight | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 3 years | 3 to 10 years | Over 10 years |
|---|---|---|---|---|---|---|---|---|
| **Gap** | **-** | **1,073** | **(69)** | **(54)** | **295** | **33** | **(776)** | **(504)** |
| **Assets** | **4,840** | **1,133** | **299** | **166** | **916** | **780** | **1,082** | **463** |
| ***Statement of financial position*** | ***4,769*** | ***1,133*** | ***229*** | ***166*** | ***916*** | ***780*** | ***1,081*** | ***463*** |
| *Loans and receivables from clients* | 2,451 | 3 | 128 | 148 | 408 | 746 | 977 | 41 |
| Retail | 1,235 | 2 | 22 | 44 | 179 | 389 | 578 | 21 |
| Corporate | 1,216 | 1 | 106 | 104 | 229 | 357 | 399 | 20 |
| *Mortgage loans to clients* | *188* | - | *1* | *3* | *13* | *34* | *88* | *49* |
| Retail | 188 | - | 1 | 3 | 13 | 34 | 88 | 49 |
| *Securities* | *425* | *45* | *3* | - | *377* | - | - | - |
| Financial assets available-for-sale | 425 | 45 | 3 | - | 377 | - | - | - |
| *Loans and receivables from banks* | *1,064* | *917* | *96* | *15* | *20* | - | *16* | - |
| Current accounts | 195 | 195 | - | - | - | - | - | - |
| Deposits | 147 | - | 96 | 15 | 20 | - | 16 | - |
| Obligatory reserve at CBBH | 722 | 722 | - | - | - | - | - | - |
| Other assets | 638 | 167 | - | - | 97 | - | - | 374 |
| Cash | 167 | 167 | - | - | - | - | - | - |
| Impaired loans | 295 | - | - | - | - | - | - | 295 |
| Incestments in subsidiaries and associates | 1 | - | - | - | - | - | - | 1 |
| Other assets | 175 | - | - | - | 97 | - | - | 78 |
| ***Off-balance sheet*** | ***71*** | **-** | ***71*** | **-** | **-** | **-** | **-** | **-** |
| *Derivatives* | *71* | - | *71* | - | - | - | - | - |
| *Unused credit facilities* | - | - | - | - | - | - | - | - |
| **Liabilities** | **4,840** | **59** | **368** | **220** | **620** | **747** | **1,858** | **968** |
| ***Statement of financial position*** | ***4,769*** | ***59*** | ***297*** | ***220*** | ***620*** | ***747*** | ***1,858*** | ***968*** |
| *Demand deposits* | *2,403* | *44* | *132* | *115* | *228* | *264* | *1,620* | - |
| Retail | 1,452 | 15 | 29 | 29 | 58 | 87 | 1,234 | - |
| Corporate | 951 | 29 | 103 | 86 | 170 | 177 | 386 | - |
| Time deposits | 911 | 4 | 65 | 97 | 213 | 322 | 210 | - |
| Retail | 610 | 4 | 53 | 63 | 131 | 189 | 170 | - |
| Corporate | 301 | - | 12 | 34 | 82 | 133 | 40 | - |
| *Liabilities to banks* | *353* | *11* | *100* | *8* | *46* | *161* | *27* | - |
| Borrowings | 185 | - | 2 | 8 | 46 | 102 | 27 | - |
| Current accounts and deposits | 168 | 11 | 98 | - | - | 59 | - | - |
| Other liabilities and equity | 1,101 | - | - | - | 133 | - | - | 968 |
| Equity | 647 | - | - | - | - | - | - | 647 |
| Other liabilities | 134 | - | - | - | 133 | - | - | 1 |
| Provisions | 320 | - | - | - | - | - | - | 320 |
| *Issued debt securities* | - | - | - | - | - | - | - | - |
| ***Off-balance sheet*** | ***71*** | **-** | ***71*** | **-** | **-** | **-** | **-** | **-** |
| *Derivatives* | *71* | - | *71* | - | - | - | - | - |

# 39. RISK MANAGEMENT (CONTINUED)

## 39.2 Liquidity risk (continued)

### 39.2.1 Structural liquidity risk (continued)

**Bank**

| 31 December 2015 *(in BAM million)* | TOTAL | Overnight | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 3 years | 3 to 10 years | Over 10 years |
|---|---|---|---|---|---|---|---|---|
| **Gap** | **-** | **1,069** | **(72)** | **(55)** | **307** | **72** | **(788)** | **(532)** |
| **Assets** | **4,699** | **1,132** | **296** | **159** | **891** | **739** | **1,053** | **428** |
| ***Statement of financial position*** | ***4,628*** | ***1,132*** | ***225*** | ***159*** | ***891*** | ***739*** | ***1,053*** | ***428*** |
| *Loans and receivables from clients* | 2,326 | 3 | 125 | 141 | 384 | 705 | 949 | 19 |
| Retail | 1,227 | 2 | 22 | 43 | 178 | 386 | 577 | 19 |
| Corporate | 1,099 | 1 | 103 | 98 | 206 | 319 | 372 | - |
| *Mortgage loans to clients* | *188* | - | *1* | *3* | *13* | *34* | *88* | *49* |
| Retail | 188 | - | 1 | 3 | 13 | 34 | 88 | 49 |
| *Securities* | *425* | *45* | *3* | - | *377* | - | - | - |
| Financial assets available-for-sale | 425 | 45 | 3 | - | 377 | - | - | - |
| *Loans and receivables from banks* | *1,064* | *917* | *96* | *15* | *20* | - | *16* | - |
| Current accounts | 195 | 195 | - | - | - | - | - | - |
| Deposits | 147 | - | 96 | 15 | 20 | - | 16 | - |
| Obligatory reserve at CBBH | 722 | 722 | - | - | - | - | - | - |
| Other assets | 624 | 167 | - | - | 97 | - | - | 360 |
| Cash | 167 | 167 | - | - | - | - | - | - |
| Impaired loans | 295 | - | - | - | - | - | - | 295 |
| Incestments in subsidiaries and associates | 1 | - | - | - | - | - | - | 1 |
| Other assets | 161 | - | - | - | 97 | - | - | 64 |
| | | | | | | | | |
| ***Off-balance sheet*** | ***71*** | **-** | ***71*** | **-** | **-** | **-** | **-** | **-** |
| *Derivatives* | *71* | - | *71* | - | - | - | - | - |
| *Unused credit facilities* | - | - | - | - | - | - | - | - |
| | | | | | | | | |
| **Liabilities** | **4,699** | **63** | **368** | **214** | **586** | **667** | **1,841** | **960** |
| | | | | | | | | |
| ***Statement of financial position*** | ***4,628*** | ***63*** | ***297*** | ***214*** | ***586*** | ***667*** | ***1,841*** | ***960*** |
| *Demand deposits* | *2,407* | *48* | *132* | *115* | *228* | *264* | *1,620* | - |
| Retail | 1,452 | 15 | 29 | 29 | 58 | 87 | 1,234 | - |
| Corporate | 955 | 33 | 103 | 86 | 170 | 177 | 386 | - |
| *Time deposits* | *911* | *4* | *65* | *97* | *213* | *322* | *210* | - |
| Retail | 610 | 4 | 53 | 63 | 131 | 189 | 170 | - |
| Corporate | 301 | - | 12 | 34 | 82 | 133 | 40 | - |
| *Liabilities to banks* | *216* | *11* | *100* | *2* | *11* | *81* | *11* | - |
| Borrowings | 48 | - | 2 | 2 | 11 | 22 | 11 | - |
| Current accounts and deposits | 168 | 11 | 98 | - | - | 59 | - | - |
| *Other liabilities and equity* | *1,092* | - | - | - | *132* | - | - | *960* |
| Equity | 640 | - | - | - | - | - | - | 640 |
| Other liabilities | 132 | - | - | - | 132 | - | - | - |
| Provisions | 320 | - | - | - | - | - | - | 320 |
| *Issued debt securities* | - | - | - | - | - | - | - | - |
| ***Off-balance sheet*** | ***71*** | **-** | ***71*** | **-** | **-** | **-** | **-** | **-** |
| Derivatives | 71 | - | 71 | - | - | - | - | - |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 39. RISK MANAGEMENT (CONTINUED)

## 39.2 Liquidity risk (continued)

### 39.2.2 Future cash flows from financial instruments

The following table details the Group's remaining contractual maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted cash flows of the financial assets including interest that will be earned on those assets except where the Group and the Bank anticipate that the cash flow will occur in a different period.

**Maturity for non-derivative financial assets**

| | Weighted average effective interest rate | Less than 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **31 December 2016** | | | | | | | |
| Non-interest bearing | - | 158,395 | - | - | - | 65 | 158,460 |
| Variable interest rate instruments | 7.28% | 993,726 | 60,489 | 311,878 | 905,890 | 563,704 | 2,835,686 |
| Fixed interest rate instruments | 4.91% | 524,502 | 227,341 | 454,830 | 839,474 | 163,919 | 2,210,066 |
| | | **1,676,623** | **287,830** | **766,708** | **1,745,364** | **727,688** | **5,204,212** |
| **Bank** | | | | | | | |
| **31 December 2016** | | | | | | | |
| Non-interest bearing | - | 152,778 | - | - | - | - | 152,778 |
| Variable interest rate instruments | 7.08% | 990,241 | 53,499 | 280,405 | 838,898 | 547,652 | 2,710,696 |
| Fixed interest rate instruments | 4.91% | 524,380 | 227,117 | 453,839 | 837,472 | 163,884 | 2,206,692 |
| | | **1,667,399** | **280,617** | **734,244** | **1,676,370** | **711,536** | **5,070,166** |
| **31 December 2015** | | | | | | | |
| Non-interest bearing | - | 163,957 | - | - | - | - | 163,957 |
| Variable interest rate instruments | 7.54% | 954,490 | 61,282 | 269,208 | 959,465 | 545,619 | 2,790,064 |
| Fixed interest rate instruments | 5.53% | 316,517 | 240,788 | 303,319 | 804,510 | 117,677 | 1,782,811 |
| | | **1,434,964** | **302,070** | **572,527** | **1,763,975** | **663,296** | **4,736,832** |

The following table details the Group's and the Bank's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Bank can be required to pay. The table includes both interest and principal cash flows.

# 39. RISK MANAGEMENT (CONTINUED)

## 39.2 Liquidity risk (continued)

### 39.2.2 Future cash flows from financial instruments (continued)

**Maturity for non-derivative financial liabilities**

| | Weighted average effective interest rate | Less than 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **31 December 2016** | | | | | | | |
| Non-interest bearing | - | 43,271 | 4,169 | 13,153 | 11,854 | 869 | 73,316 |
| Variable interest rate instruments | 0.29% | 2,307,506 | 42,810 | 241,135 | 173,512 | 6,246 | 2,771,209 |
| Fixed interest rate instruments | 1.89% | 139,652 | 128,436 | 400,407 | 508,019 | 35,779 | 1,212,294 |
| | | **2,490,430** | **175,415** | **654,694** | **693,386** | **42,894** | **4,056,819** |
| **Bank** | | | | | | | |
| **31 December 2016** | | | | | | | |
| Non-interest bearing | - | 43,129 | 4,169 | 12,417 | 11,854 | 869 | 72,438 |
| Variable interest rate instruments | 0.24% | 2,307,505 | 31,210 | 183,814 | 140,811 | 3,324 | 2,666,665 |
| Fixed interest rate instruments | 1.89% | 139,652 | 128,436 | 364,169 | 508,019 | 35,779 | 1,176,056 |
| | | **2,490,287** | **163,815** | **560,400** | **660,685** | **39,972** | **3,915,159** |
| **31 December 2015** | | | | | | | |
| Non-interest bearing | - | 15,687 | 4,315 | 12,889 | 12,968 | 665 | 46,524 |
| Variable interest rate instruments | 1.22% | 2,053,042 | 44,669 | 171,403 | 291,870 | 3,680 | 2,564,664 |
| Fixed interest rate instruments | 2.11% | 146,582 | 87,926 | 315,480 | 430,504 | 9,117 | 989,609 |
| | | **2,215,311** | **136,910** | **499,772** | **735,342** | **13,462** | **3,600,797** |

The Group and the Bank expect to meet their other obligations from operating cash flows and proceeds of maturing financial assets.

# 39.RISK MANAGEMENT (CONTINUED)

## 39.3 Market risk

Market risk is defined as the effect that general and specific movements and market variable changes in the market have on the income statement and balance sheet of the Bank.

Basic risk factors include:

- interest rate risk;
- credit margin risk, and
- currency risk and

The aim of market risk management on Group level is management and control of market risk exposure within acceptable parameters to ensure the solvency of the Group with the optimisation of risk return.

Overall exposure to market risks is monitored within Risk Management using various methodologies and techniques of risk measurement. Daily reports on market risk exposures are created together with defined limits of markt risk exposure for the purpose of risk management. Alterations to the limits of the Group are coordinated by Zagrebačka banka. In addition to development and implementation of techniques for measuring market risk, the Group continuously works on improving its business processes and quality of data.

***Market risk measurement techniques:***

On Group level, market risk management includes continuous reporting on risk exposure, followed by use of limits and daily review of all positions where market risk exposures exist. The positions are aggregated on daily basis and compared with defined limits.

Market risk metrics, used both for measuring and internal reporting on Group's market risks, are compliant with UniCredit Group and they encompass:

- Value at Risk
- Sensitivity metrics (basis point value – BPV, basis point value for credit margin CPV, net open foreign currency position and other sensitivity measures),
- Alarming level of losses (applied to cumulative result through specific time horizon), and
- Results of stress resistance tests.

### 39.3.1 Value at Risk

The Group uses Value-at-Risk methodology (VaR) to estimate the market risk and the maximum potential losses expected on positions held for trading and other activities.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements, as a measure of maximum potential loss for the defined holding period or a period in which the position could be closed. Loss can occur in the overall or individual positions, based on assumptions of various market variables.

The risk model calculates VaR daily with a confidence level of 99%. The model uses historical simulation based on last 500 observations of daily indicators.

## 39. RISK MANAGEMENT (CONTINUED)

### 39.3 Market risk (continued)

#### 39.3.1 Value at Risk (continued)

**Bank's VaR according to risk types in 2016 and 2015 is as follows:**

| Group | Minimum 2016 | Average 2016 | Maximum 2016 | End of 2016 |
|---|---|---|---|---|
| Interest risk | (127) | (430) | (1,052) | (540) |
| Currency risk | - | (4) | (8) | (2) |
| Securities price risk | (1,451) | (1,735) | (1,970) | (1,809) |
| **Total VaR** | **(1,557)** | **(1,788)** | **(2,122)** | **(1,971)** |
| **Bank** | **Minimum 2016** | **Average 2016** | **Maximum 2016** | **End of 2016** |
| Interest risk | (125) | (426) | (1,050) | (536) |
| Currency risk | - | (4) | (8) | (2) |
| Securities price risk | (1,451) | (1,735) | (1,970) | (1,809) |
| **Total VaR** | **(1,555)** | **(1,786)** | **(2,120)** | **(1,968)** |

| Group | Minimum 2015 | Average 2015 | Maximum 2015 | End of 2015 |
|---|---|---|---|---|
| Interest risk | (174) | (421) | (585) | (489) |
| Currency risk | - | (6) | (16) | (2) |
| Securities price risk | (792) | (1,127) | (1,987) | (1,934) |
| **Total VaR** | **(1,060)** | **(1,344)** | **(2,206)** | **(2,077)** |

| Bank | Minimum 2015 | Average 2015 | Maximum 2015 | End of 2015 |
|---|---|---|---|---|
| Interest risk | (172) | (419) | (571) | (487) |
| Currency risk | - | (6) | (16) | (2) |
| Securities price risk | (792) | 127) | (1,987) | (1,934) |
| **Total VaR** | **(1,058)** | **(1,340)** | **(2,192)** | **(2,075)** |

#### 39.3.2 Stress-testing

Stress-testing is used to evaluate the effect of market risks on the Bank's portfolio. In the stress-testing process the Bank currently covers the following risk categories - currency risk and interest rate risk:

- Currency risk is tested for individual currencies and currency groups - testing includes appreciation and depreciation shocks of 5%, 10% and 30% for currencies BAM and EUR.
- Interest rate risk is tested by each currency for the Bank's overall position. The scenarios include parallel shifts in interest rates by 200 basis points, interest rate level changes, curve rotation, increase of interest rates, including various shocks on currency interest rate curves.

Testing is performed monthly and test results are included into regular ALCO's reports.

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 39. RISK MANAGEMENT (CONTINUED)

## 39.4 Foreign currency risk

Foreign currency risk is the risk of losses caused by adverse exchange rate movements. Foreign currency exposure arises from credit, deposit-taking, and trading activities. It is monitored daily in accordance with regulations and internally set limits per certain foreign currencies, and in the total amount for all assets and liabilities denominated in foreign currencies or tied to foreign currencies.

Foreign currency risk management is performed in accordance with UniCredit Group standards by setting principles and limits for foreign currency exposures and by monitoring exposures against limits of open foreign currency positions stated in absolute values.

The Group directs bussines activities in order to minimise the gap between assets and liabilities denominated in foreign currency by aligning its positions with set limits.

| Group | BAM | EUR | USD | Other currencies | Total |
|---|---|---|---|---|---|
| **As of 31 December 2016** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 459,873 | 221,959 | 9,688 | 53,996 | 745,516 |
| Obligatory reserve at CBBH | 366,379 | - | - | - | 366,379 |
| Loans and receivables from banks | 50,048 | 121,051 | 95,967 | 15,092 | 282,158 |
| Financial assets available-for-sale | 258,480 | 131,066 | 40,665 | 3,487 | 433,698 |
| Financial assets at fair value through profit or loss | - | 4 | - | - | 4 |
| Loans and receivables from clients | 1,566,747 | 1,216,707 | - | - | 2,783,464 |
| Receivables on financial lease | - | 115,463 | - | - | 115,463 |
| Other assets and receivables | 35,452 | 939 | 28 | 80 | 36,499 |
| Investments in subsidiaries and associates | 633 | - | - | - | 633 |
| | **2,737,612** | **1,807,199** | **146,348** | **72,655** | **4,763,814** |
| **Liabilities** | | | | | |
| Current accounts and deposits in banks | 39,690 | 147,104 | - | - | 186,794 |
| Current accounts and deposits from clients | 1,904,941 | 1,450,943 | 146,273 | 71,734 | 3,573,891 |
| Received deposits-participation of lease users | 765 | - | - | - | 765 |
| Financial liabilities at fair value through profit or loss | - | 2 | - | - | 2 |
| Borrowings and subordinated debt | - | 241,862 | - | - | 241,862 |
| Other liabilities | 78,621 | 19,963 | 957 | 182 | 99,723 |
| | **2,024,017** | **1,859,874** | **147,230** | **71,916** | **4,103,037** |
| | | | | | |
| **Net position** | **713,595** | **(52,675)** | **(882)** | **739** | **660,777** |

# 39. RISK MANAGEMENT (CONTINUED)
## 39.4 Foreign currency risk (continued)

| Bank | BAM | EUR | USD | Other currencies | Total |
|---|---|---|---|---|---|
| **As of 31 December 2016** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 459,873 | 221,958 | 9,688 | 53,996 | 745,515 |
| Obligatory reserve at CBBH | 366,379 | - | - | - | 366,379 |
| Loans and receivables from banks | 50,048 | 121,042 | 95,967 | 15,092 | 282,149 |
| Financial assets available-for-sale | 258,480 | 131,066 | 40,665 | 3,487 | 433,698 |
| Financial assets at fair value through profit or loss | - | 4 | - | - | 4 |
| Loans and receivables from clients | 1,566,747 | 1,215,811 | - | - | 2,782,558 |
| Other assets and receivables | 34,739 | 779 | 28 | 80 | 35,626 |
| Investments in subsidiaries and associates | 460 | - | - | - | 460 |
| **Total assets** | **2,736,726** | **1,690,660** | **146,348** | **72,655** | **4,646,389** |
| **Liabilities** | | | | | |
| Current accounts and deposits in banks | 39,690 | 147,104 | - | - | 186,794 |
| Current accounts and deposits from clients | 1,908,669 | 1,452,274 | 146,273 | 71,734 | 3,578,950 |
| Financial liabilities at fair value through profit or loss | - | 2 | - | - | 2 |
| Borrowings and subordinated debt | - | 103,782 | - | - | 103,782 |
| Other liabilities | 78,485 | 19,963 | 957 | 162 | 99,587 |
| **Total liabilities, equity and reserves** | **2,026,844** | **1,723,125** | **147,230** | **71,916** | **3,969,115** |
| **Net position** | **709,882** | **(32,465)** | **(882)** | **739** | **677,274** |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 39. RISK MANAGEMENT (CONTINUED)

## 39.4 Foreign currency risk (continued)

| Group | BAM | EUR | USD | Other currencies | Total |
|---|---|---|---|---|---|
| **As of 31 December 2016** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 538,125 | 161,463 | 25,921 | 51,227 | 776,736 |
| Obligatory reserve at CBBH | 302,868 | - | - | - | 302,868 |
| Loans and receivables from banks | 41,557 | 9,749 | 85,392 | 15,121 | 151,819 |
| Financial assets available-for-sale | 221,169 | 164,942 | 38,992 | 3,444 | 428,547 |
| Financial assets at fair value through profit or loss | - | 8 | - | - | 8 |
| Loans and receivables from clients | 1,159,658 | 1,458,798 | - | - | 2,618,456 |
| Finance lease receivables | - | 116,894 | - | - | 116,894 |
| Other assets and receivables | 23,550 | 297 | - | 1 | 23,848 |
| Investments in subsidiaries and associates | 460 | - | - | - | 460 |
| | **2,287,387** | **1,912,151** | **150,305** | **69,793** | **4,419,636** |
| **Liabilities** | | | | | |
| Current accounts and deposits in banks | 12,505 | 115,416 | - | - | 127,921 |
| Current accounts and deposits from clients | 1,664,528 | 1,429,613 | 150,902 | 68,645 | 3,313,688 |
| Received deposits-participation of lease users | 553 | - | - | - | 553 |
| Financial liabilities at fair value through profit or loss | - | 6 | - | - | 6 |
| Borrowings and subordinated debt | - | 243,512 | - | - | 243,512 |
| Other liabilities | 61,370 | 11,182 | 617 | 80 | 73,249 |
| | **1,738,956** | **1,799,729** | **151,519** | **68,725** | **3,758,929** |
| **Net position** | **546,431** | **112,422** | **(1,214)** | **1,068** | **660,707** |

# 39. RISK MANAGEMENT (CONTINUED)

## 39.4 Foreign currency risk (continued)

| Bank | BAM | EUR | USD | Other currencies | Total |
|---|---|---|---|---|---|
| **As of 31 December 2016** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 538,125 | 161,462 | 25,921 | 51,227 | 776,735 |
| Obligatory reserve at CBBH | 302,868 | - | - | - | 302,868 |
| Loans and receivables from banks | 41,557 | 9,739 | 85,392 | 15,121 | 151,809 |
| Financial assets available-for-sale | 221,169 | 164,942 | 38,992 | 3,444 | 428,547 |
| Financial assets at fair value through profit or loss | - | 8 | - | - | 8 |
| Loans and receivables from clients | 1,159,658 | 1,457,715 | - | - | 2,617,373 |
| Other assets and receivables | 23,219 | 51 | - | 1 | 23,271 |
| Investments in subsidiaries and associates | 460 | - | - | - | 460 |
| | **2,287,056** | **1,793,917** | **150,305** | **69,793** | **4,301,071** |
| **Liabilities** | | | | | |
| Current accounts and deposits in banks | 12,505 | 115,416 | - | - | 127,921 |
| Current accounts and deposits from clients | 1,666,916 | 1,430,419 | 150,902 | 68,645 | 3,316,882 |
| Financial liabilities at fair value through profit or loss | - | 6 | - | - | 6 |
| Borrowings and subordinated debt | - | 106,864 | - | - | 106,864 |
| Other liabilities | 61,167 | 11,182 | 617 | 80 | 73,046 |
| | **1,740,588** | **1,663,887** | **151,519** | **68,725** | **3,624,719** |
| **Net position** | **546,468** | **130,030** | **(1,214)** | **1,068** | **676,352** |

### 39.4.1 Foreign currency sensitivity analysis

The Group is mainly exposed to EUR and USD. Since currency bond arrangement is in force in Bosnia and Herzegovina, neither Group nor the Bank are exposed to risk of change of EUR exchange rate (fixed exchange rate, Convertible Mark (BAM) is pegged to EUR).

The following table details the sensitivity to a 10% increase or decrease in BAM against USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only receivables and liabilities denominated in foreign currency and adjusts their translation at the period end for a 10% change in USD. A positive number below indicates an increase in profit where BAM strengthens 10% against USD. For a 10% weakening of BAM against USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 39. RISK MANAGEMENT (CONTINUED)

## 39.4 Foreign currency risk (continued)

### 39.4.1 Foreign currency sensitivity analysis (continued)

| | | USD Impact |
|---|---|---|
| **Group** | **31 December 2016** | **31 December 2015** |
| Loss | (88) | (119) |

## 39.5 Interest rate risk

Interest rate risk represents the risk of decrease in asset values caused by adverse interest rate changes. Interest rate changes directly affect the net present value of future cash flows and consequently net interest income.

Interest rate change risk sources are:

- repricing risk resulting from unfavourable changes in the fair value of assets and liabilities in the remaining period until the next interest rate change;
- yield curve risk as the risk of changes in shape and slope of yield curve; and
- basis risk as the risk of different base rates of corresponding asset and liabilities (e.g. EURIBOR vs LIBOR).

### 39.5.1 Interest rate sensitivity analysis

The sensitivity analysis below has been determined through the measurement of risk by calculating the net present value of a change in the value of the portfolio in a scenario where the interest rate changes by 0.01% (1 basis point) with the basis point value (BPV) limit applied as the sensitivity measure according to currencies and time periods. Daily compliance limits are set by UniCredit Group.

**Sensitivity analysis per currency:**

| | Up to 3 months | 3 months to 1 year | 1 to 3 years | 3 to 10 years | Over 10 years | Total |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **31 December 2016** | | | | | | |
| BAM | (6) | (11) | 8 | 72 | - | 63 |
| EUR | (4) | 4 | 45 | 21 | - | 65 |
| USD | - | (2) | 1 | - | - | (1) |
| **Total** | **10** | **18** | **54** | **93** | **-** | **129** |

# 39. RISK MANAGEMENT (CONTINUED)

## 39.5 Interest rate risk (continued)

### 39.5.1 Interest rate sensitivity analysis (continued)

Values in 2016 are presented as absolute values.

**BPV sensitivity analysis for the Bank per currency:**

| | Up to 3 months | 3 months to 1 year | 1 to 3 years | 3 to 10 years | Over 10 years | Total |
|---|---|---|---|---|---|---|
| **Bank** | | | | | | |
| **31 December 2016** | | | | | | |
| BAM | (6) | (11) | 8 | 72 | - | 63 |
| EUR | (5) | 6 | 45 | 21 | - | 67 |
| USD | - | (2) | 1 | - | - | (1) |
| | **11** | **19** | **55** | **93** | **-** | **130** |

Values in 2016 are presented as absolute values.

**Sensitivity analysis per currency:**

| | Up to 3 months | 3 months to 1 year | 1 to 3 years | 3 to 10 years | Over 10 years | Total |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **31 December 2015** | | | | | | |
| BAM | (2) | (15) | (56) | (40) | - | (113) |
| EUR | (4) | (2) | (16) | (71) | (1) | (94) |
| USD | - | 1 | (5) | 1 | - | (3) |
| | **(6)** | **(16)** | **(77)** | **(110)** | **(1)** | **(210)** |

**BPV sensitivity analysis for the Bank per currency:**

| | Up to 3 months | 3 months to 1 year | 1 to 3 years | 3 to 10 years | Over 10 years | Total |
|---|---|---|---|---|---|---|
| **Bank** | | | | | | |
| **31 December 2015** | | | | | | |
| BAM | (2) | (15) | (56) | (40) | - | (113) |
| EUR | (4) | (2) | (15) | (70) | (1) | (93) |
| USD | - | 1 | (5) | 1 | - | (3) |
| | **(6)** | **(16)** | **(76)** | **(109)** | **(1)** | **(209)** |

BPV limits are monitored through an internal model, IMOD, which is also used for the calculation of VaR (developed by the UniCredit Group).

(all amounts are expressed in thousands of KM, unless otherwise stated)

# 39. RISK MANAGEMENT (CONTINUED)

## 39.5 Interest rate risk (continued)

### 39.5.2 Effective interest rates

The table below presents effective interest rates applicable to various balance-sheet categories calculated as the weighted average interest rates for the period:

| | Group | Bank | Bank |
|---|---|---|---|
| | 2016 | 2016 | 2015 |
| | % | % | % |
| Cash and cash equivalents | (0.11) | (0.11) | - |
| Obligatory reserve at CBBH | 0 | 0.00 | - |
| Financial assets available-for-sale | 3.27 | 3.27 | 3.05 |
| Loans and receivables from banks | 0.04 | 0.04 | 0.06 |
| Loans and receivables from clients | 5.9 | 5.90 | 6.27 |
| Finance lease receivables | 5.41 | - | - |
| Current accounts and deposits from banks | 1.03 | 1.03 | 1.41 |
| Current accounts and deposits from clients | 1.01 | 1.01 | 1.23 |
| Received deposits-participation from lease users | - | - | - |
| Interest-bearing borrowings | 2.37 | 2.21 | 2.39 |
| Subordinated debt | - | - | 2.67 |
| Issued debt securities | - | - | - |

## 39.6 Operating risk

The Group is exposed to operating risk in all its activities, and as a consequence of this fact, through an established organizational structure, on a daily basis tends to affect the spread of culture and awareness of the importance of operating risk management.

The Group established an appropriate system for recognising, measuring, grading and monitoring of operating risks, aiming at its optimum management and reduction by using the positive experience of the UniCredit Group regarding operating risks, standards and principles defined by the local regulator and the Basel Committee as well as its own findings based on its own experience in this area.

Operating risk management is inbuilt throughout the entire organisational structure of the Group, through regular strategic management and supervision. In this way the Group has a special focus on continuous analysis and development of solutions to avoid, control and transfer operating risk to third parties.

The Group uses standard procedures within its established operating risk management system, which include gathering information about default events, monitoring key operating risk indicators, assessing operating risk when implementing new products/systems/procedures or before conducting new business activities, scenario analysis and analysis and reporting of the Management and other key management personnel on the Group's exposure to operating risk, which also includes reporting on the results of operating risk management.

# 39. RISK MANAGEMENT (CONTINUED)

## 39.6 Operating risk (continued)

The Group makes decisions on operating risk management both strategically and in everyday working processes. Raising awareness on the operating risks management culture is continuous through employee education and adequate reporting system, and is additionally supported by adequate and efficient implementation of elements of operating risks management in Group's specific policies, processes and procedures.

Operating risk management strategy is created annually, with the aim of preventing operating risk events (expected and unexpected losses), and it is a tool and guideline for mitigating losses from operating risk events.

The central element of the Strategy is the concept of integrated risk management and synergy with business development. By focusing on the assessment of the most significant risks and their prevention and mitigation, we achieved one of the most important stepst toward the most successful implementation of business strategy and goals.

## 39.7 Reputational risk

Reputational risk represent current or future risk that may affect the Group's revenues or equity as a result of unfavorable seeing of the Group's image by the clients, other counterparties, shareholders/investors, regulator or employees (stakeholders).

All the Group's activities are exposed to reputational risk. According to the standards of UniCredit Group, in its daily operating activities, the Group is systematically approaching to the strategy, monitoring and evaluation for each individual case of reputational risk.

The Group recognises the importance of preventing and mitigating actions in reputational risk management.

Responsibility for reputational risk management is distributed through the overall hierarchical structure and continuous rising of awareness on importance of reputational risk is one of the pillars of the risk management.

## 39.8 Capital management

In compliance with laws, regulations and internal acts the Bank monitors and reports quarterly to regulators on its guarantee capital, risk-weighted assets and capital adequacy ratios.

Although not required by the local regulator, the Bank as a member of UniCredit Group also monitors and reports on capital adequacy according to Basel III methodology as required.

Through its management reporting the Bank also regularly monitors capital movements, capital adequacy ratios as well as all changes in methodology which will have an impact on its capital.

During 2016, the Bank has been in compliance with all regulatory capital requirements and according to the local regulations had a capital adequacy ratio of 15.7% as at 31 December 2016.

Net capital for calculating the capital adequacy ratio according to the methodology of FBA consists of:

- core capital – share capital (net of treasury shares, intangible assets, defferred tax assets and negative revaluation reserve on the basis of the effects of changes in the fair value of the assets), share premium, retained earnings and reserves created by retained earnings adopted by the Assembly of the Bank;

# 39. RISK MANAGEMENT (CONTINUED)

## 39.8 Capital management (continued)

- supplement capital – share capital in permanent shares on the basis of cash payments, subordinated debt, positive revaluation reserves from the effects of changes in the fair value of the property, and general reserves for credit losses (ORGK) calculated at prescribed rates by the regulator (see below). ORGK included as Tier 2 capital does not comprise total calculated ORKG. As of 31. December 2016, the Bank included ORKG in the amount of 1.25% of total rik weighted assets in Tier 2 capital pursuant to the Decision on minimum standards for equity management in banks and equity hedge.
- deducting capital items

As explained in Note 4, FBA also requires amounts of reserves for credit losses (RKG) calculated in accordance with FBA rules to be excluded or deducted from capital for capital adequacy assessment purposes, to the extent that those such calculated RKG exceed the total impairment allowances recognised by the Bank in the financial statements.

In accordance with the above requirements, the Bank has excluded from capital an amount of BAM 39,795 thousand. Out of this amount, BAM 20,682 thousand were already recognised as within the equity in the financial statements; the rest of BAM 19,113 thousand was presented as deducting item.

Total weighted risk used for calculation of the capital adequacy includes

- risk-weighted assets and credit equivalents and
- weighted operative risk.

The capital adequacy ratio according to Basel II methodology for 2016 was also significantly above the prescribed limit. The composition of the Bank's net capital and ratios for the years ended 31 December 2016 and 2015 is given in the table below (information on risk-weighted assets is unaudited at the date of issuance of this report).

# 39. RISK MANAGEMENT (CONTINUED)

## 39.8 Capital management (continued)

| | Bank 2016 | Bank 2015 |
|---|---|---|
| **Core capital** | | |
| Ordinary shares | 119,011 | 119,011 |
| Treasury shares | (81) | (81) |
| Share premium | 48,317 | 48,317 |
| Reserve and retained earnings | 376,747 | 316,747 |
| Intangible assets | (13,183) | (13,057) |
| Defferred tax assets | - | (37) |
| Negative revaluation reserves due to effects of fair value changes of assets | (329) | (516) |
| **Total share capital** | **530,482** | **470,384** |
| **Supplement capital** | | |
| ORKG under FBA rules | 44,120 | 53,847 |
| Positive revaluation reserves due to effects of fair value changes of assets | 203 | 143 |
| Preference shares | 184 | 184 |
| Subordinated debt | - | - |
| **Total additional capital** | **44,507** | **54,174** |
| **Deductions from capital** | | |
| Adjustment for shortfall in regulatory reserves per regulatory requirement | (19,113) | (20,800) |
| **Total deductions from capital** | **(19,113)** | **(20,800)** |
| **Net capital** | **555,876** | **503,758** |
| **Risk weighted assets** | | |
| Credit-risk – weighted assets | 3,279,395 | 3,071,952 |
| Other weighted assets | 250,242 | 241,712 |
| **Total risk weighted assets** | **3,529,637** | **3,313,664** |
| **Capital adequacy ratio** | **15.7%** | **15.2%** |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 39. RISK MANAGEMENT (CONTINUED)

## 39.9 Financial leverage rate

The Bank is obligated to ensure and maintain financial leverage rate starting with the position as of 31 December 2016, as an additional security and simple capital hedge, in the amount of at least 6%.

Bank's financial leverage rate for calendar quarter is a simple arithmetic average of the rate of core capital and the amount of total exposure of the bank to the risk with the position as of the last calendar day of the month, presented as percentage.

For the purpose of presenting the Bank's financial leverage rate, exposure and capital values are presented as an average of the last trimester of the year.

| | Average IV quarter 2016 | Average IV quarter 2015 |
|---|---|---|
| **Exposure value** | 5,412,430 | 5,094,501 |
| Active balance positions | 4,628,533 | 4,335,569 |
| Off-balance positions | 783,897 | 758,932 |
| **Financial leverage rate** | **9.8%** | **9.2%** |

# 40. FAIR VALUE MEASUREMENT

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

## 40.1 Fair value of Group's financial assets and financial liabilities that are measured at fair value on a recurring basis, from period to period

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. In addition, the information is given about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

### Group

| 31 December 2016 | | | Fair values |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| **Financial assets available-for-sale (see Note 18)** | | | |
| Listed equity securities in Bosnia and Herzegovina | 214 | - | - |
| Unlisted debt securities in Bosnia and Herzegovina: | | | |
| Bonds of the Government of Federation of BiH | - | 294,958 | - |
| Bonds of the Government of Republika Srpska | - | 74,555 | - |
| Unlisted debt securities in Croatia: | | | |
| Treasury bills of the Government of the Republic of Croatia | - | 3,487 | - |
| Unlisted debt securities in Austria (banking) | - | 60,484 | - |
| | | | |
| **Foreign currency forward contracts (see Note 19)** | | | |
| Assets | - | 3 | 1 |
| Liabilities | - | 2 | - |

*(all amounts are expressed in thousands of KM, unless otherwise stated)*

# 40. FAIR VALUE MEASUREMENT (CONTINUED)

## 40.1 Fair value of Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis, from period to period (continued)

**Bank**

| 31 December 2016 | | | Fair values |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| **Financial assets available-for-sale (see Note 18)** | | | |
| Listed equity securities in Bosnia and Herzegovina | 214 | - | - |
| Unlisted debt securities in Bosnia and Herzegovina: | | | |
| Bonds of the Government of Federation of BiH | - | 294,958 | - |
| Bonds of the Government of republika Srpska | - | 74,555 | - |
| Unlisted debt securities in Croatia: | | | |
| Treasury bills of the Government of Republic of Croatia | - | 3,487 | - |
| Unlisted debt securities in Austria (banking) | - | 60,484 | - |
| | | | |
| **Foreign currency forward contracts (see Note 19)** | | | |
| Assets | - | 3 | 1 |
| Liabilities | - | 2 | - |

### Valuation techniques and key inputs

***Financial assets available-for-sale***

For the securities presented under Level 1 valuation technique is based on quoted bid prices in an active market.

For the securities presented under Level 2 discounted cash flow valuation technique is applied. Instruments that are not quoted in an active market are valued by using the models which include maximum relevant and available inputs and, also, unobservable inputs, but at minimum level. Depending on significance of inputs that are unobservable, debt securities are awarded with Level 2 or Level 3. Valuation is performed based on discounted future cash flows, considering the last available rate on owned or similar debt securities as yield rate.

For the securities presented under Level 3 discounted cash flow valuation technique is applied. Instruments classified in this category depend on factors not available on the market.

### Foreign currency forward contracts

Valuation technique applied for forward contracts presented under Level 2 is discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

There were no transfers between Level 1 and Level 2 during 2016 and 2015.

## 40. FAIR VALUE MEASUREMENT (CONTINUED)

### 40.2 Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis, from period to period (but fair value disclosures are required)

Except as detailed in the following table, the Management consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

| | Group | | Bank | | Bank | |
|---|---|---|---|---|---|---|
| | 31 December 2016 | | 31 December 2016 | | 31 December 2015 | |
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets** | | | | | | |
| Loans and receivables: | | | | | | |
| Loans and receivables from clients | 2,783,464 | 2,967,196 | 2,782,558 | 2,966,290 | 2,617,373 | 2,815,526 |
| Finance lease receivables | 115,463 | 115,463 | - | - | - | - |
| **Financial liabilities** | | | | | | |
| Financial liabilities held at amortised cost: | | | | | | |
| - Current accounts and deposits from clients | 3,578,950 | 3,580,297 | 3,578,950 | 3,580,297 | 3,316,882 | 3,336,849 |
| - Borrowings | 241,862 | 241,216 | 103,782 | 103,136 | 106,864 | 107,254 |

| Group | Fair value hierarchy as at 31 December 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | |
| *Loans and receivables:* | | | | |
| - Loans and receivables from clients | - | 57,949 | 2,909,247 | 2,967,196 |
| - Receivables on financial lease | - | - | 115,463 | 115,463 |
| | **-** | **57,949** | **3,024,710** | **3,082,659** |
| **Financial liabilities** | | | | |
| *Financial liabilities held at amortised cost:* | | | | |
| - Current accounts and deposits from clients | - | 407,914 | 3,172,383 | 3,580,297 |
| - Borrowings | - | 241,216 | - | 241,216 |
| | **-** | **649,130** | **3,172,383** | **3,821,513** |

(all amounts are expressed in thousands of KM, unless otherwise stated)

# 40. FAIR VALUE MEASUREMENT (CONTINUED)

## 40.2 Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis, from period to period (but fair value disclosures are required) (continued)

| Bank | | | Fair value hierarchy as at 31 December 2016 | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | |
| *Loans and receivables:* | | | | |
| - Loans and receivables from clients | - | 57,949 | 2,908,341 | 2,966,290 |
| | **-** | **57,949** | **2,908,341** | **2,966,290** |
| **Financial liabilities** | | | | |
| *Financial liabilities held at amortised cost:* | | | | |
| - Current accounts and deposits from clients | - | 407,914 | 3,172,383 | 3,580,297 |
| - Borrowings | - | 103,136 | - | 103,136 |
| | **-** | **511,050** | **3,172,383** | **3,683,433** |

Assumptions used for estimate and measurement of fair value of particular financial instruments for 2016 are based on requirements of IFRS 13, by applying the methodology developed on UnICredit Group level.

The fair values of the financial assets and financial liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties and the concept of risk neutral "Probability of Default" approach based on market parameters, introduced for determining fair value by restricting dependence on internal parameters. The parameters included in the calculation are market premium and correlation of assets return and the market.

For the purpose of classification of instruments in fair value hierarchy (Level 2 or Level 3), a value limit / materiality of the difference between the fair value of risk-free and full fair value was established. If the determined difference is equal or greater than 2% instrument is classified as Level 3. Accordingly, if the total fair value is not significantly different from the risk-free fair value (less than 2%), the instrument is classified as Level 2.

The table shows the calculations of fair value for performing loans and deposits from clients with fixed and variable interest rates.

Fair value of non-performing loans of clients is equaled to book value.

## 40.3 Reconciliation of Level 3 fair value measurements

Fair value of unlisted equity securities in Bosnia and Herzegovina, which do not have the price on the active market cannot be reliably measured. Therefore, they are measured at cost, as they have no material impact on the Bank's financial statements.

# 41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on the pages 38 to 135 were approved by the Management Board on 15 February 2017 for the submission to the Supervisory Board:

**Director**
Dalibor Ćubela

**Chief Financial Officer**
Viliam Pätoprstý

# 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.

# The financial statements presented in the form prescribed by the regulations on the content and form of financial statements for banks and financial institutions

These financial statements include Balance Sheet (statement of financial position as at 31.12.2016) and Profit and Loss for UniCredit Bank d.d. and Group UniCredit Bank d.d in the form that is prescribed by the Regulations on the content and form of financial statements for banks and financial institutions (Official Gazette of FBIH 82/10) and Income Statement (statement on the overall result for the period from 01.01. to 31.12.2016).

**BALANCE SHEET (Statement of financial position as at 31 December 2016)** in BAM

| ITEM | Code for AOP | | | Current year | | | Previous year (initial balance) |
|---|---|---|---|---|---|---|---|
| | | | | Gross | Impairment value | Net ( 3-4) | |
| 1 | 2 | | | 3 | 4 | 5 | 6 |
| **Assets<br>A. CURRENT ASSETS AND RECEIVABLES (002+008+011+014+018 +022+030+031+032+033+034)** | **0** | **0** | **1** | **4.984.430.059** | **317.578.571** | **4.666.851.488** | **4.327.647.807** |
| 1. Cash and cash equivalents,gold and receivables from business (003 to 007) | 0 | 0 | 2 | 800.132.139 | 9.856.468 | 790.275.671 | 814.466.459 |
| a) Cash and cash equivalents in domestic currency | 0 | 0 | 3 | 460.209.964 | 4.377.870 | 455.832.094 | 534.100.657 |
| b) Other receivables in domestic currency | 0 | 0 | 4 | 49.111.800 | 5.237.981 | 43.873.819 | 37.213.047 |
| c) Cash and cash equivalents in foreign currency | 0 | 0 | 5 | 289.682.490 | 0 | 289.682.490 | 242.634.025 |
| d) Gold and other precious metals | 0 | 0 | 6 | 36.541 | 0 | 36.541 | 36.541 |
| e) Other receivables in foreign currency | 0 | 0 | 7 | 1.091.344 | 240.617 | 850.727 | 482.189 |
| 2. Deposits and loans in local and foreign currency (009 + 010) | 0 | 0 | 8 | 366.379.032 | 0 | 366.379.032 | 302.868.417 |
| a) Deposits and loans in domestic currency | 0 | 0 | 9 | 366.379.032 | 0 | 366.379.032 | 302.868.417 |
| b) Deposits and loans in foreign currency | 0 | 1 | 0 | 0 | 0 | 0 | 0 |
| 3. Fee and interest receivables,receivables based on sale and other receivables (012 + 013) | 0 | 1 | 1 | 7.564.608 | 6.528.155 | 1.036.453 | 1.081.382 |
| a) Fee and interest receivables,receivables based on sale and other receivables in local currency | 0 | 1 | 2 | 7.318.542 | 6.283.016 | 1.035.526 | 1.079.307 |
| b) Fee and interest receivables,receivables based on sale and other receivables in foreign currency | 0 | 1 | 3 | 246.066 | 245.139 | 927 | 2.075 |
| 4. Loans and deposits (015 to 017) | 0 | 1 | 4 | 2.618.486.028 | 77.447.521 | 2.541.038.507 | 2.296.359.532 |
| a) Loans and deposits in local currency | 0 | 1 | 5 | 1.436.981.072 | 32.635.815 | 1.404.345.257 | 1.060.359.727 |
| b) Loans and deposits with hedge local currency currency | 0 | 1 | 6 | 941.661.936 | 41.507.378 | 900.154.558 | 1.118.815.331 |
| c) Loans and deposits in foreign currency | 0 | 1 | 7 | 239.843.020 | 3.304.328 | 236.538.692 | 117.184.474 |
| 5. Securities (019 to 021) | 0 | 1 | 8 | 431.107.168 | 23.686 | 431.083.482 | 425.476.630 |
| a) Securities in local currency | 0 | 1 | 9 | 257.716.314 | 23.686 | 257.692.628 | 218.591.820 |
| b) Securities with hedge local currency | 0 | 2 | 0 | 109.715.137 | 0 | 109.715.137 | 115.583.219 |
| c) Securities in foreign currency | 0 | 2 | 1 | 63.675.717 | 0 | 63.675.717 | 91.301.591 |
| 6. Other placements and prepayments (023 to 029) | 0 | 2 | 2 | 758.463.856 | 223.362.053 | 535.101.803 | 485.105.304 |
| a) Other placements in local currency | 0 | 2 | 3 | 2.398.941 | 2.398.941 | 0 | 0 |
| b) Other placements with hedge local currency | 0 | 2 | 4 | 0 | 0 | 0 | 0 |
| c) Due placements and current maturities of long-term placements in local currency | 0 | 2 | 5 | 714.217.001 | 204.281.078 | 509.935.923 | 458.603.743 |
| d) Prepayments in local currency | 0 | 2 | 6 | 14.644.792 | 339.029 | 14.305.763 | 14.704.523 |

# The financial statements presented in the form prescribed by the regulations on the content and form of financial statements for banks and financial institutions (Continued)

**BALANCE SHEET (Statement of financial position as at 31 December 2016) (CONTINUED)** **in BAM**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| e) Other placements in foreign currency | 0 | 2 | 7 | 11.348.379 | 7.852.438 | 3.495.941 | 3.936.915 |
| f) Due placements and current maturities of long-term placements in foreign currency | 0 | 2 | 8 | 13.870.724 | 8.484.013 | 5.386.711 | 5.373.409 |
| g) Prepayments in foreign currency | 0 | 2 | 9 | 1.984.019 | 6.554 | 1.977.465 | 2.486.714 |
| 7. Inventories | 0 | 3 | 0 | 2.297.228 | 360.688 | 1.936.540 | 2.290.083 |
| 8. Fixed available for sale assets | 0 | 3 | 1 | 0 | 0 | 0 | 0 |
| 9. Assets of discontinued operations | 0 | 3 | 2 | 0 | 0 | 0 | 0 |
| 10. Other assets | 0 | 3 | 3 | 0 | 0 | 0 | 0 |
| 11. Value added tax prepayment | 0 | 3 | 4 | 0 | 0 | 0 | 0 |
| **B. FIXED ASSETS (036+041)** | **0** | **3** | **5** | **213.989.437** | **149.886.390** | **64.103.047** | **63.845.161** |
| 1. Tangible assets and investment in property (037 to 040) | 0 | 3 | 6 | 157.754.554 | 106.834.135 | 50.920.419 | 50.788.172 |
| a) Tangible assets owned by the bank | 0 | 3 | 7 | 130.077.956 | 84.865.208 | 45.212.748 | 46.107.787 |
| b) Investment in property | 0 | 3 | 8 | 23.836.286 | 21.968.927 | 1.867.359 | 1.974.077 |
| c) Fixed assets acquired under financial lease | 0 | 3 | 9 | 0 | 0 | 0 | 0 |
| d) Advances and acquired but not brought into use | 0 | 4 | 0 | 3.840.312 | 0 | 3.840.312 | 2.706.308 |
| 2. Intangible assets (042 to 046) | 0 | 4 | 1 | 56.234.883 | 43.052.255 | 13.182.628 | 13.056.989 |
| a) Goodwill | 0 | 4 | 2 | 0 | 0 | 0 | 0 |
| b) Investment in development | 0 | 4 | 3 | 0 | 0 | 0 | 0 |
| c) Intangible assets under financial lease | 0 | 4 | 4 | 0 | 0 | 0 | 0 |
| d) Other intangible assets | 0 | 4 | 5 | 48.898.514 | 43.052.255 | 5.846.259 | 7.070.103 |
| e) Advances and assets acquired but not brought into use | 0 | 4 | 6 | 7.336.369 | 0 | 7.336.369 | 5.986.886 |
| **C. DEFFERED TAX ASSETS** | **0** | **4** | **7** | **32.915** | **0** | **32.915** | **37.143** |
| **D. OPERATING ASSETS (001+035+047)** | **0** | **4** | **8** | **5.198.452.411** | **467.464.961** | **4.730.987.450** | **4.391.530.111** |
| **E. OFF BALANCE SHEET ASSETS** | **0** | **4** | **9** | **841.929.387** | **0** | **841.929.387** | **865.074.751** |
| **F. TOTAL ASSETS (048+049)** | **0** | **5** | **0** | **6.040.381.798** | **467.464.961** | **5.572.916.837** | **5.256.604.862** |

| ITEM<br>1 | Code for AOP | | | Current year<br>3 | Previous year (initial balance)<br>4 |
|---|---|---|---|---|---|
| **A. LIABILITIES (102+106+109+113)** | **1** | **0** | **1** | **4.019.759.016** | **3.672.088.914** |
| 1. Deposits and borrowings (103 to 105) | 1 | 0 | 2 | 3.776.088.429 | 3.513.161.622 |
| a) Deposits and interest-bearing borrowings in domestic currency | 1 | 0 | 3 | 1.941.832.259 | 1.672.432.388 |
| b) Hedging deposits and borrowings | 1 | 0 | 4 | 74.656.594 | 101.768.784 |
| c) Deposits and interest-bearing borrowings in foreign currency | 1 | 0 | 5 | 1.759.599.576 | 1.738.960.450 |
| 2. Interests and fees (107+108) | 1 | 0 | 6 | 15.096 | 24.133 |
| a) Interests and fees in domestic currency | 1 | 0 | 7 | 15.095 | 16.339 |
| b) Interests and fees in foreign currency | 1 | 0 | 8 | 1 | 7.794 |
| 3. Securities (110 to 112) | 1 | 0 | 9 | 0 | 0 |

**BALANCE SHEET (Statement of financial positionas at 31 December 2016) (CONTINUED)** **in BAM**

| | | | | | |
|---|---|---|---|---|---|
| a) Securities in domestic currency | 1 | 1 | 0 | 0 | 0 |
| b) Hedging securities i domestic currency | 1 | 1 | 1 | 0 | 0 |
| c) Securities in foreign currency | 1 | 1 | 2 | 0 | 0 |
| 4. Other liabilities and accruals (114 to 124) | 1 | 1 | 3 | 243.655.491 | 158.903.159 |
| a) Salaries and fees | 1 | 1 | 4 | 2.328.338 | 2.221.172 |
| b) Other liabilities in domestic currency , excluding liabilities for tax and contributions | 1 | 1 | 5 | 76.143.185 | 62.248.394 |
| c) Tax and contributions ,excluding current and deffered income tax | 1 | 1 | 6 | 2.649.470 | 1.724.605 |
| d) Current tax liability | 1 | 1 | 7 | 10.989.938 | 9.645.941 |
| e) Deffered tax liability | 1 | 1 | 8 | 1.162.375 | 1.338.503 |
| f) Provisions | 1 | 1 | 9 | 24.824.561 | 19.698.688 |
| g) Accruals in domestic currency | 1 | 2 | 0 | 12.592.930 | 13.563.534 |
| h) Commission operations,AFS assets,discontinued operation assets,subordinated debt liabilities and current liabilities | 1 | 2 | 1 | 4.569.812 | 4.215.091 |
| i) Other liabilities in foreign currency | 1 | 2 | 2 | 21.101.087 | 12.175.162 |
| j) Accruals in foreign currency | 1 | 2 | 3 | 17.689.218 | 20.962.571 |
| k) Commission operations, due and subordinated liabilities and current maturities in goreign currency | 1 | 2 | 4 | 69.604.577 | 11.109.498 |
| **B. EQUITY (126+132+138+142-148)** | **1** | **2** | **5** | **711.228.434** | **719.441.197** |
| 1. Issued share capital (127+128+129-130-131) | 1 | 2 | 6 | 167.283.583 | 167.283.583 |
| a) Share capital | 1 | 2 | 7 | 119.195.000 | 119.195.000 |
| b) Other forms of capital | 1 | 2 | 8 | 0 | 0 |
| c) Share premium | 1 | 2 | 9 | 48.317.277 | 48.317.277 |
| d) Registered but uncontributed capital | 1 | 3 | 0 | 0 | 0 |
| e) Repurchase of own shares | 1 | 3 | 1 | 228.694 | 228.694 |
| 2. Reserves (133 to 137) | 1 | 3 | 2 | 397.576.169 | 337.576.168 |
| a) Reserves from profit | 1 | 3 | 3 | 376.894.480 | 316.894.479 |
| b) Other provisions | 1 | 3 | 4 | 0 | 0 |
| c) Provision for losses | 1 | 3 | 5 | 20.681.689 | 20.681.689 |
| d) General banking risk provisions | 1 | 3 | 6 | 0 | 0 |
| e) Transferred reserves (foreign exchange) | 1 | 3 | 7 | 0 | 0 |
| 3. Revaluation reserve (139 to 141) | 1 | 3 | 8 | -72.923 | -334.283 |
| a) Revaluation reserve based on change in value of fixed assets and intangible investments | 1 | 3 | 9 | 0 | 0 |
| b) Revaluation reserve based on change in value of securities | 1 | 4 | 0 | -90.654 | -334.283 |
| c) Other revaluation resererves | 1 | 4 | 1 | 17.731 | 0 |
| 4. Profit (143 to 147) | 1 | 4 | 2 | 146.441.605 | 214.915.729 |
| a) Profit for the year | 1 | 4 | 3 | 81.527.007 | 79.584.161 |
| b) Unallocated profit from prior years | 1 | 4 | 4 | 64.914.598 | 135.331.568 |

# The financial statements presented in the form prescribed by the regulations on the content and form of financial statements for banks and financial institutions (Continued)

**BALANCE SHEET (Statement of financial positionas at 31 December 2016) (CONTINUED)** **in BAM**

| | | | | | |
|---|---|---|---|---|---|
| c) Surplus of income over expenses for the period | 1 | 4 | 5 | 0 | 0 |
| d) Unallocated surplus of income over expenses for previous years | 1 | 4 | 6 | 0 | 0 |
| e) Retained earnings | 1 | 4 | 7 | 0 | 0 |
| 5. Loss (149+150) | 1 | 4 | 8 | 0 | 0 |
| a) Loss for the period | 1 | 4 | 9 | 0 | 0 |
| b) Loss from previous years | 1 | 5 | 0 | 0 | 0 |
| **C. LIABILITIES (101+125)** | **1** | **5** | **1** | **4.730.987.450** | **4.391.530.111** |
| **D. OFF BALANCE SHEET LIABILITIES** | **1** | **5** | **2** | **841.929.387** | **865.074.751** |
| **E. TOTAL LIABILITIES (151+152)** | **1** | **5** | **3** | **5.572.916.837** | **5.256.604.862** |

BALANCE SHEET (Statement of financial result as at 31 December 2016) | in BAM

| ITEM | Code for AOP | VALUE | |
|---|---|---|---|
| | | Current year | Prior year |
| 1 | 2 | 3 | 4 |
| **A. OPERATING INCOME AND EXPENSES 1. Interest income** | **2 0 1** | **192.746.292** | **189.450.448** |
| 2. Interest expense | 2 0 2 | 33.125.448 | 37.077.956 |
| Net interest income (201-202) | 2 0 3 | 159.620.844 | 152.372.492 |
| Net interest expense (202-201) | 2 0 4 | 0 | 0 |
| 3. Fee and commissions income | 2 0 5 | 85.708.885 | 79.961.089 |
| 4. Fee and commissions expense | 2 0 6 | 15.003.262 | 12.557.799 |
| Net fee and commission income (205-206) | 2 0 7 | 70.705.623 | 67.403.290 |
| Net fee and commission expense (206-205) | 2 0 8 | 0 | 0 |
| 5.Gains from sale of securities and shares (210 to 213) | 2 0 9 | 0 | 1.475 |
| a) Gains from sale of securities at fair value through profit and loss | 2 1 0 | 0 | 0 |
| b) Gains from sale of available for sale securities | 2 1 1 | 0 | 0 |
| c) Gains from sale of securities held to maturity | 2 1 2 | 0 | 0 |
| d) Gains from sale of participation (share) | 2 1 3 | 0 | 1.475 |
| 6. Losses from sale of securities and shares (215 to 218) | 2 1 4 | 0 | 0 |
| a) Losses from sale of securities at fair value through profit and loss | 2 1 5 | 0 | 0 |
| b) Losses from sale of available for sale securities | 2 1 6 | 0 | 0 |
| c) Losses from sale of securities held to maturity | 2 1 7 | 0 | 0 |
| d) Losses from sale of participation (share) | 2 1 8 | 0 | 0 |
| Net gains from sale of securities and shares (209-214) | 2 1 9 | 0 | 1.475 |
| Net losses from sale of securities and shares (214-209) | 2 2 0 | 0 | 0 |
| OPERATING PROFIT (201+205+209-202-206-214) | 2 2 1 | 230.326.467 | 219.777.257 |
| OPERATING EXPENSE (202+206+214-201-205-209) | 2 2 2 | 0 | 0 |
| **B. OTHER OPERATING INCOME AND EXPENSE 1. Operating income (224+225)** | **2 2 3** | **0** | **0** |
| a) Income from leasing activities | 2 2 4 | 0 | 0 |
| b) Other operating income | 2 2 5 | 0 | 0 |
| 2. Operating expense (227 to 236) | 2 2 6 | 117.546.344 | 115.936.167 |
| a) Expenses of gross salaries and contribution expense | 2 2 7 | 46.448.123 | 46.338.371 |
| b) Expenses of fees for temporary and occasional work contracts | 2 2 8 | 140.270 | 242.566 |
| c) Other personnel expenses | 2 2 9 | 3.595.209 | 3.429.205 |
| d) Material expenses | 2 3 0 | 4.423.527 | 3.778.179 |
| e) Production services expenses | 2 3 1 | 28.115.581 | 27.645.648 |
| f) Depreciation expenses | 2 3 2 | 10.002.390 | 9.677.353 |
| g) Expenses from leasing activities | 2 3 3 | 0 | 0 |
| h) Non-material expenses (excluding taxes and contributions) | 2 3 4 | 23.038.299 | 23.203.289 |

# The financial statements presented in the form prescribed by the regulations on the content and form of financial statements for banks and financial institutions (Continued)

**BALANCE SHEET (Statement of financial result as at 31 December 2016 (CONTINUED)** in BAM

| | | | | | |
|---|---|---|---|---|---|
| i) Tax and contributions expenses | 2 | 3 | 5 | 1.782.945 | 1.621.556 |
| j) Other expenses | 2 | 3 | 6 | 0 | 0 |
| OTHER OPERATING PROFIT (223-226) | 2 | 3 | 7 | 0 | 0 |
| OTHER OPERATING EXPENSE (226-223) | 2 | 3 | 8 | 117.546.344 | 115.936.167 |
| **C) GAIN AND LOSS ON PROVISIONS**<br>**1. Bad debts recovered (240 to 243)** | **2** | **3** | **9** | **156.793.437** | **154.739.087** |
| a) Income from recovered provisions for placements | 2 | 4 | 0 | 126.705.994 | 128.342.297 |
| b) Income from recovered provisions for off-balance sheet items | 2 | 4 | 1 | 29.789.118 | 25.381.673 |
| c) Income from recovered provision for liabilities | 2 | 4 | 2 | 298.325 | 1.015.117 |
| d) Income from other provisions recovered | 2 | 4 | 3 | 0 | 0 |
| 2. Provision charges (245 to 248) | 2 | 4 | 4 | 180.338.971 | 169.789.632 |
| a) Provisions charges for placements | 2 | 4 | 5 | 144.741.490 | 139.980.966 |
| b) Provision charges for off-balance sheet items | 2 | 4 | 6 | 34.251.844 | 27.154.524 |
| c) Charges based on provisions for liabilities | 2 | 4 | 7 | 907.605 | 1.945.003 |
| d) Other provision charges | 2 | 4 | 8 | 438.032 | 709.139 |
| PROVISIONS INCOME (239-244) | 2 | 4 | 9 | 0 | 0 |
| PROVISION CHARGES (244-239) | 2 | 5 | 0 | 23.545.534 | 15.050.545 |
| **D. OTHER INCOME AND EXPENSES**<br>**1. Other income (252 to 258)** | **2** | **5** | **1** | **2.390.342** | **1.493.313** |
| a) Income from bad debts previously written off | 2 | 5 | 2 | 55.350 | 226 |
| b) Losses from sales of fixed assets, and intangible investments | 2 | 5 | 3 | 976.744 | 224.822 |
| c) Income from reduction in liabilities | 2 | 5 | 4 | 0 | 0 |
| d) Income from dividends and shares | 2 | 5 | 5 | 12.138 | 12.435 |
| e) Surplus | 2 | 5 | 6 | 63.024 | 42.402 |
| f) Other income | 2 | 5 | 7 | 1.283.086 | 1.213.428 |
| g) Gains grom discounted operations | 2 | 5 | 8 | 0 | 0 |
| 2. Other expense (260 to 266) | 2 | 5 | 9 | 699.531 | 560.426 |
| a) Expense from bad debts written off | 2 | 6 | 0 | 0 | 0 |
| b) Losses from depreciation and fixed assets write off, and intangible assets | 2 | 6 | 1 | 0 | 0 |
| c) Losses from disposals and write-offs of fixed and intangible assets | 2 | 6 | 2 | 61.607 | 49.419 |
| d) Shortfalls | 2 | 6 | 3 | 27.042 | 10.000 |
| e) Inventorywrite-offs | 2 | 6 | 4 | 0 | 0 |
| f) Other expenses | 2 | 6 | 5 | 610.882 | 501.007 |
| g) Expenses from discontinued operations | 2 | 6 | 6 | 0 | 0 |
| GAIN FROM OTHER INCOME AND EXPENSES (251-259) | 2 | 6 | 7 | 1.690.811 | 932.887 |
| LOSS FROM OTHER INCOME AND EXPENSES (259-251) | 2 | 6 | 8 | 0 | 0 |
| OPERATING GAIN (221+237+249+267-222-238-250-268) | 2 | 6 | 9 | 90.925.400 | 89.723.432 |
| OPERATING LOSS (222+238+250+268-221-237-249-267) | 2 | 7 | 0 | 0 | 0 |
| **E. INCOME AND EXPENSES FROM CHANGE IN VALUE OFF ASSETS AND LIABILITIES**<br>**1. Income from changes in value of assets and liabilities (272 to 276)** | **2** | **7** | **1** | **183.680.965** | **260.321.334** |

**BALANCE SHEET (Statement of financial result as at 31 December 2016 (CONTINUED)**

in BAM

| | | | | | |
|---|---|---|---|---|---|
| a) Income based on change in value of placements and receivables | 2 | 7 | 2 | 0 | 0 |
| b) Income based on change in value securities | 2 | 7 | 3 | 0 | 0 |
| c) Income based on change in value of liabilities | 2 | 7 | 4 | 0 | 0 |
| d) Income based on change in value of fixed assets, investment real estate and intangible investments | 2 | 7 | 5 | 0 | 0 |
| e) Income from positive foreign exchange differences | 2 | 7 | 6 | 183.680.965 | 260.321.334 |
| 2. Expenses from change in value of assets and liabilities (278 to 282) | 2 | 7 | 7 | 182.290.363 | 260.873.704 |
| a) Expenses from change in value of placements and receivables | 2 | 7 | 8 | 0 | 0 |
| b) Expenses from change in value of securities | 2 | 7 | 9 | 0 | 0 |
| c) Expenses from change in value of liabilities | 2 | 8 | 0 | 0 | 0 |
| d) Expenses from change in value of fixed assets, investment real estate and intangible investments | 2 | 8 | 1 | 428.351 | 1.339.622 |
| e) Expenses from unfavorable foreign exchange differences | 2 | 8 | 2 | 181.862.012 | 259.534.082 |
| PROFIT ARISING FROM THE CHANGE IN VALUE OF ASSETS AND LIABILITIES (271-277) | 2 | 8 | 3 | 1.390.602 | 0 |
| LOSS FROM CHANGE IN VALUE OF ASSETS AND LIABILITIES (277-271) | 2 | 8 | 4 | 0 | 552.370 |
| PROFIT BEFORE TAX (269+283-270-284)) | 2 | 8 | 5 | 92.316.002 | 89.171.062 |
| LOSS BEFORE TAX (270+284-269-283) | 2 | 8 | 6 | 0 | 0 |
| **F. CURRENT AND DEFFERED INCOME TAX 1. Income tax** | **2** | **8** | **7** | **10.989.936** | **9.645.939** |
| 2. Profit from increase of deffered tax assets and decrease of deffered tax liabilities | 2 | 8 | 8 | 200.941 | 59.038 |
| 3. Loss from decrease of deffered tax assets and increase of deffered tax liabilities | 2 | 8 | 9 | 0 | 0 |
| PROFIT AFTER TAX (285+288-287-289) ili (288-286-287-289) | 2 | 9 | 0 | 81.527.007 | 79.584.161 |
| LOSS AFTER TAX (286+287+289-288) ili (287+289-285-288) | 2 | 9 | 1 | | 0 |
| **G. OTHER PROFIT AND LOSSES FOR THE PERIOD 1. Capital gains (293 to 298)** | **2** | **9** | **2** | **288.627** | **0** |
| a) Income from decrease of revalorisation reserves in fixed assets and intangible investments | 2 | 9 | 3 | 0 | 0 |
| b) Income from change of fair value of securities available for sale | 2 | 9 | 4 | 270.896 | 0 |
| c) Income from transferring financial reports of foreign operations | 2 | 9 | 5 | 0 | 0 |
| d) Actuarial income from defined income scheme | 2 | 9 | 6 | 17.731 | 0 |
| e) Effective part of income based on cash flow hedging | 2 | 9 | 7 | 0 | 0 |
| f) Other capital gains | 2 | 9 | 8 | 0 | 0 |
| 2. Capital losses (300 to 304) | 2 | 9 | 9 | 0 | 240.862 |
| a) Losses from change in fair value of securities available for sale | 3 | 0 | 0 | 0 | 240.862 |

# The financial statements presented in the form prescribed by the regulations on the content and form of financial statements for banks and financial institutions (Continued)

| | | | | | |
|---|---|---|---|---|---|
| b) Losses from transferring financial reports of foreign operations | 3 | 0 | 1 | 0 | 0 |
| c) Actuarial loss from defined income scheme | 3 | 0 | 2 | 0 | 0 |
| d) Effective part of loss from cash flow hedging | 3 | 0 | 3 | 0 | 0 |
| e) Other capital gains | 3 | 0 | 4 | 0 | 0 |
| NET GAIN/ LOSSES TOTAL RESULT FOR THE PERIOD (292-299) or (299-292) | 3 | 0 | 5 | 288.627 | -240.862 |
| **H. INCOME TAX RELATING TO OTHER TOTAL RESULT FOR THE PERIOD** | **3** | **0** | **6** | **-27.267** | **24.086** |
| OTHER TOTAL RESULT FOR THE PERIOD (305±306) | 3 | 0 | 7 | 261.360 | -216.776 |
| TOTAL NET PROFIT FOR THE YEAR (290±307) | 3 | 0 | 8 | 81.788.367 | 79.367.385 |
| TOTAL NET LOSS FOR THE PERIOD (291±307) | 3 | 0 | 9 | 0 | 0 |
| Part od profit/loss attributable to majority shareholders | 3 | 1 | 0 | 0 | 0 |
| Part od profit/loss attributable to minority shareholders | 3 | 1 | 1 | 0 | 0 |
| Basic earnings per share | 3 | 1 | 2 | 685 | 668 |
| Diluted earings per share | 3 | 1 | 3 | 685 | 668 |
| Average number of employees based on hours worked | 3 | 1 | 4 | 1.223 | 1.220 |
| Average number of employees based on periods end | 3 | 1 | 5 | 1.221 | 1.224 |

Consolidated Balance Sheet Statement of financial position as at 31 December 2016

in BAM

| ITEM | Code for AOP | Current year | | | Previous year (initial balance) |
|---|---|---|---|---|---|
| | | Gross | Impairment valu | Net ( 3-4) | |
| 1 | 2 | 3 | 4 | 5 | 6 |
| **Assets**<br>**A. CURRENT ASSETS AND RECEIVABLES (002+008+011+014+018+022+030+031+032+033+034)** | **0 0 1** | **5.141.079.950** | **341.402.451** | **4.799.677.499** | **4.461.361.653** |
| 1. Cash and cash equivalents,gold and receivables from business (003 to 007) | 0 0 2 | 800.133.231 | 9.856.468 | 790.276.762 | 814.535.914 |
| a) Cash and cash equivalents in domestic currency | 0 0 3 | 460.210.154 | 4.377.870 | 455.832.283 | 534.100.996 |
| b) Other receivables in domestic currency | 0 0 4 | 49.111.800 | 5.237.981 | 43.873.819 | 37.281.262 |
| c) Cash and cash equivalents in foreign currency | 0 0 5 | 289.683.392 | 0 | 289.683.392 | 242.634.926 |
| d) Gold and other precious metals | 0 0 6 | 36.541 | 0 | 36.541 | 36.541 |
| e) Other receivables in foreign currency | 0 0 7 | 1.091.344 | 240.617 | 850.727 | 482.189 |
| 2. Deposits and loans in local and foreign currency (009 + 010) | 0 0 8 | 366.379.032 | 0 | 366.379.032 | 302.868.417 |
| a) Deposits and loans in domestic currency | 0 0 9 | 366.379.032 | 0 | 366.379.032 | 302.868.417 |
| b) Deposits and loans in foreign currency | 0 1 0 | 0 | 0 | 0 | 0 |
| 3. Fee and interest receivables,receivables based on sale and other receivables (012 + 013) | 0 1 1 | 8.600.584 | 6.645.848 | 1.954.736 | 1.833.730 |
| a) Fee and interest receivables,receivables based on sale and other receivables in local currency | 0 1 2 | 7.502.488 | 6.400.709 | 1.101.779 | 1.831.656 |
| b) Fee and interest receivables,receivables based on sale and other receivables in foreign currency | 0 1 3 | 1.098.096 | 245.139 | 852.957 | 2.074 |
| 4. Loans and deposits (015 to 017) | 0 1 4 | 2.619.345.101 | 77.568.472 | 2.541.776.629 | 2.297.484.842 |
| a) Loans and deposits in local currency | 0 1 5 | 1.436.981.072 | 32.635.815 | 1.404.345.257 | 1.060.359.727 |
| b) Loans and deposits with hedge local currency currency | 0 1 6 | 942.521.010 | 41.628.330 | 900.892.680 | 1.119.940.641 |
| c) Loans and deposits in foreign currency | 0 1 7 | 239.843.020 | 3.304.328 | 236.538.692 | 117.184.474 |
| 5. Securities (019 to 021) | 0 1 8 | 431.280.325 | 23.685 | 431.256.641 | 425.476.630 |
| a) Securities in local currency | 0 1 9 | 257.889.471 | 23.685 | 257.865.785 | 218.591.820 |
| b) Securities with hedge local currency | 0 2 0 | 109.715.137 | 0 | 109.715.137 | 115.583.219 |
| c) Securities in foreign currency | 0 2 1 | 63.675.717 | 0 | 63.675.717 | 91.301.591 |

# The financial statements presented in the form prescribed by the regulations on the content and form of financial statements for banks and financial institutions (Continued)

**Consolidated Balance Sheet Statement of financial position as at 31 December 2016 (CONTNUED)** in BAM

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 6. Other placements and prepayments (023 to 029) | 0 | 2 | 2 | 898.888.601 | 241.902.572 | 656.986.029 | 605.830.891 |
| a) Other placements in local currency | 0 | 2 | 3 | 2.398.941 | 2.398.941 | 0 | 0 |
| b) Other placements with hedge local currency | 0 | 2 | 4 | 93.915.801 | 12.406.911 | 81.508.890 | 83.189.645 |
| c) Due placements and current maturities of long-term placements in local currency | 0 | 2 | 5 | 760.461.332 | 210.414.686 | 550.046.646 | 495.888.797 |
| d) Prepayments in local currency | 0 | 2 | 6 | 14.909.404 | 339.028 | 14.570.376 | 14.955.411 |
| e) Other placements in foreign currency | 0 | 2 | 7 | 11.348.379 | 7.852.438 | 3.495.941 | 3.936.915 |
| f) Due placements and current maturities of long-term placements in foreign currency | 0 | 2 | 8 | 13.870.724 | 8.484.013 | 5.386.711 | 5.373.409 |
| g) Prepayments in foreign currency | 0 | 2 | 9 | 1.984.019 | 6.554 | 1.977.465 | 2.486.714 |
| 7. Inventories | 0 | 3 | 0 | 16.389.771 | 5.405.405 | 10.984.366 | 13.287.446 |
| 8. Fixed available for sale assets | 0 | 3 | 1 | 0 | 0 | 0 | 0 |
| 9. Assets of discontinued operations | 0 | 3 | 2 | 0 | 0 | 0 | 0 |
| 10. Other assets | 0 | 3 | 3 | 0 | 0 | 0 | 0 |
| 11. Value added tax prepayment | 0 | 3 | 4 | 63.306 | 0 | 63.306 | 43.783 |
| **B. FIXED ASSETS (036+041)** | **0** | **3** | **5** | **228.822.695** | **156.162.918** | **72.659.777** | **74.089.555** |
| 1. Tangible assets and investment in property (037 to 040) | 0 | 3 | 6 | 172.342.784 | 112.975.652 | 59.367.132 | 60.898.240 |
| a) Tangible assets owned by the bank | 0 | 3 | 7 | 138.616.438 | 87.548.531 | 51.067.907 | 54.346.397 |
| b) Investment in property | 0 | 3 | 8 | 29.886.034 | 25.427.121 | 4.458.913 | 3.845.535 |
| c) Fixed assets acquired under financial lease | 0 | 3 | 9 | 0 | 0 | 0 | 0 |
| d) Advances and acquired but not brought into use | 0 | 4 | 0 | 3.840.312 | 0 | 3.840.312 | 2.706.308 |
| 2. Intangible assets (042 to 046) | 0 | 4 | 1 | 56.479.911 | 43.187.266 | 13.292.645 | 13.191.315 |
| a) Goodwill | 0 | 4 | 2 | 0 | 0 | 0 | 0 |
| b) Investment in development | 0 | 4 | 3 | 0 | 0 | 0 | 0 |
| c) Intangible assets under financial lease | 0 | 4 | 4 | 0 | 0 | 0 | 0 |
| d) Other intangible assets | 0 | 4 | 5 | 49.143.542 | 43.187.266 | 5.956.276 | 7.204.429 |
| e) Advances and assets acquired but not brought into use | 0 | 4 | 6 | 7.336.369 | 0 | 7.336.369 | 5.986.886 |

Consolidated Balance Sheet Statement of financial position as at 31 December 2016 (CONTNUED) in BAM

| | | | | | | |
|---|---|---|---|---|---|---|
| **C. DEFFERED TAX ASSETS** | **0 4 7** | **32.915** | **0** | **32.915** | **37.143** |
| **D. OPERATING ASSETS (001+035+047)** | **0 4 8** | **5.369.935.560** | **497.565.369** | **4.872.370.192** | **4.535.488.351** |
| **E. OFF BALANCE SHEET ASSETS** | **0 4 9** | **876.214.448** | **0** | **876.214.448** | **886.504.118** |
| **F. TOTAL ASSETS (048+049)** | **0 5 0** | **6.246.150.009** | **497.565.369** | **5.748.584.640** | **5.421.992.469** |

| ITEM | Code for AOP | Current year | Previous year (initial balance) |
|---|---|---|---|
| 1 | | 3 | 4 |
| **A. LIABILITIES (102+106+109+113)** | **1 0 1** | **4.154.015.473** | **3.806.762.613** |
| 1. Deposits and borrowings (103 to 105) | 1 0 2 | 3.806.718.544 | 3.606.548.556 |
| a) Deposits and interest-bearing borrowings in domestic currency | 1 0 3 | 1.942.597.218 | 1.672.985.525 |
| b) Hedging deposits and borrowings | 1 0 4 | 74.656.594 | 101.768.784 |
| c) Deposits and interest-bearing borrowings in foreign currency | 1 0 5 | 1.789.464.732 | 1.831.794.247 |
| 2. Interests and fees (107+108) | 1 0 6 | 15.699 | 27.696 |
| a) Interests and fees in domestic currency | 1 0 7 | 15.095 | 16.339 |
| b) Interests and fees in foreign currency | 1 0 8 | 604 | 11.357 |
| 3. Securities (110 to 112) | 1 0 9 | 0 | 0 |
| a) Securities in domestic currency | 1 1 0 | 0 | 0 |
| b) Hedging securities i domestic currency | 1 1 1 | 0 | 0 |
| c) Securities in foreign currency | 1 1 2 | 0 | 0 |
| 4. Other liabilities and accruals (114 to 124) | 1 1 3 | 347.281.230 | 200.186.361 |
| a) Salaries and fees | 1 1 4 | 2.328.338 | 2.221.172 |
| b) Other liabilities in domestic currency , excluding liabilities for tax and contributions | 1 1 5 | 76.167.045 | 62.389.498 |
| c) Tax and contributions ,excluding current and deffered income tax | 1 1 6 | 2.657.904 | 1.736.174 |
| d) Current tax liability | 1 1 7 | 10.999.762 | 9.779.712 |
| e) Deffered tax liability | 1 1 8 | 1.162.375 | 1.338.503 |
| f) Provisions | 1 1 9 | 25.004.462 | 19.819.574 |
| g) Accruals in domestic currency | 1 2 0 | 12.746.009 | 13.822.694 |

# The financial statements presented in the form prescribed by the regulations on the content and form of financial statements for banks and financial institutions (Continued)

**Consolidated Balance Sheet Statement of financial position as at 31 December 2016 (CONTNUED)** — in BAM

| | | | | | |
|---|---|---|---|---|---|
| h) Commission operations,AFS assets,discontinued operation assets,subordinated debt liabilities and current liabilities | 1 | 2 | 1 | 4.569.812 | 4.215.091 |
| i) Other liabilities in foreign currency | 1 | 2 | 2 | 21.172.006 | 12.175.162 |
| j) Accruals in foreign currency | 1 | 2 | 3 | 17.714.946 | 20.962.571 |
| k) Commission operations, due and subordinated liabilities and current maturities in goreign currency | 1 | 2 | 4 | 172.758.571 | 51.726.210 |
| **B. EQUITY (126+132+138+142-148)** | **1** | **2** | **5** | **718.354.717** | **728.725.738** |
| 1. Issued share capital (127+128+129-130-131) | 1 | 2 | 6 | 175.762.937 | 167.283.583 |
| a) Share capital | 1 | 2 | 7 | 119.195.000 | 119.195.000 |
| b) Other forms of capital | 1 | 2 | 8 | 8.479.354 | 0 |
| c) Share premium | 1 | 2 | 9 | 48.317.277 | 48.317.277 |
| d) Registered but uncontributed capital | 1 | 3 | 0 | 0 | 0 |
| e) Repurchase of own shares | 1 | 3 | 1 | 228.694 | 228.694 |
| 2. Reserves (133 to 137) | 1 | 3 | 2 | 397.576.168 | 346.055.524 |
| a) Reserves from profit | 1 | 3 | 3 | 376.894.480 | 316.894.479 |
| b) Other provisions | 1 | 3 | 4 | 0 | 8.479.356 |
| c) Provision for losses | 1 | 3 | 5 | 20.681.689 | 20.681.689 |
| d) General banking risk provisions | 1 | 3 | 6 | 0 | 0 |
| e) Transferred reserves (foreign exchange) | 1 | 3 | 7 | 0 | 0 |
| 3. Revaluation reserve (139 to 141) | 1 | 3 | 8 | -72.923 | -334.283 |
| a) Revaluation reserve based on change in value of fixed assets and intangible investments | 1 | 3 | 9 | 0 | 0 |
| b) Revaluation reserve based on change in value of securities | 1 | 4 | 0 | -90.654 | -334.283 |
| c) Other revaluation resererves | 1 | 4 | 1 | 17.731 | 0 |
| 4. Profit (143 to 147) | 1 | 4 | 2 | 147.923.873 | 216.224.839 |
| a) Profit for the year | 1 | 4 | 3 | 81.700.166 | 80.893.271 |
| b) Unallocated profit from prior years | 1 | 4 | 4 | 66.223.708 | 135.331.568 |

| | | | | | |
|---|---|---|---|---|---|
| c) Surplus of income over expenses for the period | 1 | 4 | 5 | 0 | 0 |
| d) Unallocated surplus of income over expenses for previous years | 1 | 4 | 6 | 0 | 0 |
| e) Retained earnings | 1 | 4 | 7 | 0 | 0 |
| 5. Loss (149+150) | 1 | 4 | 8 | 2.835.338 | 503.925 |
| a) Loss for the period | 1 | 4 | 9 | 2.331.413 | 0 |
| b) Loss from previous years | 1 | 5 | 0 | 503.925 | 503.925 |
| **C. LIABILITIES (101+125)** | **1** | **5** | **1** | **4.872.370.192** | **4.535.488.351** |
| **D. OFF BALANCE SHEET LIABILITIES** | **1** | **5** | **2** | **876.214.448** | **886.504.118** |
| **E. TOTAL LIABILITIES (151+152)** | **1** | **5** | **3** | **5.748.584.640** | **5.421.992.469** |

By the end of 2015, the Bank acquired 100% share in the company UniCredit Leasing d.o.o. Sarajevo (subsidiary), and 49% share in the company UniCredit Broker d.o.o. Sarajevo (associate). In the financial statements for 2015, the consolidation of the subsidiary was presented using full consolidation method, and the consolidation of the associate was presented using share method.

# The financial statements presented in the form prescribed by the regulations on the content and form of financial statements for banks and financial institutions (Continued)

**Consolidated Profit and Loss as at 31 December 2016** BAM

| ITEM | Code for AOP | VALUE | |
|---|---|---|---|
| | | Prior year | Prior year |
| 1 | 2 | 3 | 4 |
| **A. OPERATING INCOME AND EXPENSES 1. Interest income** | **2 0 1** | **199.990.069** | **189.450.448** |
| 2. Interest expense | 2 0 2 | 36.556.761 | 37.077.956 |
| Net interest income (201-202) | 2 0 3 | 163.433.308 | 152.372.492 |
| Net interest expense (202-201) | 2 0 4 | 0 | 0 |
| 3. Fee and commissions income | 2 0 5 | 85.819.015 | 79.961.089 |
| 4. Fee and commissions expense | 2 0 6 | 15.033.498 | 12.557.799 |
| Net fee and commission income (205-206) | 2 0 7 | 70.785.517 | 67.403.290 |
| Net fee and commission expense (206-205) | 2 0 8 | 0 | 0 |
| 5.Gains from sale of securities and shares (210 to 213) | 2 0 9 | 0 | 1.475 |
| a) Gains from sale of securities at fair value through profit and loss | 2 1 0 | 0 | 0 |
| b) Gains from sale of available for sale securities | 2 1 1 | 0 | 0 |
| c) Gains from sale of securities held to maturity | 2 1 2 | 0 | 0 |
| d) Gains from sale of participation (share) | 2 1 3 | 0 | 1.475 |
| 6. Losses from sale of securities and shares (215 to 218) | 2 1 4 | 0 | 0 |
| a) Losses from sale of securities at fair value through profit and loss | 2 1 5 | 0 | 0 |
| b) Losses from sale of available for sale securities | 2 1 6 | 0 | 0 |
| c) Losses from sale of securities held to maturity | 2 1 7 | 0 | 0 |
| d) Losses from sale of participation (share) | 2 1 8 | 0 | 0 |
| Net gains from sale of securities and shares (209-214) | 2 1 9 | 0 | 1.475 |
| Net losses from sale of securities and shares (214-209) | 2 2 0 | 0 | 0 |
| OPERATING PROFIT (201+205+209-202-206-214) | 2 2 1 | 234.218.825 | 219.777.257 |
| OPERATING EXPENSE (202+206+214-201-205-209) | 2 2 2 | 0 | 0 |
| **B. OTHER OPERATING INCOME AND EXPENSE 1. Operating income (224+225)** | **2 2 3** | **1.919.519** | **0** |
| a) Income from leasing activities | 2 2 4 | 1.510.239 | 0 |
| b) Other operating income | 2 2 5 | 409.280 | 0 |
| 2. Operating expense (227 to 236) | 2 2 6 | 122.249.908 | 115.936.167 |
| a) Expenses of gross salaries and contribution expense | 2 2 7 | 47.789.341 | 46.338.371 |

**Consolidated Profit and Loss as at 31 December 2016 (CONTINUED)** **in BAM**

| | | | | | |
|---|---|---|---|---|---|
| b) Expenses of fees for temporary and occasional work contracts | 2 | 2 | 8 | 206.622 | 242.566 |
| c) Other personnel expenses | 2 | 2 | 9 | 3.633.532 | 3.429.205 |
| d) Material expenses | 2 | 3 | 0 | 4.523.855 | 3.778.179 |
| e) Production services expenses | 2 | 3 | 1 | 28.973.748 | 27.645.648 |
| f) Depreciation expenses | 2 | 3 | 2 | 11.505.443 | 9.677.353 |
| g) Expenses from leasing activities | 2 | 3 | 3 | 178.379 | 0 |
| h) Non-material expenses (excluding taxes and contributions) | 2 | 3 | 4 | 23.349.914 | 23.203.289 |
| i) Tax and contributions expenses | 2 | 3 | 5 | 2.089.074 | 1.621.556 |
| j) Other expenses | 2 | 3 | 6 | 0 | 0 |
| OTHER OPERATING PROFIT (223-226) | 2 | 3 | 7 | 0 | 0 |
| OTHER OPERATING EXPENSE (226-223) | 2 | 3 | 8 | 120.330.389 | 115.936.167 |
| **C) GAIN AND LOSS ON PROVISIONS 1. Bad debts recovered (240 to 243)** | **2** | **3** | **9** | **157.370.078** | **154.739.087** |
| a) Income from recovered provisions for placements | 2 | 4 | 0 | 127.282.635 | 128.342.297 |
| b) Income from recovered provisions for off-balance sheet items | 2 | 4 | 1 | 29.789.118 | 25.381.673 |
| c) Income from recovered provision for liabilities | 2 | 4 | 2 | 298.325 | 1.015.117 |
| d) Income from other provisions recovered | 2 | 4 | 3 | 0 | 0 |
| 2. Provision charges (245 to 248) | 2 | 4 | 4 | 184.724.653 | 169.789.632 |
| a) Provisions charges for placements | 2 | 4 | 5 | 145.542.507 | 139.980.966 |
| b) Provision charges for off-balance sheet items | 2 | 4 | 6 | 34.251.844 | 27.154.524 |
| c) Charges based on provisions for liabilities | 2 | 4 | 7 | 1.092.769 | 1.945.003 |
| d) Other provision charges | 2 | 4 | 8 | 3.837.533 | 709.139 |
| PROVISIONS INCOME (239-244) | 2 | 4 | 9 | 0 | 0 |
| PROVISION CHARGES (244-239) | 2 | 5 | 0 | 27.354.575 | 15.050.545 |
| **D. OTHER INCOME AND EXPENSES 1. Other income (252 to 258)** | **2** | **5** | **1** | **3.112.968** | **1.493.313** |
| a) Income from bad debts previously written off | 2 | 5 | 2 | 440.870 | 226 |
| b) Losses from sales of fixed assets, and intangible investments | 2 | 5 | 3 | 976.744 | 224.822 |
| c) Income from reduction in liabilities | 2 | 5 | 4 | 0 | 0 |
| d) Income from dividends and shares | 2 | 5 | 5 | 185.297 | 12.435 |
| e) Surplus | 2 | 5 | 6 | 63.024 | 42.402 |
| f) Other income | 2 | 5 | 7 | 1.447.033 | 1.213.428 |
| g) Gains grom discounted operations | 2 | 5 | 8 | 0 | 0 |
| 2. Other expense (260 to 266) | 2 | 5 | 9 | 745.531 | 560.426 |

**Consolidated Profit and Loss as at 31 December 2016 (CONTINUED)** in BAM

| | | | |
|---|---|---|---|
| a) Expense from bad debts written off | 2 6 0 | 0 | 0 |
| b) Losses from depreciation and fixed assets write off, and intangible assets | 2 6 1 | 0 | 0 |
| c) Losses from disposals and write-offs of fixed and intangible assets | 2 6 2 | 97.016 | 49.419 |
| d) Shortfalls | 2 6 3 | 27.042 | 10.000 |
| e) Inventorywrite-offs | 2 6 4 | 0 | 0 |
| f) Other expenses | 2 6 5 | 621.473 | 501.007 |
| g) Expenses from discontinued operations | 2 6 6 | 0 | 0 |
| GAIN FROM OTHER INCOME AND EXPENSES (251-259) | 2 6 7 | 2.367.437 | 932.887 |
| LOSS FROM OTHER INCOME AND EXPENSES (259-251) | 2 6 8 | 0 | 0 |
| OPERATING GAIN (221+237+249+267-222-238-250-268) | 2 6 9 | 88.901.298 | 89.723.432 |
| OPERATING LOSS (222+238+250+268-221-237-249-267) | 2 7 0 | 0 | 0 |
| **E. INCOME AND EXPENSES FROM CHANGE IN VALUE OFF ASSETS AND LIABILITIES 1. Income from changes in value of assets and liabilities (272 to 276)** | **2 7 1** | **183.680.967** | **260.321.334** |
| a) Income based on change in value of placements and receivables | 2 7 2 | 0 | 0 |
| b) Income based on change in value securities | 2 7 3 | 0 | 0 |
| c) Income based on change in value of liabilities | 2 7 4 | 0 | 0 |
| d) Income based on change in value of fixed assets, investment real estate and intangible investments | 2 7 5 | 0 | 0 |
| e) Income from positive foreign exchange differences | 2 7 6 | 183.680.967 | 260.321.334 |
| 2. Expenses from change in value of assets and liabilities (278 to 282) | 2 7 7 | 182.290.369 | 260.873.704 |
| a) Expenses from change in value of placements and receivables | 2 7 8 | 0 | 0 |
| b) Expenses from change in value of securities | 2 7 9 | 0 | 0 |
| c) Expenses from change in value of liabilities | 2 8 0 | 0 | 0 |
| d) Expenses from change in value of fixed assets, investment real estate and intangible investments | 2 8 1 | 428.351 | 1.339.622 |
| e) Expenses from unfavorable foreign exchange differences | 2 8 2 | 181.862.018 | 259.534.082 |
| PROFIT ARISING FROM THE CHANGE IN VALUE OF ASSETS AND LIABILITIES (271-277) | 2 8 3 | 1.390.598 | 0 |
| LOSS FROM CHANGE IN VALUE OF ASSETS AND LIABILITIES (277-271) | 2 8 4 | 0 | 552.370 |
| PROFIT BEFORE TAX (269+283-270-284)) | 2 8 5 | 90.291.896 | 89.171.062 |
| LOSS BEFORE TAX (270+284-269-283) | 2 8 6 | 0 | 0 |

**Consolidated Profit and Loss as at 31 December 2016 (CONTINUED)** **in BAM**

| | | | |
|---|---|---|---|
| **F. CURRENT AND DEFFERED INCOME TAX 1. Income tax** | **2 8 7** | **11.124.084** | **9.645.939** |
| 2. Profit from increase of deffered tax assets and decrease of deffered tax liabilities | 2 8 8 | 200.941 | 59.038 |
| 3. Loss from decrease of deffered tax assets and increase of deffered tax liabilities | 2 8 9 | 0 | 0 |
| PROFIT AFTER TAX (285+288-287-289) ili (288-286-287-289) | 2 9 0 | 79.368.753 | 79.584.161 |
| LOSS AFTER TAX (286+287+289-288) ili (287+289-285-288) | 2 9 1 | | 0 |
| **G. OTHER PROFIT AND LOSSES FOR THE PERIOD 1. Capital gains (293 to 298)** | **2 9 2** | **288.627** | **0** |
| a) Income from decrease of revalorisation reserves in fixed assets and intangible investments | 2 9 3 | 0 | 0 |
| b) Income from change of fair value of securities available for sale | 2 9 4 | 270.896 | 0 |
| c) Income from transferring financial reports of foreign operations | 2 9 5 | 0 | 0 |
| d) Actuarial income from defined income scheme | 2 9 6 | 17.731 | 0 |
| e) Effective part of income based on cash flow hedging | 2 9 7 | 0 | 0 |
| f) Other capital gains | 2 9 8 | 0 | 0 |
| 2. Capital losses (300 to 304) | 2 9 9 | 0 | 240.862 |
| a) Losses from change in fair value of securities available for sale | 3 0 0 | 0 | 240.862 |
| b) Losses from transferring financial reports of foreign operations | 3 0 1 | 0 | 0 |
| c) Actuarial loss from defined income scheme | 3 0 2 | 0 | 0 |
| d) Effective part of loss from cash flow hedging | 3 0 3 | 0 | 0 |
| e) Other capital gains | 3 0 4 | 0 | 0 |
| NET GAIN/ LOSSES TOTAL RESULT FOR THE PERIOD (292-299) or (299-292) | 3 0 5 | 288.627 | -240.862 |
| **H. INCOME TAX RELATING TO OTHER TOTAL RESULT FOR THE PERIOD** | **3 0 6** | **-27.267** | **24.086** |
| OTHER TOTAL RESULT FOR THE PERIOD (305±306) | 3 0 7 | 261.360 | -216.776 |
| TOTAL NET PROFIT FOR THE YEAR (290±307) | 3 0 8 | 79.630.113 | 79.367.385 |
| TOTAL NET LOSS FOR THE PERIOD (291±307) | 3 0 9 | 0 | 0 |
| Part od profit/loss attributable to majority shareholders | 3 1 0 | 0 | 0 |
| Part od profit/loss attributable to minority shareholders | 3 1 1 | 0 | 0 |
| Basic earnings per share | 3 1 2 | 637 | 668 |
| Diluted earings per share | 3 1 3 | 637 | 668 |

**Consolidated Profit and Loss as at 31 December 2016 (CONTINUED)** **in BAM**

| | | | |
|---|---|---|---|
| Average number of employees based on hours worked | 3 1 4 | 1.263 | 1.220 |
| Average number of employees based on periods end | 3 1 5 | 1.258 | 1.224 |

By the end of 2015, the Bank acquired 100% share in the company UniCredit Leasing d.o.o. Sarajevo (subsidiary), and 49% share in the company UniCredit Broker d.o.o. Sarajevo (associate). In the financial statements for 2015, the consolidation of the subsidiary was presented using full consolidation method, and the consolidation of the associate was presented using share method.

Considering the date of acquisition (22 December 2015) and materiality of effects, The Bank did not consolidate the statement of profit or loss for 2015 and only Bank's results are presented in the statement of profit or loss.

# Simple Pan-European Commercial Bank

We are a simple pan-European commercial bank with a fully plugged in CIB, enriched by multiple cultures and strong local knowledge, where everybody shares the same vision: One Bank, One UniCredit. That's why when it comes to our client's international needs we have the solution. Whether it is trade or other banking services, we can help: with our deep local knowledge and our unique Western Central and Eastern European network serving our clients in Europe and beyond, we are fully equipped to meet our clients' needs, both in our home-markets and further afield.

# Address and Phone Numbers

## HEADQUARTERS

| | |
|---|---|
| Address | Kardinala Stepinca b.b. |
| | Mostar |
| Phone | 00387 (0) 36 312 112 |
| Fax | 00387 (0) 36 356 227 |
| **SWITCHBOARD** | 00387 (0) 36 312 112 |
| | 00387 (0) 36 312 116 |
| **RETAIL** | 00387 (0) 33 312 112 |
| **CORPORATE** | 00387 (0) 36 312 112 |
| **RISK MANAGEMENT** | 00387 (0) 33 491 708 |
| **FINANCE** | 00387 (0) 36 356 112 |
| **GBS** | 00387 (0) 36 312 112 |

# Business network of UniCredit Bank d.d. as at 31 december 2016

| Branch | Adress | City | ZIP CODE | Phone |
|---|---|---|---|---|
| **BUSINESS CENTER MOSTAR** | | | | |
| Branch 1 Mostar (Mepas) | Kardinala Stepinca bb | Mostar (Mepas Mall) | 88000 | 036/356-277; 036/356-346 |
| Branch 2 Mostar - Mostarka | Dubrovačka 4 | Mostar (Mostarka) | 88000 | 036/325-702; 036/333-743 |
| Branch 3 Mostar - Revija | Mostarskog bataljona 4 | Mostar (Revija) | 88000 | 036/501-412; 036/501-418 |
| Branch 5 Mostar (Rondo) | Kralja Petra Krešimira IV B2 | Mostar (Rondo) | 88000 | 036/333-902; 036/333-900 |
| Branch Čapljina | Gojka Šuška bb | Čapljina | 88300 | 036/810-712; 036/806-883 |
| Branch Stolac | Hrvatskih branitelja bb | Stolac | 88360 | 036/858-444; 036/853-306 |
| Branch Neum | Dr. Franje Tuđmana bb | Neum | 88390 | 036/880-149; 036/885-201 |
| Branch Čitluk | Kralja Tvrtka 1 | Čitluk | 88260 | 036/640-439; 036/640-435 |
| Branch Konjic | Trg Državnosti bb | Konjic | 88400 | 036/712-430 |
| **BUSINESS CENTER ZAPADNA HERCEGOVINA** | | | | |
| Branch Grude | Franje Tuđmana br. 124 | Grude | 88340 | 039/660-123; 039/660-746; 039/660-745 |
| Branch 1 Široki Brijeg | Fra Didaka Buntića 13 | Široki Brijeg | 88220 | 039/700-212 |
| Branch 2 Široki Brijeg | Fra Didaka Buntića bb | Široki Brijeg | 88220 | 039/702-532; 039/703-963 |
| Branch Ljubuški | Kralja Zvonimira bb | Ljubuški | 88320 | 039/831-340; 039/835-933; 039/835-936 |
| Branch Livno | Kralja Tvrtka bb | Livno | 80101 | 034/208-222; 034/201-072; 034/208-220 |
| Branch Tomislavgrad | Brigade Kralja Tomislava bb | Tomislavgrad | 80240 | 034/356-203; 034/356-200 |
| Branch Posušje | Fra Grge Martića 28 | Posušje | 88240 | 039/685-416; 039/685-157; 039/685-413 |
| **BUSINESS CENTER SREDNJA BOSNA** | | | | |
| Branch Vitez | Petra Krešimira IV | Vitez | 72250 | 030/717-410; 030/718-745; 030/718-744 |
| Branch 1 Vitez | Poslovni centar 96, FIS | Vitez | 72250 | 030/718-683; 030/718-684 |
| Branch Uskoplje | Bana Jelačića bb | Uskoplje | 70240 | 030/496-596; 030/494-181 |
| Branch Donji Vakuf | 770 Slavne Brdske brigade 23 | Donji Vakuf | 70220 | 030/259-661; 030/259-660 |
| Branch Novi Travnik | Kralja Tvrtka bb | Novi Travnik | 72290 | 030/795-502; 030/795-505; 030/795-500 |
| Branch Fojnica | Mehmeda Spahe 18 | Fojnica | 71270 | 030/547-022; 030/547-024 |
| Branch 1 Travnik | Bosanska 56 | Travnik | 72270 | 030/547-017; 030/547-016; 030/547-012 |
| Branch Jajce | Maršala Tita bb | Jajce | 70101 | 030/654-563; 030/654-564; 030/654-565 |

# Business network of UniCredit Bank d.d. as at 31 december 2016 (continued)

| | | | | |
|---|---|---|---|---|
| Branch Rama | Kralja Tomislava bb | Rama | 88440 | 036/770-919; 036/771-990 |
| Branch Bugojno | Zlatnih ljiljana 16 | Bugojno | 70230 | 030/259-577; 030/259-570; 030/259-575 |
| Branch Kiseljak | Josipa Bana Jelačića bb | Kiseljak | 71250 | 030/877-122; 030/877-125; 030/877-129 |
| **BUSINESS CENTER ZENICA** | | | | |
| Branch Žepče | Stjepana Tomaševića bb | Žepče | 72230 | 032/887-903; 032/887-904; 032/887-905 |
| Branch 1 Visoko | Branilaca 20a | Visoko | 71300 | 032/730-057; 032/730-052; 032/730-061 |
| Branch Zenica | Školska bb | Zenica | 72000 | 032/449-346; 032/449-340 |
| Branch 1 Zenica | Londža 81 | Zenica | 72000 | 032/202-623; 032/202-620 |
| Branch Kaknj | Alije Izetbegovića bb | Kakanj | 72240 | 032/557-212; 032/557-211,214,215,217,219 |
| Branch Tešanj | Braće Pobrić bb | Tešanj | 74260 | 032/665-196; 032-665-194 |
| Branch Jelah | Titova bb | Jelah | 74264 | 032/667-892 |
| Branch Breza | Alije Izetbegovića 80 | Breza | 71370 | 032/786-014 |
| Branch Zavidovići | Pinkasa Bandta bb | Zavidovići | 72220 | 032/869-200; 032/869-201,202,203,204 |
| Branch Vareš | Zvijezda 63 | Vareš | 71330 | 032/848-030; 032/848-031 |
| Branch Olovo | Branilaca 17 | Olovo | 71340 | 032/829-535; 032/829-530 |
| Branch Maglaj | Aleja ljiljana bb | Maglaj | 74250 | 032/609-810,811,812,815,816 |
| **BUSINESS CENTER BIHAĆ** | | | | |
| Branch Bihać | Ulica V. Korpusa bb | Bihać | 77000 | 037/229-975; 037/229-970 |
| Branch 1 Bihać | Trg slobode 7 | Bihać | 77000 | 037/229-280; 037/229-270 |
| Branch Velika Kladuša | Maršala Tita 23 | Velika Kladuša | 77230 | 037/776-606; 037/776-600 |
| Branch 1 Cazin | Cazinskih brigada bb | Cazin | 77220 | 037/515-016; 037/515-021 |
| Branch Bosanska Krupa | 511. Slavne brdske brigade bb | Bosanska Krupa | 77240 | 037/476-880; 037/476-885 |
| Branch 1 Sanski Most | Trg oslobodilaca bb | Sanski Most | 79260 | 037/688-547; 037/688-540 |
| **BUSINESS CENTER SARAJEVO STARI GRAD** | | | | |
| Branch 1 Sarajevo | Maršala Tita 48 | Sarajevo | 71000 | 033/253-396; 033/253-375 |
| Branch 3 Sarajevo | Zagrebačka 2-4 | Sarajevo (Kovačići) | 71000 | 033/253-973; 033/253-974 |
| Branch 4 Sarajevo | Alipašina 45a | Sarajevo (Ciglane) | 71000 | 033/560-790; 033/560-794,795 |
| Branch 11 Sarajevo | Gajev trg 2 | Sarajevo | 71000 | 033/251-950; 033/251-952,953 |
| Branch 12 Sarajevo | Zelenih beretki 24 | Sarajevo | 71000 | 033/491-748; 033/491-600 |
| Branch 13 Sarajevo | Branilaca grada 53 | Sarajevo | 71000 | 033/491-997; 033/491-931,932,933 |
| Branch 15 Sarajevo | Bolnička 25 | Sarajevo | 71000 | 033/218-201; 033/297-705 |
| Branch 16 Sarajevo | Fra Anđela Zvizdovića 1 | Sarajevo UNITIC | 71000 | 033/252-280; 033/252-284 |

| | | | | |
|---|---|---|---|---|
| **BUSINESS CENTER NOVO SARAJEVO** | | | | |
| Branch 2 Sarajevo | Zmaja od Bosne 14C | Sarajevo | 71000 | 033/723-690 |
| Branch 7 Sarajevo | Trg međunarodnog prijateljstva 14 | Sarajevo | 71000 | 033/776-130; 033/776-134 |
| Branch 17 Sarajevo | Dr.Fetaha Bećirbegovića 23A | Sarajevo (OTOKA) | 71000 | 033/721-815; 033/721-800 |
| Branch 18 Novo Sarajevo | Zmaja od Bosne 74 | Sarajevo | 71000 | 033/727-022; 033/727-024 |
| Branch 19 Sarajevo | Mustafe Kamarića 5 | Sarajevo | 71000 | 033/775-851; 033/775-853 |
| Branch Vogošća | Igmanska 60 | Vogošća | 71320 | 033/476-361; 033/476-360 |
| Branch Ilidža | Mala Aleja 10 | Ilidža | 71210 | 033/627-937 ; 033/776-140 |
| Branch Hadžići | Hadželi 153 | Hadžići | 71240 | 033/475-390; 033/475-396 |
| BUSINESS BOSNA SI | | | | |
| Branch 1 Tuzla | Džafer Mahala 53-55 | Tuzla | 75000 | 035/259-059; 035/259-044 |
| Branch 2 Tuzla | Armije BiH 3 | Tuzla | 75000 | 035/306-478; 035/306-471 |
| Branch 3 Tuzla | Aleja Alije Izetbegovića 10 | Tuzla | 75000 | 035/302-470 |
| Branch Gradačac | Ulica šehida 1 | Gradačac | 76250 | 035/822-500 |
| Branch Lukavac | Kulina Bana bb | Lukavac | 75300 | 035/551-331; 035/551-330 |
| Branch Gračanica | 22 Divizije bb | Gračanica | 75320 | 035/701-471; 035/701-470 |
| Branch Srebrenik | 21 Srebreničke Brigade | Srebrenik | 75350 | 035/646-093 |
| Branch Živinice | Ulica Oslobođenja bb | Živinice | 75270 | 035/743-143; 035/743-140 |
| Branch Kalesija | Trg šehida bb | Kalesija | 75260 | 035/610-111; 035/610-110 |
| Branch Orašje | Treća ulica 47 | Orašje | 76270 | 031/716-713; 031/716-700,701,709 |
| Branch Odžak | Titova 17 | Odžak | 76290 | 031/762-437 |
| Branch Brčko | Trg mladih 1 | Brčko | 76120 | 049/233-760; 049/233-770,775 |
| **BUSINESS CENTER BANJA LUKA** | | | | |
| Branch Banja Luka | I Krajiškog korpusa br.39 | Banja Luka | 78000 | 051/348-063; 051/348-055 |
| Branch Laktaši | Karađorđeva bb | Laktaši | 78250 | 051/530-662; 051/535-961 |
| Branch Prijedor | Zanatska bb | Prijedor | 79101 | 052/234-258; 052/240-765 |
| Branch Doboj | Kralja Dragutina 2a | Doboj | 74000 | 053/209-401,402,403,409 |
| Branch Bijeljina | Majora Dragutina Gavrilovića 2 - ulaz s ulice Svetog Save | Bijeljina | 76300 | O55/225-090 |

# One Bank, One UniCredit.

## 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.