One Bank One UniCredit

2017

Annual Report

Banking that matters. | UniCredit Bank

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This version of the report is a translation from the original, which was prepared in Bosnian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our financial reports and the accompanying audit report takes precedence over this translation.

Board President's Message

"We are proud that dedication and team work of our employees in providing services to our clients generated excellent results in this year as well, and further strengthened our position as a leading bank."

Dalibor Ćubela
President of the Management Board

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 2017.

Bank has been acknowledged in 2017 by both local and global experts, who awarded us with reputable and valuable acknowledgements. We are proud that dedication and team work of our employees in providing services to our clients generated excellent results in this year as well, and further strengthened our position as a leading bank.

By providing our clients with services and products that they actually need, the Bank achieved a significant growth in the number of users of electronic services, which confirms that digitalization, which we deem essential for the future of successful business, is becoming a part of everyday life and need of our clients. Employees of the Bank have successfully and continuously followed changes in legislative acts in Bosnia and Herzegovina, as well as compliance with global and Eurapean rules and regulations. By midyear, the Bank completed the merger of UniCredit Leasing d.o.o., thus extending its offer with finance lease services.

By following the digitalization trend, it is our pleasure to emphasize that we dedicated special attention in 2017 to implementation of the latest ICT security standards through the construction of a modern Data Centre. Investing in modern technology enables us to modernize our services and guarantees improved security to our clients in the years to follow. We achieved a particular success in the segment of retail loans, which recognized us as a reliable partner for important life decisions.

We retained our leading position in 2017 by all significant financial criteria, including net profit, total assets, loans and deposits, as well as market share in total equity.

As a result of our continuous and thorough work, and good cost-efficiency, the Bank closed the financial year with net profit of BAM 89.5 million, which is BAM 8.0 million more compared to 2016. The increase was generated by net interest and non-interest income, responsible risk assumption and management, successful collection of receivables, and strict expense control.

Self-sustainable growth and continuous development in various segments are a guarantee of continuous Bank's success. In 2017, loan to deposit ratio year was 75.3%, 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 5,233 million. Total net loans amounted to BAM 2,981 million, with the corresponding growth of 7,1%, which confirms our market position. The growth of client's deposits of 13.7% was also achieved, so we close 2017 with the amount of BAM 4,071 million, while the growth of deposits on the overall BiH market was 10.8%. With the equity amount of BAM 766,2 million, the Bank confirmed its solvency through the high capital adequacy ratio of 16.4%, which confirms stability and safety of operations with the Bank.

Being the leading Bank in the market bears a special responsibility to the society in which we operate. Thus, we are continuously working to support and contribute to both economic and social development and advancement of Bosnia and Herzegovina. In 2017, through humanitarian activities, and cultural, artistic and sporting events, we provided support to people and organizations that strive to improve and represent our country in the best manner possible by their devoted work. We strive to be recognized by our work as the leading financial institution that contributes to conditions for better, more beautiful and humane society in all aspects.

Our commitment to high-class and quality operations was rewarded in the previous year by the highest professional acknowledgements. We were awarded with the Best Bank in Bosnia and Herzegovina in 2017 title by the Bankar magazine, which is owned by Financial Times, which represents one of the most important global acknowledgements in banking. According to the results of the British financial magazine Euromoney, UniCredit Bank was named the best provider of trade financing services and best bank for transaction operations in Bosnia and Herzegovina. The magazine Banke & Biznis awarded us three Golden BAMs in 2017 for the amount of total assets, total equity, and return on equity rate (ROE). In addition to professional awards, which are the additional confirmation of our quality and successful operations, we are particularly proud that we are among 10 most desirable employers in Bosnia and Herzegovina for ten years in a row according to the web portal Posao.ba. It is our pleasure to be recognized both as leaders in banking and as a company that values and continuously invests in its employees by being aware of the importance of satisfied and dedicated employees.

Being a leader is a special task and an additional responsibility to continuously step forward and be the carriers of change and improvement on our market. 2017 introduced many legislative changes and changes of habits of our clients, and maintenance of a stable operations is a continuous challenge, which we successfully overcome through improvement of our services and responsible and intelligent risk management. Particular power of our Bank lies in the affiliation with UniCredit Group, which provides us with the possibility to provide our clients with international reach in addition to expert knowledge and experience.

Our objective for the following year is to follow the Group's plan by relying on cooperation and synergy as One bank, One UniCredit, and to remain strongly focused on improvement of client services. Recognizable operating strategy will remain our lodestar which will continue to be achieved in the years to come by assuming the right type of risks.

On behalf of the Management of the Bank and on my own behalf, I would like to thank all clients and business partners for their granted trust. We owe a special gratitude to our employees, who are the pillars of our successful operations. We 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

President of the Management Board

One Bank, One UniCredit.

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

Economic Environment in Bosnia and Herzegovina

Macroeconomic review of the year 2017

After a highly challenging year 2016, both politically and economically, global environment recorded positive trends in 2017. In the Central and Eastern Europe region, growth was further spurred, together with the growth of exports, loan recovery and strong domestic demand. Actually, 2017 could be considered the best year for global economy since the financial crisis.

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

For BiH, growth of external and domestic demand during 2017 resulted in a significant growth of economic activity. Growth perspectives have been corrected several times (with the most significant corrections made by the state statistics office for the GDP growth for 2016 from 2.1% to 3%), but the actual GDP growth could reach 2.8% in 2018, which is slightly below the initially planned level due to slower performance in the first two quarters of 2017, partly because of unfavourable weather conditions and decrease in production of electicity. An increased growth and consequently strengthening of economy are expected in the second half of the year.

Export has been the main growth driver in 2017. Export of goods recorded double-digit growth rates at the beginning of the year, while in December the rate was higher for +17.4% compared to the end of 2016. In the same period, export to EU countries amounted to BAM 7.9 billion, which is 16.8% higher compared to the same period of 2016. Export to CEFTA countries amounted to BAM 1 billion 790 million, which is 28.5% higher compared to the same period of 2016. The increase is recorded in almost every industrial sector, with the growth of electricity export for +44% and processing industry for +16%.

While previous years were marked by deflatory movements, primarily caused by the prices of import energy products, consumer price index reached positive values of 1.3% in 2017 on annual basis, which is partly a resulf of increase in prices of energy. Positive trends in the labour market have been continuous. Unemployment rate is decreasing, with the decrease of the total number of active population, partly as a result of migrations. Positive trends made an impact on the increase of employment rate, increase of net salaries and increase of gross salaries. Unemployment rate decreased below 40% after a long period, however it still remains unacceptably high. The unemployment rate according to ILO methodology published during 2017 was 20.5%. Actual available income increases based on improvements in the labour market and salary increase. Owing to the increase of available income and low rates of consumer prices, personal spending has increased significantly. Increased individual spending is observable in increased imports. Import from the European Union countries amounted to BAM 10.1 billion, which is 11.4% higher compared to the same period of the previous year, while import from CEFTA countries amounted to BAM 2.1 billion, which is 12.4% higher compared to the same period of the previous year.

Current account deficit will probably increase because of increasing domestic demand, and taking into account high dependence on the import and forecasted acceleration of individual spending and growth of investments. It is expected that the deficit, after decrease to -5% of GDP for 2017, will continue to grow in the following years following the additional acceleration of import. The deficit would have been higher in 2017, but it was mitigated by a significant increase in transfers from abroad and strong growth of tourism during 2017. Tourism has been positioning as a significant sector in BiH following the increased number of arrivals and overnight stays in the country, accompanied by positive outlook for further growth.

However, a strong economy growth factor, the investment activity, remained weak, which has been supported by a decrease in construction for 1.4% in the first nine months of 2017, while the construction of housing buildings increased for 4% on annual level. Therefore, decrease has been recorded in civil engineering projects, which are greatly dependent on the investment projects, which are mainly financed by foreign funds. Even though the Extended Arrangement was approved by the International Monetary Fund in 2016, the payments were suspended during 2017 due to ommissions in agreed priorities and set deadlines. During their latest mission in 2017, the International Monetary Fund personnel and authorities in Bosnia and Herzegovina reached an agreement to recommend the completion of the first audit, which was completed in February 2018, when the International Monetary Fund approved the payment of funds in the amount of SDR 63.4 million or BAM 74.6 million.

Total public debt as a percentage of estimated GDP in the first half of 2017 was cca. 37%, given the GDP growth and absence of foreign funds primarily from the International Monetary Fund. With the lack of those funds, and to retain fiscal balance, the Governments of Republika Srpska and Federation of BiH issued new treasury bills during 2017 in the total amount of BAM 403 million (Republika Srpska – BAM 143 million, Federation of BiH – BAM 260 million) and BAM 253 million in bonds (Republika Srpska – BAM 223 million, Federation of BiH – BAM 30 million).

Macroeconomic expectations for 2018

It is expected that strong export and individual spending will remain key growth drivers in Bosnia and Herzegovina in 2018. Revival of investments, which are mainly investment projects financed from abroad, should be supported by the announced payments of funds by the International Monetary Fund. Potential risks for a generally favourable forecast are mainly related to the fragile political stability of the country and the fact that 2018 is the elevtion year, which is generally characterized by a difficult decision-making process.

Banking Sector in 2017

There was no change in the number of banks in the market during 2017. Total number of 23 banks remained stable in the third quarter of 2017 with the total assets of BAM 26 billion, which is an increase of 5.6% compared to the same period of previous year, primarily caused by increase in loans to clients.

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

Stability of the banking sector has been confirmed once again by a satisfactory level of capitalization of 15.6% in the third quarter of 2017 and high liquidity visible in free assets at the Central Bank of Bosnia and Herzegovina exceeding the amount of obligatory reserve. With new regulatory framework in 2017, the banking sector in Bosnia and Herzegovina has been additionally approximated to the EU regulatory requirements, primarily through adoption of the new Law on Banks, and adoption of new Decisions, directives, guidelines and reports, such as the Internal Capital Adequacy Assessment Process in a Bank, Recovery Plan for a Bank and a Banking Group, Interest Rate Risk Management, etc.

According to the latest available aggregated reports of the banking agencies, the banking system of Bosnia and Herzegovina generated profit before taxation in the amount of BAM 327 million in the third quarter of 2017, which is an increase of +48% compared to the same period of previous year. Profitability increase is primarily a result of the reversal in operating results of several banks which operated with significant losses in previous years. However, regardless of those effect, we may state that the banking sector records an improvement of profitability and efficiency indicators.

Given the fact that market rates are still in a negative area and they put pressure on interest margins, increase in income was mostly generated from non-interest income, whereby banks managed to recover a decrease of interest income by new fees and prices, and thus improved profitability and efficiency ratios. Two largest banks in the market comprise 47% of total generated profit before tax in the nine months of 2017.

The year was marked by improved credit activity with the growth of 6.5% compared to the end of 2016. Long-term loans have grown during 2017 in both segments. Retail loans retain growing trend reaching the growth rate of 6.6% compared to the end of 2016. After a long time, corporate loans recorded a growth rate of 6.4%. Loans to private enterprises recorded the most significant growth of 6.7% compared to the end of 2016. Loans to state and public enterprises grew only for 2.5%.

The share of non-performing loans (NPL) remained high with the continuous improvement trend, and it reached the level of 10.7% in the third quarter of 2017. Republika Srpska remains the entity with a higher share of NPLs of 11.4%, while the share of NPLs in total loans in Federation of Bosnia and Herzegovina amounts to 10.5%. The sale of NPL portfolio during 2017 has also had a positive impact on the total aggregated share of NPLs on the market.

Despite low interest rates on deposits, the volume of retail deposits are reaching record amounts with over BAM 11 billion at year-end and growth rate of +5.7%. In Corporate segment, during 2017 deposits of governments record the highest growth rate of 29.5%, partly under the influence of the repayment of Russian kliring debt to Bosnia and Herzegovina, and partly by issuance of securities. Private enterprises increased for 19.4% compared to the end of 2016. Total client deposits exceeded the total amount of loans for over BAM 1.4 billion, and the loans to deposits ratio decreased to 93%.The average amount of obligatory reserve recorded an increase compared to the previous year. Securities in banks' balances in BiH amounted to BAM 1.9 billion at the end of September 2017, which is an increase of 6% compared to the end of 2016. Majority of the increase is related to investments in securities issued by Federation of BiH and Republika Srpska.

Expectations for 2018

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

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 Bank provides the full set of banking and financial services, including corporate banking, retail banking, financial institutions, international operations, investment banking services, and financial leasing 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 innovation, application of standards and sharing of know-how gained from the rich pool of experience of the Group the Bank belongs to.

Operations of subsidiaries and associates

The Bank’s subsidiaries and associates as of 31 December 2017 are presented in the tables below:

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%

The Bank became the 100% owner of share in the company UniCredit Leasing d.o.o. on 22 December 2015.
UniCredit Leasing d.o.o. was merged with the Bank as of 1 July 2017.

Net profit of UniCredit Leasing d.o.o. is BAM 70,173.03 as at 30 June 2017, and is included in the financial statements of the Bank in reserves as retained earnings acquired in the merger process, and it is directly recognized in the Bank’s equity; as such it is not included in the statement of profit or loss of the Bank. The stated comments contain Bank’s data, excluding the results of UniCredit Leasing d.o.o. until 30 June 2017.

Map of the Branch Network

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 2017, there were 76 such branches.

Business in 2017

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 2017 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 2017 a significant growth of the Bank's volume of both loans and deposits has been recorded.

In accordance with the Bank's long-term strategy for development and improvement of digital operating channels, we strive to the highest quality services for digital operations to our cluents, and to continuously educate them about their advantages. The focus on raising our clients' awareness about the advantages of doing business through mobile and internet banking services achieved in 2017 through contiuous sale and promotional activities, resulted at year-end in over 100,000 active users of electronic services, which is a doubled figure compared to the previous year. It should be emphasized that, in line with global trend, our clients prefer mobile banking service, supported by the fact that the number of active mobile banking users tripled compared to the last year.

With the aim to additionally simplify and accelerate the process of paying bills via the m-ba mobile banking service, we introduced our clients with the "Take a photo and pay". Instead of manually filling out a payment order, the user has an option to use the mobile phone camera to take a photo or scan the recipient account number, the amount of payment and reference number, which are automatically loaded into a payment order in the application. In accordance with the needs and habits of clients, the Bank will continue to develop and improve electronic services in the following period.

We strive to ensure a comfortable and simple navigation/browsing of necessary information and content for our clients through continuous process of optimization and improvement of the Bank's web site, which continued during the previous year as well.

Bank's ATM network currently has 264 ATM machines total, of which we had 75 pay-in/pay-out machines in production at year-end. By increasing the number of this type of ATMs, we strive to enable our clients on the entire market to have an option, in addition to basic ATM functionalities, to deposit cash to the current or a transaction amount at any given moment, thus saving time required to complete the same service in our branch offices.

In line with the trend from previous years, we continued the desing of the Bank's business network in accordance with modern functionality and design standards, with the aim to provide our clients with efficient and ultimately comfortable operations.

A rich pallete of Bank's credit products was extended during 2017 with the new product for financing energy efficiency in households.

With this credit product, UniCredit Bank demonstrates that it recognizes the importance and necessity of investing in energy efficiency of households, which are the largest energy consumers in the sense of share in total energy consumption in the country. Thus, loans in this credit lines are aimed at financing individuals and their households, while the producers of energy efficient materials and technology benefit from this cooperation with the EBRD, as well as service providers for investments in projects in line with the EBRD's "Green Economy Transition" (GET) approach in countries of the Western Balkans.

The ultimate objective of investing with these loans is to affect decrease of energy losses and improvement of energy efficiency through construction and modernization of the existing housing facilities, apartments and buildings.

In the credit card business, a diverse range of card products is tailored to the demands of our clients.

As a result of expressed clients' needs for internet payments with a special card not tied to the regular current account for payment of regular income, during 2017 UniCredit Bank implemented a new product – Reloadable Mastercard card. Depending on wishes and needs, the clients can use this card in all other points of sale accepting Mastercard cards. By using no-contact technology, the clients are able to make payments in seconds by holding a card to EFT POS terminals that support this functionality. The cards are expressly issued, with a single visit to any of the UniCredit Bank branch offices.

In addition to instant issuance of Reloadable Mastercard cards, the Bank also implemented instant issuance of the most wanted card products (Visa Classic cards with deferred payment and Debit Mastercard cards for current accounts), thus striving to enable the clients to received a card ready for use as fast as possible with as few steps required as possible. The advantage of instant issuance of these cards is that the client can receive and use the card on the same day upon signing the contractual documentation.

The Bank continuously works on the implementation of new solutions in payment segment. Accordingly, in 2017 we implemented the card acceptance in terminals for payment of public parking in Sarajevo, thus making UniCredit Bank the first bank in BiH providing the card acceptance in unattended EFT POS terminals.

In 2017, the Bank introduced a new package MODULA, which enables clients to independently create the contents of banking products and services within the package.

This made UniCredit Bank the first bank in BiH market to provide clients with a free choice in defining a package, whose final price dependes on the client's selection. When contracting the MODULA package, in the basic set of products and services the client receives a current account, no-contact Debit Mastercard card and m-ba mobile banking, while the client independently selects and adds other products and services and thus accomplishes significant annual savings compared to the prices of their individual use.

By taking special consideration of elder clients, they are offered a more favourable price for using the MODULA package, while students are completely exempt from paying the monthly usage fee.

Corporate and Investment Banking Segment

Positive macroeconomic movements, reflected in the growth of direct foreign investments, growth of foreign currency reserves, increase of indirect tax income and growth of export are the main features of Bosnia and Herzegovina economy in 2017. Despite such indicators, it is estimated that the generated gross domestic product (GDP) growth will be insufficient to significantly decrease the lag behind more developed neighbouring and European countries. Absence of better results of domestic economy in 2017 is mostly a result of political relations in the country, as well as accomplishment of a small number of key foreign policy objectives that BiH authorities set themselves, and failure in obtaining a candidate status for association with the European Union.

Business in 2017

Operations of the banking sector in 2017 are still characterized by high liquidity and growth of deposits, and growth of loans – almost all banks in the market recoded growth compared to the previous year. The share of NPLs remains high (cca. 11%), but the movements are positive compared to 2016, because NPLs show a decreasing trend. 2017 will be remembered by the adoption of the new Law on Banks, for whose preparation local legislation, good practices in the surrounding countries, and relevant EU regulations were used, and whose standards are incorporated and adjusted to the legal system and conditions on the domestic financial market. It is expected that the new Law on Banks will introduce significant changes, increase the solidity of the entire banking system, and each individual bank, which should, strengthened by capital, contribute to a better support to the real sector.

For UniCredit Bank and Corporate and Investment Banking Segment, 2017 was a year in which we successfully completed the merger process of the company UniCredit Leasing, with the intention to provide better services and more efficient operations to our clients. This status change extended the offer of Bank's products, it is possible to contract leasing in any branch office, and UniCredit Bank is the only bank in Bosnia and Herzegovina that has leasing products in its offer.

In relation to leasing, we may state that our priority in 2017 was to complete the statutory and organizational change, and to consolidate operations after integration. Despite such a demanding and ambitious objective, we retained a significant market share in concluding new contracts in leasing area. The structure of leasing portfolio mostly comprises new vehicles, and the largest number of clients using this product are legal entities. By consolidating operations and establishin leasing sales through the Bank's channels, all the conditions have been met so our focus in the following period could be the growth of volue and increase of sale of leasing products.

Corporate and Investment Banking Segment has achieved a significant result once again, and confirmed the position of a leading bank in the market in operations with corporate clients. We achieved better results than planned in this year as well, and we retained our market share in loans and deposits.

A stable level of deposits, which has not significantly changed for years now, confirms the importance of stability and security that we guarantee to our clients. Corporate client deposits at 2107 year-end amounted to BAM 1,486 million, and they are BAM 334 million higher compared to 2016, and our markets share is 17%.

Total corporate loans amounted to BAM 1,479 million at the end of 2017, and they are BAM 53 million higher compared to 2016.

The largest volume of credit activities was recorded in crediting clients from the sector of private enterprises, both domestic and international clients. We are proud that we have participated in significant investments in energy, manufacturing and trade sectors as a partner bank for domestic private companies, and thus we contributed to economic growth.

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 International Clients Segment, dedicated solely to international companies operating in Bosnia and Herzegovina. By recognizing the specificity of international clients, we develop our business model, and in that sense we continued to develop the service model organization and to increase the number of employees dedicated exclusively to this segment of operations; the best indicator of our dediation is a continuous growth of the number of international clients each year.

Upon observing the structure of market share in corporate loans, the largest markets share is still being recorded in oprations with the state and public companies. Due to non-adoption of the reform agenda at the beginning f the year, and discipline imposed on the public finance segment, for this segment of clients 2017 was recognized as the year of deleveragning and smaller number of investments. However, despite such circumstances, we continued to credit authorities and public administration bodies, and we regularly participated in security auctions and confirmed our high market share in this segment of operations.

In parallel with a significant level of crediting, we continued to improve the quality and stability of the loan portfolio by decreasing the share of NPLs in total loans. In that sense, we will strive to further improve the portfolio quality and additionaly strengthen the awareness and risk management culture.

Our strategic determinants are defined by a will and striving to transform by the expectations of our clients and market trends. The clients are in our primary focus – existing and new ones, and our ambition remains to continuously record high levels of clients satisfaction with both business relationship with the Bank and UniCredit Group, and our products and services. The synergy with other segments of the Bank and UniCredit Group, with whose help we achieve exceptional results and add value to all clients who decided to cooperate with us on both domestic and foreign markets, is exceptionally important. In addition, we strive to improve our service model every day – in that sense we wish to improve and simplify existing business processes, and to create a unique positive experience of working with UniCredit Bank by developing the best personnel.

Our products are continuously being improved and developed by the needs of our clients, and we strive to accelerate digital transformation through all channels. One of the initiatives for digital transformation is being implemented through the Big Data Project, with the aim of improving our understanding of corporate clients and their needs

We implemented a base application platform that offers key financial indicators relevant for managing business relationships with clients, and it comprises a structured process of analysing corporate clients and planning future commercial activities. By implementing this tool, we expect improvement of managing business relationships with clients and more active sales management.

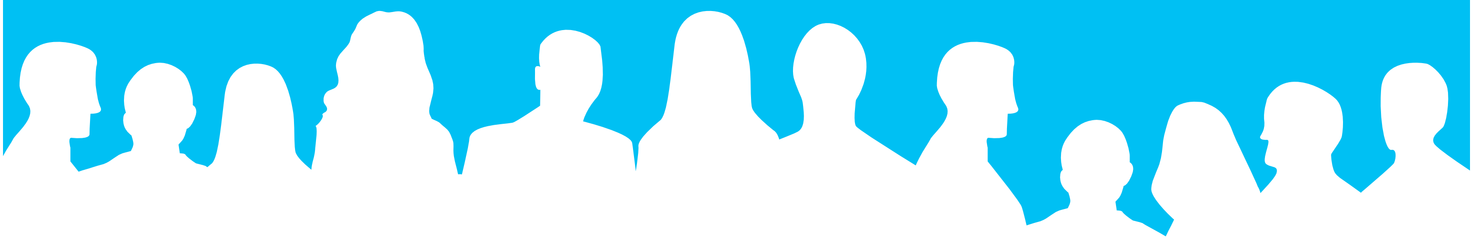
Results recorded in 2017 are indicator that the potential of BiH economy evidently exists, but it is necessary to additionally improve the business environment for the required economic growth and development. One of the main conditions of the International Monetary Fund for the continuance of the credit arrangement implementation has been met by adoption of the amendments to the Law on Excise Duty. A significant inflow of funds is expected based on adoption of this law, which would enable implementation of state-significance projects, and improve dynamics in the implementation of infrastructural and other investments, which together creates a base of higher economic growth expectations in 2018.

It is expected that structural reforms in the country will create a better environment for investments and increase of economic potential, which is necessary for a quicker growth of business activities. A better quality business environment is a pre-condition for further inflow of foreign investments, which wil contribute to the improvement of image and competitiveness of the country, and create new projects and new work places. In that sense, it is necessary to continue going down the European integration path because obtaining a candidate status would definitely positively affect the investment climate.

Intensity and dynamics of economic growth of a country mainly depends on the speed of implementation of measures defined in the reform agenda, and economic trends in the countries which are the main trade partners of BiH. Since 2018 is an election year, it remains to bee seen how much the political conditions will improve and planned reforms implemented in the country, and whether the planned objectives will be achieved with the desired dynamics.

Banking that matters.

UniCredit



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

Financial Overview and Business Performance

Financial indicators

(in BAM '000)	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Total operating income	240,015	239,634	233,860
Profit before provisions and taxation	116,991	116,611	115,743
Profit before taxation	101,551	86,836	92,316
Net profit for the year	89,531	75,913	81,527
Equity and reserves	766,160	712,382	711,229
Loans and receivables from clients	2,980,857	2,783,464	2,782,588
Finance lease receivables	84,836	115,463	-
Current accounts and deposits of clients and banks	4,258,055	3,760,685	3,765,744
Total assets	5,232,856	4,849,170	4,713,758
Performance indicators			
Capital adequacy	16.4%		15.7%
Operating costs in total income	51.3%	51.3%	50.5%
Return on equity and reserve after taxation (ROE)	12,1%	10,6%	11,4%
Return on average total assets before taxation (ROA)	2,0%	1,9%	2,0%

Overview of business operations of the Bank

In 2017, the Bank generated BAM 101.6 million profit before taxation, which is the growth of BAM 9.2 million (+10.0%) 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 (-34.1%), 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 2017 amounts to BAM 240.0 million, which is BAM 6.2 million more than the last year (+2.6%).

Total net interest income amounts to BAM 162.3 million, comprising 67.6% of total income and displaying growth of BAM 2.7 million (+1.7%) as a result of lower interest expenses and lower interest income. Net income from fees and commissions amount to BAM 65.3 million, representing 27.2% in the structure of total income, and it displays growth of 5.7% compared to 2016.

Net interest income

The 2017 net interest income amounted to BAM 162.3 million, which is the increase of BAM 2.7 million (+1.7%) compared to previous year. Despite the Bank achieved a significant growth of volume of client loans, it was not sufficient for a growth of interest income due to continuous decrease in interest rates. The decrease of interest income (-0.9%) is a result of smaller income from loans and higher income from securities. The decrease of interest expenses (-13.7%) was achieved by optimising sources of assets and lower interest rates, with the simultaneous retaining client trust and growth of volume of current accounts and deposits of clients (+13.7%).

Net fee and commission Income

The net fee and commission income amounts to BAM 65.3 million, with an annual growth of BAM 3.5 million (+5.7%).

The increase in fees commission income is mainly a result of higher income from fee rates for card operations, packages of products and fees 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

Net gains from FX transactions and FX differences on conversion of monetary assets and liabilities in 2017 amounted to BAM 10.4 million, displaying decrease of BAM 0.3 million compared to the previous year.

Other income

Other income amounts to BAM 2.0 million and is BAM 0.1 million higher compared to the previous year.

Operating expenses

The 2017 total operating expenses amount to BAM 123.0 million, which is higher by BAM 4.9 million (+4.2%) compared to previous year, due to acquisition of UniCredit Leasing d.o.o. The expenses remained at the same level on the consolidated basis for the previous year.

Personnel costs amounted to BAM 55.8 million and are higher by BAM 2.1 million (+3.9%) compared to the previous year, due to an increased number of employees because of acquisition of UniCredit Leasing.

Other operating 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 of cost management. Share of operating costs in operating income amounts to 51.3%, which is the same as previous year at Group level.

Impairment losses and provisions

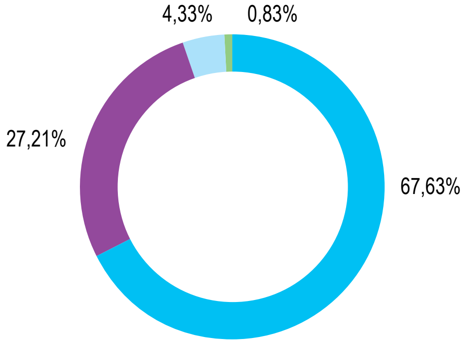
In 2017, total impairment and provisions expenses amounted to BAM 15.4 million, which is BAM 8.0 million (-34.1%) less compared to the previous year.

Impairment losses on loans and receivables, and finance lease receivables amounted to BAM 8.5 million, and they resulted from BAM 1.2 million of cancelled provisioning costs (out of which BAM 6.5 million is related to corporate loans, due to collection of one significant NPL, and BAM 5.3 million of new costs is related to retail loans), plus new costs of provisioning for the performing portfolio in the amount of BAM 9.7 million, and they are BAM 0.8 million (7.8%) lower compared to previous year.

Other impairment and provisioning amounted to BAM 6.9 million of additional charges, including off-balance provisioning of BAM 1.8 million and allowance for other assets of BAM 0.6 million, provisioning costs for litigations of BAM 4.5 million.

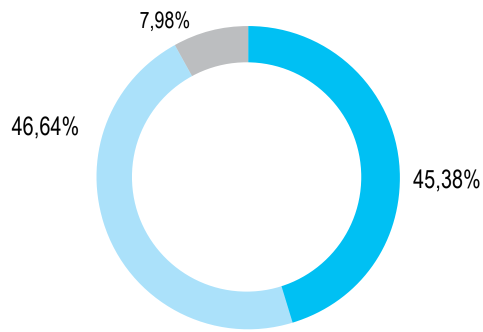
Income and expenses structure for 2017

Structure of income



- net interest income 67.63%
- net fee and commission income 27.21%
- net gains from FX transactions and FX differecences 4.33%
- other income 0.83%

Structure of operating expenses

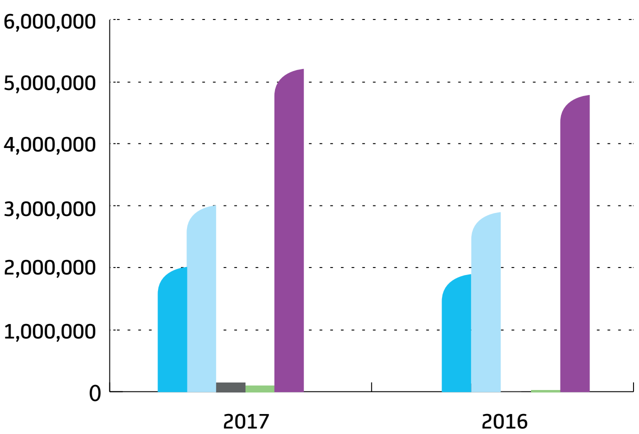


- Staff costs 45.38%
- Other costs 46.64%
- Depreciation and amortization 7.98%

Bank's assets

As of 31 December 2017, the Bank's assets amounted to BAM 5,232.9 million, with an increase in the amount of BAM 519.1 million (+11.0%) compared to previous year. Significant increase of assets is mainly a result of increase in assets of the Assets and Liabilities Management (+BAM 207.8 million/+11.4%) and increase in loans and receivables from clients, which display growth of BAM 198.3 million (+7.1%) compared to the previous year. In addition, Bank's assets have increased for BAM 84.8 million from finance lease receivables due to merger of UniCredit Leasing d.o.o. with the Bank.

Structure of assets (000) KM



Bank's assets and liabilities (CONTINUED)

Assets of Asset and Liability Management

Assets of the Assets and Liabilities Management consist 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 38.9% if total Bank's assets, which is increase compared to the previous year for BAM 207.8 million (11.4%), with the total amount of BAM 2,035.5 million.

The structure of these assets is as follows:

(in BAM '000)	Bank 31 December 2017	Bank 31 December 2016
Cash and cash equivalents	933,214	745,515
Obligatory reserve with CBBH	416,710	366,379
Placements and loans to other banks	275,882	282,149
Financial assets available-for-sale	409,716	433,698
	2,035,522	**1,827,741**

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 2017	31 December 2016	Change
Gross loans			
Corporate	1,478,654	1,425,760	52,894
Retail	1,789,448	1,663,146	126,301
	3,268,102	**3,088,906**	**179,195**
Provisions			
Corporate	173,278	201,594	(28,316)
Retail	113,967	104,754	9,213
	287,245	**306,348**	**(19,103)**
Net loans			
Corporate	1,305,376	1,224,166	81,210
Retail	1,675,481	1,558,392	117,088
	2,980,857	**2,782,558**	**198,298**

Gross loans to clients increased by BAM 179.2 (+5.8%) million on a yearly basis, and with the end of 2017 amount to BAM 3,268.1 million.

Gross loans to corporate clients (including state and public institutions) at the end of 2017 amounted to BAM 1,478.7 million and are increased by BAM 52.9 milion (+3.7%), despite the still present lack of quality investments on the market. Their participation in the total portfolio amounted 45.2% and is decreased by 0.9 pp compared to the last year.

Gross loans to citizens at the end of 2017 amounted to BAM 1,789.4 million, and are increased in the amount of BAM 126.3 million (+7.6%), as a result of recognizing client's demands and needs.

Their share in the total portfolio amounts to 54.8% 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 (72.1%), long-term housing loans (15.6%), and receivables based on current accounts (6.6%) and credit card loans (2.5%).

Long-term loans participate with 62.3% in the total gross loans, while short-term loans made 37.7% of the total corporate loans.

Allowance for impairment losses on loans compared to the previous year decreased by BAM 19.1 million, out of which provisions for retail loans increased by BAM 9.2 million, and provisions for corporate loans decreased by BAM 28.3 million due to resolution of a major NPL. The Bank is continuously focused on preserving the quality of the loan portfolio and therefore non-performing loans are monitored and adequately secured by provisions.

Net loans to clients amounted to BAM 2,980.9 million, recording an increase of BAM 198.3 million (+7.1%) compared to the previous year, and they comprise 57.0% of Bank's total assets.

Finance lease receivables amount to BAM 110.3 million at the end of 2017.

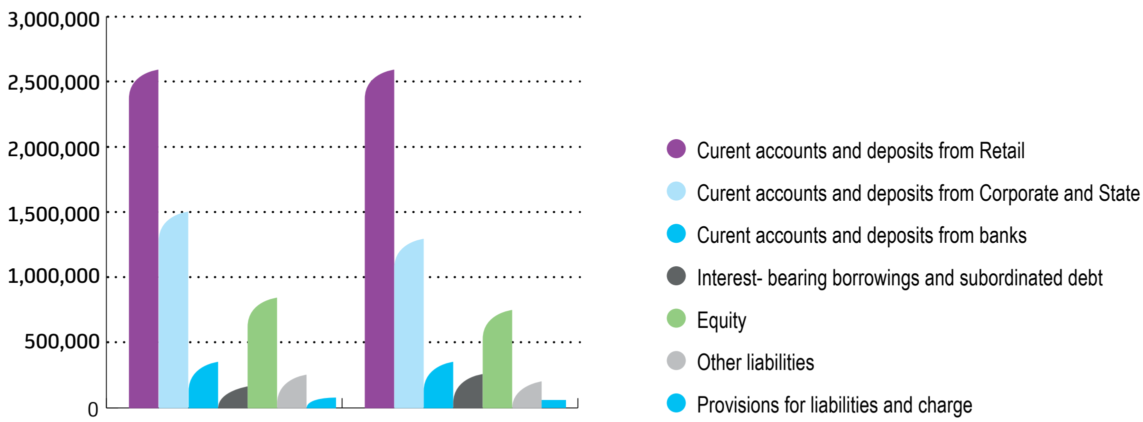
Impairment allowance for finance lease amounts to BAM 25.5 million.

Bank's liabilities

Liabilities, equity and reserves

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

Liabilty structure (000) KM



Current accounts and deposits from clients

Total current accounts and deposits from clients at the end of 2017 amount to BAM 4,071.0 million and are increased by BAM 492.0 million (+13.7%) compared to the previous year. This position comprises 77.8% of Bank's total liabilities.

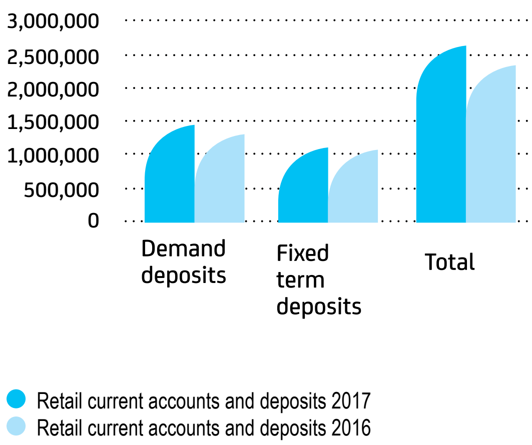
Current accounts and deposits of corporate clients (including state and public institutions) amount to BAM 1.486.4 million and were increased by BAM 333.9 million (29.0%), compared to previous year. Their share in total current accounts and deposits of clients amounted to 36.5%.

The share of total corporate demand deposits (including state and public institutions) amounts to 91.5%, and fixed-term deposits 8.5%.

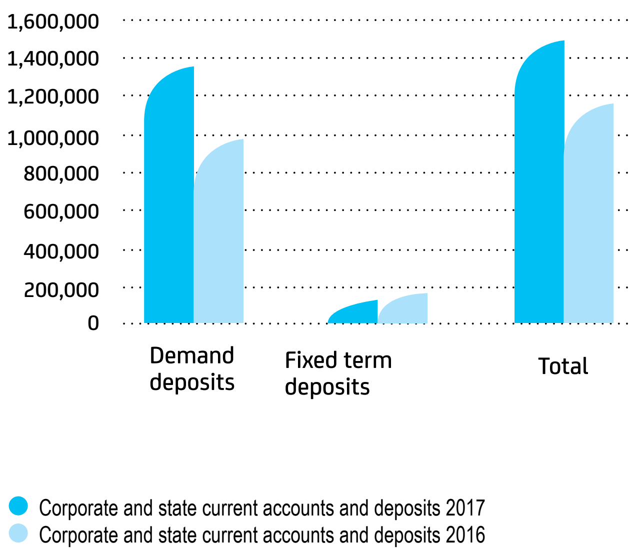
Current accounts, savings and fixed-term deposits of retail clients at the end of 2017 amounted to BAM 2,584.6 million, and are higher compared to previous year by BAM 158.1 million (+6.5%). Their share in total current accounts and client deposits amounted to 63.5%. Within the total retail deposits, fixed-term deposits make up 42.2% and a vista deposits make up 57.8%.

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



Bank's assets and liabilities (CONTINUED)

Current accounts and deposits with banks, and borrowings

Current accounts and bank deposits at the end of 2017 amounted to BAM 187.1 million and are increased by BAM 0.3 million (+0.1%) compared to the previous year.

Borrowings at the end of 2017 amounted to BAM 64.6 million and are decreased by BAM 39.1 million (-37.6%) compared to the previous year, due to servicing of scheduled liabilities on borrowings.

Borrowings consist of assets of UniCredit Bank Austria AG, the EBRD[11], KfW[2], IFC[3], HBOR[4].

The share of bank deposits in total liabilities of the Bank is 3.6%, while the share of borrowings is 1.2%. Compared to the previous year, the share of bank deposits and borrowings in total liabilities and equity of the Bank was creased by 1.4 pp.

Equity and reserves

The Bank's equity amounted to BAM 766.2 million and compared to the end of previous year is increased by BAM 54.9 million, as a result of inclusion of current year profit into the Bank's equity, and dividend payment to the shareholders in the amount of BAM 37 million.

Equity and reserves make 14.7% of the total funding which a decrease of 0.4 pp in comparison to the end of previous year.

The capital adequacy ratio, presented according to the local regulator methodology, is 16.4%, and it is higher compared to the previous year for 0.7 pp.

The capital adequacy according to the Basel III methodology for 2017 is also significantly above the prescribed limit.

Key performance indicators

The profitability ratio ROE is 12.1% and it's above the last year's level +0,7 pp).

ROA is 2,0% which is equal compared to the previous year.

The efficiency indicator (cost to income ratio) is 51.3% and it's weaker by 0.8 pp due to merger of UniCredit Leasing. Compared to the consolidated data for the previous year, the efficiency indicator is at the same level.

Net loans to deposits ratio is 75.3% and it continuously confirms the ability to maintain high level of self-sustainability, i.e. financing of loans from the Bank's own resources.

1 European Bank for Reconstruction and Development

2 Kreditanstalt fuer Wiederaufbau

3 International Finance Corporation

Profitability per employee (gross operating profit in relation to the number of employees) is BAM 92.9 thousand and it has decreased by BAM 1.7 thousand compared to the previous year, as a result of increased number of employees.

Management and Corporate governance in 2017

Pursuant to the provisions of the Law on Banks, 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 2017, 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 2017 are:

1	Miljenko Živaljić	Chairman	Zagrebačka banka d.d., Zagreb, Croatia
2	Claudio Cesario	Deputy Chairman	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	Helmut Franz Haller	Member	UniCredit S.p.A, Vienna, Austria
6	Jasna Mandac	Member (until 18 January 2018)	Zagrebačka banka d.d., Zagreb, Croatia
	Dražena Gašpar	Member (since 19 January 2018)	Zagrebačka banka d.d., Zagreb, Croatia
7	Georg Günther Horndasch	Member (until 18 January 2018)	UniCredit S.p.A., Munchen subsidiary, Germany
	Danimir Gulin	Member (since 19 January 2018)	Zagrebačka banka d.d., Zagreb, Croatia

Management and Corporate governance (NASTAVAK)

Management Board

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

The Management Board is composed of the president and members of the Board pursuant to the Law on Banks, 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 Management Board's method of functioning and decision-making is regulated by the Rulebook on operation of the Bank's Management Board.

In 2017, the Bank Management Board comprise the following members:

1	Dalibor Ćubela	President of the Board
2	Slaven Rukavina	Member of the Board for Retail
3	Igor Bilandžija	Member of the Board for Corporate and Investment Banking
4	Amina Mahmutović	Member of the Board for Risk Management
5	Davor Pavlić	Member of the Board for Support to banking bussines
6	Viliam Pätoprstý	Member of the Board for Finance management / CFO

Audit Committee

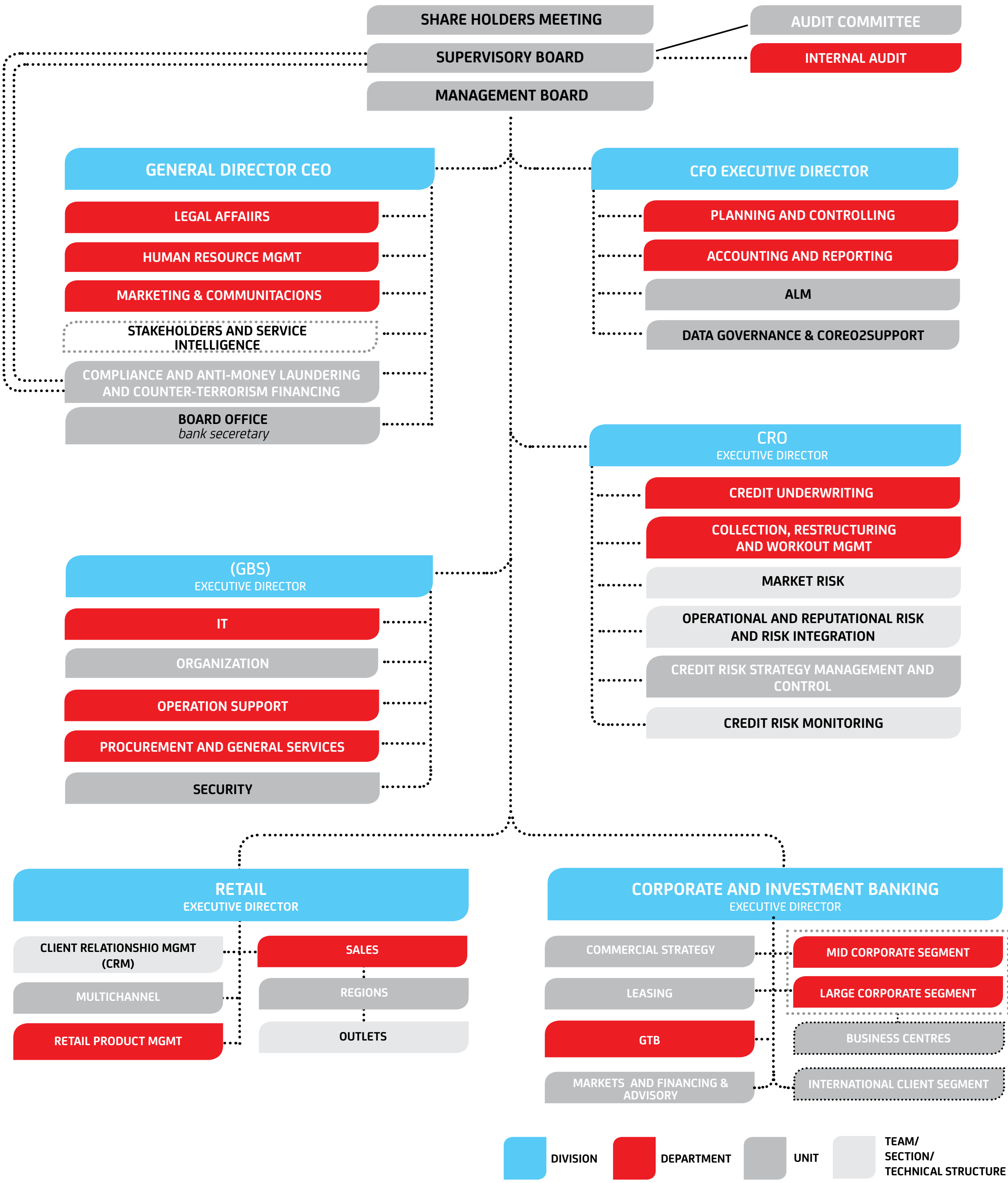
The Audit Committee is responsible for supervising performance and appointment of an external audit company that will conduct an audit of the annual financial statements, and supervises the work of the internal audit, including annual calculation control. The Audit Committee has 5 members who are appointed 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 2017, members of the Audit Committee are as follows:

1	Danimir Gulin (until 18 January 2018)	President
	Mirjana Hladika (since 19 January 2018)	President
2	Marijana Brcko (until 18 January 2018)	Member
	Antonija Matošin (since 19 January 2018)	Member
3	Ante Križan (new term of office since 19 January 2018)	Member
4	Hrvoje Matovina (until 18 January 2018)	Member
5	Christian Pieschel (until 18 January 2018)	Member

Bank's Organisational structure as of 31 of December 2017 – division into key organizational units:



Employees

As of 31 December 2017, the Bank employed 1,262 employees.

The Bank implements a policy of continuous improvement and internal mobility of employees in order to adapt the requirements of the Bank 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 2017, 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**

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 associate (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 Group 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 and Group 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.

UniCredit Bank dioničko društvo

President of the Management Board	Member of the Board for Finance Management
Dalibor Ćubela	Viliam Pätoprstý

UniCredit Bank d.d. Mostar
Kardinala Stepinca b.b.
88000 Mostar
Bosnia and Herzegovina

15 february 2018

Independent Auditor's report

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

Opinion

We have audited the accompanying unconsolidated financial statements of UniCredit Bank d.d. Mostar (the Bank) and the consolidated financial statements of the Group UniCredit Bank d.d. (the "Group), which comprise of the unconsolidated and consolidated statement of financial position as at 31 December 2017, the unconsolidated and consolidated statement of profit or loss and other comprehensive income, the unconsolidated and consolidated statement of changes in equity, and the unconsolidated and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the unconsolidated and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the unconsolidated and consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment losses on loans to and receivables from customers and finance lease

Refer to Notes 2.11.2.a and 2.11.2.1 on pages 50 to 53 of the unconsolidated and consolidated financial statements for the accounting policies, and Notes 4.1.2 and 14 on pages 63 to 67 and page 77 for the additional information respectively.

When there is objective evidence of impairment of loans to and receivables from customers, such as significant difficulties of the debtor, breach of the contractual terms, approving the credit relief to a debtor due to financial difficulties, certain initiation of a bankruptcy proceeding or financial reorganization of a debtor, disappearance of an active market or data that indicates measurable decrease of estimated future cash flows, the Bank and the Group assess certain financial assets for impairment on an individual basis, and the remaining financial assets on a group basis.

Management applies judgment to assess the inputs they find relevant for the calculation of impairment losses on loans and receivables from client on individual basis including, but not limited to, financial position of the client, realization period and value of the collateral at the projected realization date, the expected cash flows and the current local and global economic conditions.

For the group assessment of an impairment for incurred but not reported losses (IBNR), and specific provisions calculated on group basis, the Group and the Bank use statistical models and historical data on the probability of events causing impairment, time required for recovery, and the total amount of incurred loss, adjusted for the Management's judgement on whether the current economic and credit conditions are such that it is probable that the actual losses will be higher or lower than those calculated based on historical data.

How our audit addressed the key audit matter

During the audit we gained an understanding of the Bank's provisioning process through the interviews with responsible personnel, and review of the policies and procedures to consider their adequacy, consistency of controls and employees' responsibilities. The aforementioned resulted in defining the adequate audit procedures to be able to address the risks associated with the impairment losses on loans and receivables from clients.

Our audit procedures were focused on and included the following:

Operating effectiveness of controls

We tested the design and implementation of key controls and tested their operating effectiveness, which are related to testing of impairment losses, with the special focus on:

- control of the counter of days to maturity and probability of default;
- control of input of data in the system on approved loans and receivables from clients, and value of collateral;
- control of the calculation of parameters used for calculation of impairment losses on a group basis.

Automatic controls

We tested thedesign and implementation and tested operating effectiveness of automatic controls identified as significant for our evidence procedures and testing impairment losses. Testing of these controls created a basis for selecting a sample and further testing of impairment of individual loans and receivables from clients.

Individual assessment of impairment losses

Based on the reconciled population of loans and trade receivables and finance lease receivables classified as **"individually impaired"** with syntetic records, we determined the sample for our evidence procedures using statistical solutions provided by audit methodology and our own judgement based on previous knowledge of the client's portfolio and monitoring the most significant movements from the status of performing to non-performing clients.

We performed our testing on the selected sample to assess and determine the existence of potential indicators of the fact that certain loans and receivables and finance lease are inadequately or redundantly provisioned. In this process, we used on judgement to determine parameters for calculation of impairment losses on loans and compared our own calculation with the impairment losses on loans calculated by the Bank. We have analysed the financial positions of the clients, adequacy of the forecasted cash flows compared to actual ones and historical data, the quality of collateral and the adequacy of its assessment, all in accordance with stipulated internal procedures and Bank's methodology. We enquired any breaches of contracts and/or changes from the original terms and conditions of the contract. We additionally considered the impact of the current local and global economic conditions, as well as the group of related parties, and other factors that may affect the recoverability of the loans in the sample. For the same sample of loans, we assessed loan loss provisions that the Bank calculates in accordance with regulations of the Banking Agency of Federation of BiH ("FBA") depending on days overdue, financial position of a debtor and collateral, following the percentages of provisions for the purpose of their adequacy assessment.

Collective assessment of impairment losses

During our audit, we have gained an understanding of the Bank's provisioning process, methodology and parameters used in the calculation of collective impairment losses on loans in order to evaluate the overall adequacy of the collective impairment level. In accordance with internal methodology, we selected a sample of clients, for which we tested the adeqzacy of recognized impairment losses on a group basis following the requirements of the Bank's methodological framework and testing the Bank's internal model in assessting the parameters for Incurred But Not Reported (IBNR) provisioning. The model was tested by a retrospective review.

We recalculated provisions for the same sample that the Bank calculates in accordance with regulations of the Banking Agency of Federation of BiH depending on days overdue, financial position of a debtor and collateral, as well as stipulated percentages of provisions for the purpose of their adequacy assessment.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report.

Our opinion on the financial statements does not cover the other information, and therefore we express no conclusion with expressing assurance on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Annual Report, we have also performed the procedures prescribed by the Law on Accounting and auditing in Federation of Bosnia and Herzegovina.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1. Information included in the other information is, in all material respects, consistent with the unconsolidated and consolidated financial statements.
2. Annual Report has been prepared, in all material respects, in accordance with the requirements of the Law on Accounting and Auditing in Federation of Bosnia and Herzegovina.

Based on the knowledge and understanding of the Bank and the Group and their environment, which we gained during our audit of the unconsolidated and consolidated financial statements, we have not identified material misstatements in the other information. We have nothing to report in this respect.

Responsibilities of the Management and Supervisory Boards for the Unconsolidated and Consolidated Financial Statements

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

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

Supervisory Boards are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the unconsolidated and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting and regulatory obligations

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 134 to 141, and they contain the consolidated and consolidated statement of financial position as at 31 December 2017, and the consolidated and unconsolidated statement of profit or loss and other comprehensive income for the year then ended, and they do not represent an integral part of the consolidated and unconsolidated financial statements presented on pages 34 to 40. The financial information presented in the accompanying forms have been derived from the basic financial statements of the Bank and the Group.

The engagement partner on the audit resulting in this independent auditor's report is Sabina Softić.

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

Strengthen and optimise capital.

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

Statement of profit or loss and other comprehensive income for the year ended 31 December 2017

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

	Notes	Group 2017	Bank 2017	Group 2016	Bank 2016
Interest and similar income	7	190,917	190,917	199,762	192,746
Interest expense and similar charges	8	(28,639)	(28,639)	(36,640)	(33,209)
Net interest income		**162,278**	**162,278**	**163,122**	**159,537**
Fee and commission income	9	68,713	68,713	64,505	64,395
Fee and commission expenses	10	(3,437)	(3,437)	(2,648)	(2,618)
Net fee and commission income		**65,276**	**65,276**	**61,857**	**61,777**
Dividend income		106	106	12	12
Net gains from foreign exchange trading and translation of monetary assets and liabilities	11	10,436	10,436	10,694	10,694
Net gains from security investments					
Other income	12	1,919	1,919	3,949	1,840
Operating income		**240,015**	**240,015**	**239,634**	**233,860**
Depreciation and amortization	25, 26, 27	(9,818)	(9,818)	(11,505)	(10,002)
Operating expenses	13	(113,206)	(113,206)	(111,518)	(108,115)
Profit before impairment losses and taxation		**116,991**	**116,991**	**116,611**	**115,743**
Impairment losses and provisions, net	14	(15,440)	(15,440)	(29,948)	(23,427)
Share in profit of associates	24	134	-	173	-
Profit before taxation		**101,685**	**101,551**	**86,836**	**92,316**
Income tax expense	15	(12,020)	(12,020)	(10,923)	(10,789)
NET PROFIT		**89,665**	**89,531**	**75,913**	**81,527**

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

	Notes	Group 2017	Bank 2017	Group 2016	Bank 2016
Profit for the year		**89,665**	**89,531**	**75,913**	**81,527**
Other comprehensive income:					
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Gross change in fair value of financial assets available-for-sale		1,919	1,919	254	254
Deffered taxes		(190)	(190)	(29)	(29)
Items that may be reclassified subsequently to profit or loss:					
FX differences on fair value of financial assets available-for-sale		(20)	(20)	36	36
		1,709	***1,709***	***261***	***261***
TOTAL COMPREHENSIVE INCOME		**91,374**	**91,240**	**76,174**	**81,788**
Basic and diluted earnings per share (BAM)	34	753,89	752.77	638.27	685.48

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

Statement of financial position
for the year ended 31 December 2017

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

	Notes	Group 31 December 2017	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
ASSETS					
Cash and cash equivalents	16	933,214	933,214	745,516	745,515
Obligatory reserve at the CBBH	17	416,710	416,710	366,379	366,379
Loans and receivables from banks	18	275,882	275,882	282,158	282,149
Financial assets available-for-sale	19	409,716	409,716	433,698	433,698
Financial assets at fair value through profit or loss	20	449	449	4	4
Loans and receivables from clients	21	2,980,857	2,980,857	2,783,464	2,782,558
Finance lease receivables	22	84,836	84,836	115,463	-
Other assets and receivables	23	61,166	61,166	47,837	37,238
Investments in associates	24	767	460	633	460
Investment property	25	898	898	4,245	1,653
Property and equipment	26	54,343	54,343	56,480	50,921
Intangible assets	27	14,325	14,325	13,293	13,183
TOTAL ASSETS		**5,233,163**	**5,232,856**	**4,849,170**	**4,713,758**
LIABILITIES					
Current accounts and deposits from banks	28	187,061	187,061	186,794	186,794
Clients' current accounts and deposits	29	4,070,994	4,070,994	3,573,891	3,578,950
Financial liabilities at fair value through profit or loss	20	994	994	2	2
Borrowings	30	64,605	64,605	241,862	103,782
Other liabilities	31	109,406	109,406	106,794	105,747
Provisions for liabilities and charges	32	31,115	31,115	25,006	24,825
Current tax liability	15	1,202	1,202	1,310	1,300
Deferred tax liability	15	1,319	1,319	1,129	1,129
TOTAL LIABILITIES		**4,466,696**	**4,466,696**	**4,136,788**	**4,002,529**
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		1,700	1,700	(89)	(89)
Revaluation reserve for actuarial gain/loss		(64)	(64)	16	16
Regulatory reserves for credit losses		20,682	20,682	20,682	20,682
Retained earnings		576,718	576,411	524,342	523,189
TOTAL EQUITY		**766,467**	**766,160**	**712,382**	**711,229**
TOTAL LIABILITIES AND EQUITY		**5,233,163**	**5,232,856**	**4,849,170**	**4,713,758**

The accompanying notes form an integral part of these financial statements

Statement of cash flows
for the year ended 31 December 2017

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

	Bank and Group	Group	Bank
	2017	2016	2016
Cash flow from operating activities			
Interest received	190,767	200,858	193,296
Fee and commission received	68,709	64,487	64,377
Interest paid	(32,619)	(40,190)	(36,756)
Fee and commission paid	(2,844)	(2,055)	(2,025)
Operating expenses paid	(109,412)	(111,449)	(108,046)
Net proceeds from trading activities	10,434	10,692	10,692
Other proceeds	1,791	2,972	863
Net cash from operating activities before changes in operating assets and liabilities	***126,826***	***125,315***	***122,401***
(Increase) / decrease in operating assets:			
Obligatory reserve with Central Bank of BiH	(50,331)	(63,511)	(63,511)
Loans and receivables from banks	(6,752)	(125,430)	(125,431)
Loans and receivables from clients and finance lease	(182,668)	(185,143)	(183,366)
Other assets	(9,502)	(7,362)	(6,499)
Net increase in operating assets	***(249,253)***	***(381,446)***	***(378,807)***
Increase / (decrease) in operating liabilities:			
Current accounts and deposits in banks	319	59,118	59,118
Current accounts and deposits from clients	518,676	258,188	259,841
Other liabilities	(125)	24,944	23,279
Net increase in operating liabilities, net	***518,870***	***342,250***	***342,238***
Net cash inflow from operating activities before corporate income tax paid	***396,443***	***86,119***	***86,832***
Corporate income tax paid	(12,094)	(11,380)	(11,190)
Net cash from operating activities	**384,349**	**74,739**	**74,642**
Cash flow from investing activities			
Acquisition of property and equipment	(9,349)	(9,335)	(7,520)
Proceeds from sale of property and equipment	128	1,631	1,273
Acquisition of intangible assets	(4,876)	(3,495)	(3,420)
Receipts on redemption of financial assets available-for-sale	140,931	106,210	106,210
Purchases of financial assets available-for-sale	(119,123)	(109,743)	(109,743)
Acquisition of associates	-	-	-
Dividend paid	(37,050)	(90,001)	(90,001)
Dividend receipts	106	12	12
Net cash used in investing activities	**(29,233)**	**(104,721)**	**(103,189)**

Statement of cash flows
for the year ended 31 December 2017

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

	Bank and Group 2017	Group 2016	Bank 2016
Cash flows from financing activities			
Repayment of subordinated debt	-	-	-
Proceeds from interest-bearing borrowings	11,735	80,189	14,669
Repayment of interest-bearing borrowings	(185,110)	(81,767)	(17,682)
Net cash used in financing activities	**(173,375)**	**(1,578)**	**(3,013)**
Net cash inflow	**181,741**	**(31,560)**	**(31,560)**
Effect of foreign exchange rate fluctuations on cash and cash equivalents	(5,010)	340	340
Net (decrease) / increase in cash and cash equivalents	176,731	(31,220)	(31,220)
Cash and cash equivalents at the beginning of the year	**745,515**	**776,736**	**776,735**
Cash acquired from a subsidiary	10,968	-	-
Cash and cash equivalents at the end of the year	**933,214**	**745,516**	**745,515**

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 2016	**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 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 15)	-	-	-	-	(2)	-	-	(2)
Deferred tax on financial assets available-for-sale (Note 15)	-	-	-	(27)	-	-	-	(27)
Other comprehensive income	-	-	-	*245*	*16*	-	-	*261*
Total comprehensive income	**-**	**-**	**-**	***245***	***16***	**-**	***81,527***	***81,788***
Balance as at 31 Dece mber 2016	**119,195**	**(81)**	**48,317**	**(89)**	**16**	**20,682**	**523,189**	**711,229**
Effects of acquisition of subsidiary (Note 5)	**-**	**-**	**-**	**-**	**-**	**-**	**742**	**742**
Net profit for the year	-	-	-	-	-	-	89,531	89,531
Change in fair value of financial assets available-for-sale	-	-	-	2,008	-	-	-	2,008
Change in fair value at actuarial gain/ loss	-	-	-	-	(89)	-	-	(89)
FX differences on fair value of financial assets available-for-sale	-	-	-	(20)	-	-	-	(20)
Deferred tax on revaluation reserve at actuarial gain/loss (Note 15)	-	-	-	-	9	-	-	9
Deferred tax on financial assets available-for-sale (Note 15)	-	-	-	(199)	-	-	-	(199)
Other comprehensive income	-	-	-	*1,789*	(80)	-	-	*1,709*
Total comprehensive income	-	-	-	***1,789***	(80)	-	***89,531***	***91,240***
Dividend payment	-	-	-	-	-	-	(37,050)	(37,050)
Balance as at 31 December 2017	**119,195**	**(81)**	**48,317**	**1,700**	**(64)**	**20,682**	**576,411**	**766,160**

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

Statement of changes in equity
for the year ended 31 December 2017

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

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 2016	**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 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 15)	-	-	-	-	(2)	-	-	(2)
Deferred tax on financial assets available-for-sale (Note 15)	-	-	-	(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**
Effects of acquisition of subsidiary (Note 5)	-	-	-	-	-	-	**742**	**742**
Consolidation effects of acquired subsidiary of prior year	-	-	-	-	-	-	(981)	(981)
Net profit for the year	-	-	-	-	-	-	89,665	89,665
Change in fair value of financial asset available-for-sale	-	-	-	2,008	-	-	-	2,008
Change in fair value at actuarial gain/loss	-	-	-	-	(89)	-	-	(89)
FX differences on fair value of financial assets available-for-sale	-	-	-	(20)	-	-	-	(20)
Deferred tax on revaluation reserve at actuarial gain/loss (Note 15)	-	-	-	-	9	-	-	9
Deferred tax on financial assets available-for-sale (Note 15)	-	-	-	(199)	-	-	-	(199)
Other comprehensive income	-	-	-	*1,789*	(80)	-	-	*1,709*
Total comprehensive income	-	-	-	***1,789***	***(80)***	**-**	***89,665***	***91,374***
Dividend payment for the year	-	-	-	-	-	-	(37,050)	(37,050)
Balance as at 31 December 2017	**119,195**	**(81)**	**48,317**	**1,700**	**(64)**	**20,682**	**576,718**	**766,467**

The accompanying notes form an integral part of these financial statements

Improve asset quality.

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

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 provides a full range of services including retail and corporate banking, treasury operations, and finance 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.

The Bank merged the company UniCredit Leasing d.o.o. on 1 July 2017.

For 2017, the Bank presented the result of UniCredit Leasing d.o.o. in equity, and the effects of finance lease operations since 1 July 2017 are presented in the statement of profit or loss.

The financial statements encompass separate financial statements of the Bank and consolidated financial statements of the Group for 2016 (together "financial statements"), as defined by International Financial Reporting Standard 10: "Consolidated Financial Statements".

For 2017, the Bank consolidated the Statement of profit or loss and Balance sheet of the associate UniCredit Broker d.o.o. using equity method (Group).

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.

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 Group and the Bank. 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 for 2016 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 (UniCredit Leasing d.o.o.), and the consolidated financial statements for 2017 include the financial statements of the associate (UniCredit Broker d.o.o.) consolidated using equity method (Group).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Consolidation (continued)

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 associcities 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, as lease provider, 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 Bank 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.

2.8.1 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Employee benefits (continued)

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 and the Group value their 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 2017	EUR 1 = BAM 1.95583	USD 1 = BAM 1.63081
31 December 2016	EUR 1 = BAM 1.95583	USD 1 = BAM 1.85545

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.

2.11 Financial instruments

Financial assets and financial liabilities are recognised when the Group 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

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'.

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

Financial assets are classified by the 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 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.

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”) (continued)

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.

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.

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”)

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.

2.11.2 Impairment of financial assets

a) Financial assets carried at amortised cost

The Bank and 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;

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 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.

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.

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 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.

b) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.2 Impairment of financial assets (continued)

b) Financial assets available-for-sale (continued)

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.

2.11.3 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

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

a) Classification (continued)

Financial liabilities (continued)

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

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
- the 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 39.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 36

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

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

a) 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 Group 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.

2.11.4 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.

2.11.5 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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%
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.

2.13 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Taxation (continued)

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.

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Impairment of non-financial assets

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.

2.18 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Equity and reserves (continued)

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.

2.18.6 Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are approved by the Bank'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 the Bank because of specificity of the product.

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.

2.22 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 2017 and 2016 there were no dilution effects.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2017 and 2016, 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. 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 new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- 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 IFRS 12 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

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

3.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following new standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018);
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019);
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);

3. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

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

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

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.

The Bank has already performed a review of the contractual characteristics of the portfolio, and determined that the entire portfolio of loans and receivables is measured at amortized cost, and the portfolio of securities at fair value and there will be no effects on capital due to Classification and Measurement. Calculations demonstrate that the transition to the new standard does not have significant effects on the impairment losses in the Bank's balance (BAM 345 thousand, or 0.06% of Total share capital).

It is planned that the Standard will be effective from 1 January 2018 and the first application effects will be presented through the Bank's equity.

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 2017 and 2016 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.

4.1.2 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 monitor 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 21), carrying value of financial lease (summarised in Note 22), 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.

(all amounts are expressed in thousands of BAM, 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)

	Note	Bank 2017 BAM '000	Group 2016 BAM '000	Bank 2016 BAM '000
Allowances for impairment losses on credit risk exposure				
Allowances for impairment losses on loans and receivables from clients	21	287,245	306,592	306,348
Provisions for financial lease	22	25,501	17,635	
Provisions for off-balance-sheet contingent liabilities	32	19,351	17,582	17,581
Allowances for impairment losses on loans to and receivables from banks	18	124	124	124
Total		**332,220**	**341,933**	**324,053**

Financial assets carried at amortised cost

The Bank 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.

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 Bank 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.

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)

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 2017				31 December 2016
Bank	Corporate (including both state and public sector)	Retail	Financial lease	Total	Corporate (including both state and public sector	Retail	Financial lease	Total
Gross exposure	161,156	94,344	28,424	283,924	211,177	88,327	-	299,504
Impairment rate for non-performing portfolio	90.13%	84.35%	80.84%	87.28%	84.22%	84.12%	-	84.19%

(in BAM '000)				31 December 2016
Group	Corporate (including both state and public sector	Retail	Financial lease	Total
Gross exposure	211,390	88,560	29,511	329,461
Impairment rate for non-performing portfolio	84.24%	83.92%	57.91%	81.79%

Any additional increase in the impairment rate of 1 pp on the gross non-performing exposure, identified as of 31 December 2017, would lead to the recognition of an additional impairment loss of BAM 2,839 thousand (2016: BAM 2,995 thousand) for the Bank.

(all amounts are expressed in thousands of BAM, 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)

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 2017				31 December 2016			
Bank	Corporate (including both state and public sector)	Retail	Financial lease	Total	Corporate (including both state and public sector	Retail	Financial lease	Total
Gross exposure	154,337	69,855	24,089	248,282	210,586	68,074	-	278,660
Impairment rate for non-performing portfolio	87.02%	93.19%	76.18%	88.70%	78.26%	93.79%	-	82.06%

(in BAM '000)	31 December 2016			
Group	Corporate (including both state and public sector	Retail	Financial lease	Total
Gross exposure	210,586	68,074	4,873	283,533
Impairment rate for non-performing portfolio	78.26%	93.79%	14.96%	80.91%

Any additional increase in the impairment rate of 1 pp on the gross non-performing exposure identified as of 31 December 2017, would lead to additional impairment provisions of BAM 2,482 thousand (2015: BAM 2,786 thousand).

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 Bank at 31 December 2017, recognised for risk category B, amounted to BAM 5,356 thousand, while gross exposure amounted to BAM 55,022 thousand.

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)

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.

Bank's IBNR at 31 December 2017, amounted to BAM 81,249 thousand (2016.: BAM 68,863 thousand) or 2.7% (2016: 2.4%) of loans and receivables from clients and finance lease, and 1.4% (2016: 1.3%) of total on- and off-balance-sheet credit risk exposure to clients, in both cases of amounts assessed as performing loans and finance leases.

b) 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 49,305 thousand as at 31 December 2017 added back as Tier 2 capital exceeds by BAM 6,714 thousand the combined amount of regulatory reserves of BAM 20,682 thousand excluded from Tier 1 capital and BAM 21,909 thousand further deducted from capital at that date (2016: missing reserves BAM 39,795 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 2017 the Group has provided BAM 9,080 thousand, which Management estimates as sufficient for covering risk of potential liability from legal proceedings against the Bank.

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

4.1 Key sources of estimation uncertainty (continued)

4.1.4 Fair value of financial instruments

As described in Note 39, 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.

5. MERGER WITH UNICREDIT LEASING D.O.O. SARAJEVO, THE SUBSIDIARY

Given the fact that UniCredit Bank d.d. is the 100% owner of the company UniCredit Leasing d.o.o., and that the entire leasing sector in Bosnia and Herzegovina is in a continuous decline every year, the Bank analysed the potential and possibility of retaining the company UniCredit Leasing d.o.o. as an idependent company in comparison to the potential and possibility of establishing a unified structure that would provide finance lease products in addition to banking products and services.

The fact that UniCredit Leasing d.o.o. is a leasing market leader, despite the market being a low profit area, has been taken into account, and it is the Bank's best interest to continue to provide finance lease services.

After conducted analyses, the Bank prepared a Reorganization plan – study of economic adequacy of merger of the subsidiary UniCredit Leasing d.o.o. with the company UniCredit Bank d.d., and the Business plan of UniCredit Bank d.d. as a successor company. The Banking Agency of Federation of Bosnia and Herzegovina issued a pre-approval of the status change on 15 May 2017, the meeting of the Shareholders Assembly of UniCredit Bank d.d. was held on 30 May 2017, on which the shareholders adopted the Decision on the intended reorganization – merger of UniCredit Leasing d,o.o. Sarajevo and the Reorganization plan – study of economic adequacy of merger of the subsidiary UniCredit Leasing d.o.o. with the company UniCredit Bank d.d., and the Business plan of UniCredit Bank d.d. as a successor company.

Since UniCredit Bank d.d. is a sole owner with 100% equity in the subsidiary UniCredit Leasing d.o.o. that was merged with the Bank, the merger did not affect the ownership structure of UniCredit Bank d.d. as a successor company, regardless of the stated uncovered losses, because they were covered by the net assets of the merged company during the merger process.

The Note below presents the merger effects that amounted to BAM 742 thousand.

5. BUSINESS COMBINATIONS WITH UNICREDIT LEASING D.O.O. SARAJEVO (CONTINUED)

Balance sheet of former UniCredit Leasing d.o.o. Sarajevo as at 1 July 2017 can be presented as follows and it includes provisions pursuant to the requirements of International Accounting Standards:

	UniCredit Leasing d.o.o. Sarajevo
Cash and cash equivalents	10,968
Finance lease receivables, net	108,434
Loan receivables, net	689
Inventories	10,816
Income tax receivables	24
Other assets and receivables	4,270
Vehicles under operating lease	-
Investment property	906
Tangible and intangible assets	304
	136,411
Owner's equity	7,975
(Accumulated losses) / Retained earnings	(7,233)
Borrowings	134,273
Received deposits – down payments	678
Other liabilities	529
Provisions	189
TOTAL EQUITY AND LIABILITIES	**136,411**

On 1 July 2017, the Company recognized effects of merger by increase in equity within its retained earnings in the amount of BAM 742 thosuand as a result of the following:

Elimination of owner's equity and other reserves	(7.975)
Recorded accumulated losses	7.233
	(742)

The Bank acquired share in Unicredit Leasing d.o.o. Sarajevo in the amount of 1.95 BAM (1 Euro).

6. SEGMENT REPORTING

The segments of the Bank and the Group 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.

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

6. SEGMENT REPORTING (CONTINUED)

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

Bank *Year ended 31 December 2017*	Retail	Corporate and Investment Banking	Assets and Liabilities Management	Lease	Central Unit	Total by manage-ment reports	Adjust-ment before financial stateme-nts	Total
Net interest income	117,515	37,929	7,621	1,977	(4,393)	160,649	1,629	162,278
Net fee and commission income	51,553	14,567	(859)	16	(1)	65,276	-	65,276
Dividend income	-	-	-	-	106	106	-	106
Net gains from foreign exchange trading and translation of monetary assets and liabilities	7,443	2,854	140	-	-	10,437	(1)	10,436
Other income	200	902	192	2,106	(3,517)	(117)	2,036	1,919
Operating income	**176,711**	**56,252**	**7,094**	**4,099**	**(7,805)**	**236,351**	**3,664**	**240,015**
Depreciation and amortization	(6,128)	(640)	(25)	-	(1,796)	(8,649)	(1,169)	(9,818)
Operating expenses	(91,419)	(20,697)	(1,649)	(3,254)	(4,066)	(112,953)	(253)	(113,206)
Profit before impairment losses and taxation	**79,164**	**34,915**	**5,420**	**785**	**(5,535)**	**114,749**	**2,242**	**116,991**
Impairment losses and provisions, net	(10,649)	8,719	-	(6,937)	(4,368)	(13,285)	(2,155)	(15,440)
Profit before taxation	**68,515**	**43,634**	**5,420**	**(6,202)**	**(9,903)**	**101,464**	**87**	**101,551**
Income tax expense	(6,851)	(4,363)	(542)	-	(264)	(12,020)	-	(12,020)
NET PROFIT	**61,664**	**39,271**	**4,878**	**(6,202)**	**(10,167)**	**89,444**	**87**	**89,531**

6. SEGMENT REPORTING (CONTINUED)

Statement of profit or loss per segment (continued)

Bank ***Year ended 31 December 2016***	**Retail**	**Corporate and Investing Banking**	**Assets and Liabilities Management**	**Central Unit**	**Total by manage-ment reports**	**Adjust-ment before financial stateme-nts**	**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 BAM, unless otherwise stated)

6. SEGMENT REPORTING (CONTINUED)

Statement of profit or loss per segment (continued)

Group Year ended 31 December 2016	Retail	Corporate and Investment Banking	Assets and Liabilities Management	Central Unit	Finance lease	Total by management reports	Adjustment before financial statements	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**

6. SEGMENT REPORTING (CONTINUED)

Statement of financial position per segment

Bank

31 December 2017	Retail (banking)	Corporate and Investment Banking	Assets and Liabilities Management	Central Unit	Finance Lease	Total by management reports	Adjustment before financial statements	Total
Segment assets	1,785,682	1,195,167	1,658,219	509,542	84,845	5,232,259	(599)	5,232,856
Total assets	**1,785,682**	**1,195,167**	**1,658,219**	**509,542**	**84,845**	**5,232,259**	**(599)**	**5,232,856**
Segment liabilities	2,879,028	1,175,687	251,665	157,716	-	4,464,096	79	4,464,175
Current tax liability	-	-	-	1,218	-	1,218	(16)	1,202
Deferred tax liability	-	-	-	3,381	-	3,381	(2,062)	1,319
Total liabilities	**2,879,028**	**1,175,687**	**251,665**	**162,315**	**-**	**4,468,695**	**(1,999)**	**4,466,696**
Acquisition of property, equipment and intangible assets	-	-	-	14,225	-	-	-	-

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 BAM, unless otherwise stated)

6. SEGMENT REPORTING (CONTINUED)

Statement of financial position per segment (continued)

Group

31 December 2016	Retail (banking)	Corporate and Investment Banking	Assets and Liabilities Management	Central Unit	Finance lease	Total by management reports	Adjustment before financial statements	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	-	-	-	-

7. INTEREST AND SIMILAR INCOME

Analysis by source

	Bank 2017	Group 2016	Bank 2016
Retail	120,553	121,919	121,440
Corporate	42,706	50,989	44,452
State and public sector	25,750	24,822	24,822
Banks and other financial institutions	1,908	2,032	2,032
	190,917	**199,762**	**192,746**

Banks and other financial institutions include CBBH.

Analysis by product

	Bank 2017.	Group 2016	Bank 2016
Loans and receivables from clients	174,794	185,554	178,538
Debt securities (financial assets available-for-sale)	14,799	13,076	13,076
Loans to and receivables from banks	1,324	1,132	1,132
Obligatory reserves and cash reserves with CBBH		-	-
	190,917	**199,762**	**192,746**

Interest income on impaired loans and receivables amounted to BAM 4,604 thousand. (2016: BAM 5,837 thousand), of which effects of unwinding were recognized in interest income in the amount of BAM 1,845 thousand (2016: BAM 2,578 thousand).

8. INTEREST EXPENSE AND SIMILAR CHARGES

Analysis by recipient

	Bank 2017	Group 2016	Bank 2016
Retail	20,836	25,627	25,627
Banks and other financial institutions	2,778	6,790	2,689
Corporate	2,231	3,663	3,664
Negative interest on placements to banks	2,015	669	669
State and public sector	779	560	560
	28,639	**36,640**	**33,209**

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

8. INTEREST EXPENSE AND SIMILAR CHARGES

Analysis by product

	Bank 2017	Group 2016	Bank 2016
Current accounts and deposits from retail clients	20,836	25,627	25,627
Current accounts and deposits from corporate, and state and public sector	3,012	4,226	4,227
Borrowings	2,664	5,751	2,319
Current accounts and deposits from banks	2,127	1,036	1,036
Subordinated debt	-	-	-
	28,639	**36,640**	**33,209**

9. FEE AND COMMISSION INCOME

	Bank 2017	Group 2016	Bank 2016
Credit cards	23,543	22,948	22,948
Domestic payment transactions	19,476	17,835	17,832
Foreign payment transactions	12,033	10,578	10,578
Guarantees and letters of credit	4,906	5,374	5,374
Other	8,755	7,770	7,663
	68,713	**64,505**	**64,395**

10. FEE AND COMMISSION EXPENSES

	Bank 2017	Group 2016	Bank 2016
Domestic payment transactions	823	1,271	1,266
Foreign payment transactions	1,961	824	800
Other	653	553	552
	3,437	**2,648**	**2,618**

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

	Bank 2017	Group 2016	Bank 2016
Net foreign exchange spot trading gains	10,944	11,145	11,145
Net losses from FX forwards	(506)	(449)	(449)
Net foreign exchange loss from translation of monetary assets and liabilities	(2)	(2)	(2)
	10,436	**10,694**	**10,694**

12. OTHER INCOME

	Bank 2017	Group 2016	Bank 2016
Rent income	108	1,933	119
Net income from repossessed collaterals	517	935	935
Income from expenses recharged to clients	76	257	257
Income from cancellation of credit lines	583	-	-
Write-offs of other liabilities and reversal of accrued expenses	102	220	93
Income from IT services	191	141	141
Net gains on disposal of property and equipment	128	42	42
Income from claims settled by insurance companies	61	34	34
Other	153	387	219
	1,919	**3,949**	**1,840**

13. OPERATING EXPENSES

	Bank 2017	Group 2016	Bank 2016
Personnel costs	55,833	55,342	53,752
Administration and marketing expenses	40,605	39,613	38,416
Savings deposit insurance expenses	8,562	7,821	7,821
Rental costs	5,969	6,467	6,412
State contributions (excluding personnel-related)	1,776	1,390	1,164
Other expenses	461	885	550
	113,206	**111,518**	**108,115**

Personnel costs of the Bank include BAM 10,775 thousand of defined contributions paid into the state-owned pension plans (2016: BAM 10,122 thousand).

14. IMPAIRMENT LOSSES AND PROVISIONS, NET

	Bank 2017	Group 2016	Bank 2016
Loans and receivables from clients (Note 21)	1,292	17,368	17,406
Off-balance-sheet exposure to credit risk (Note 32)	1,774	4,460	4,463
Finance lease receivables (Note 22)	7,211	2,877	-
Provisions for legal proceedings (Note 32)	4,490	953	856
Impairment of investment property (Note 25)		853	-
Impairment of tangible assets (Note 26)	-	495	315
Impairment of intangible assets (Note 27)	38	113	113
Provisions for other items (Note 32)	-	(246)	(246)
Other assets (Note 23)	635	3,075	520
	15,440	**29,948**	**23,427**

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

15. INCOME TAX EXPENSE

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

	Bank 2017	Group 2016	Bank 2016
Current income tax	12,020	11,124	10,990
Deferred income tax	-	(201)	(201)
Total tax in Statement of profit or loss	**12,020**	**10,923**	**10,789**
Deffered tax through other comprehensive income	190	190	29

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

	Bank 2017	Group 2016	Bank 2016
Profit before income tax	**101,551**	**86,836**	**92,316**
Tax calculated at rate of 10%	10,155	9,232	9,232
Effects of non-deductible expenses	2,047	1,759	1,759
Effects of expenses not deducted in prior years	-	(1)	(1)
Effects of deductible depreciation	(216)	-	-
Additional income tax in subsidiary for the branch in RS	34	134	-
Current income tax	**12,020**	**11,124**	**10,990**
Average effective income tax rate	**11.8%**	**12.8%**	**11.9%**

15. 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:

	Bank / Group and Bank	Bank / Group and Bank	Bank / Group and Bank
	Deferred tax assets	Deferred tax liabilities	Net deferred tax assets / (liabilities)
Balance at 1 January 2016	**-**	**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
Net tax assets / (liabilities)	(27)	27	-
Other provisions for loans and receivables from clients through profit or loss	-	(201)	(201)
Balance as at 31 December 2016	**-**	**1,129**	**1,129**
Change in fair value of financial assets available-for-sale, recognised in other comprehensive income	199	-	199
Changes in revaluation reserves at actuarial gain/loss	-	(9)	(9)
Other provisions for loans and receivables from clients through profit or loss	-	-	-
Net tax assets / (liabilities)	(199)	199	-
Balance as at 31 December 2017	**-**	**1,319**	**1,319**

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

	Bank	Group	Bank
	2017	2016	2016
Deferred tax assets	**-**	**-**	**-**
Deferred tax liabilities			
Net deferred tax liability for financial assets available-for-sale	(189)	10	10
Net deferred tax assets in revaluation reserves at actuarial gain/loss	7	(2)	(2)
Net deferred tax liability for other provisions for loans and receivables from clients	(1,137)	(1,137)	(1,137)
Net deferred tax liabilities	**(1,319)**	**(1,129)**	**(1,129)**

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

16. CASH AND CASH EQUIVALENTS

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2015
Current accounts with other banks	173,526	255,115	255,115
Giro account with CBBH	613,431	341,117	341,117
Cash in hand	146,213	149,198	149,197
Items in the course of collection	44	86	86
	933,214	**745,516**	**745,515**

17. OBLIGATORY RESERVE AT THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2015
Obligatory reserve at CBBH	416,710	366,379	366,379
	416,710	**366,379**	**366,379**

In 2017, 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.

18. LOANS TO AND RECEIVABLES FROM BANKS

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Placements with other banks – gross	276,004	282,282	282,273
Loans to banks – gross	2	-	-
	276,006	282,282	282,273
Less: Impairment allowance	(124)	(124)	(124)
	275,882	**282,158**	**282,149**
Expected to be recovered:			
- no more than twelve months after the reporting period	269,302	273,548	273,539
- more than twelve months after the reporting period	6,704	8,734	8,734
Less: Allowance for impairment losses	(124)	(124)	(124)
	275,882	**282,158**	**282,149**

18. LOANS TO AND RECEIVABLES FROM BANKS (CONTINUED)

Loans and receivables from banks included BAM 4,444 thousand pledged as collateral for the Bank's liabilities to Visa and MasterCard in respect of credit card operations (2016: BAM 5,033 thousand).

Loans to and receivables from banks include BAM 22,680 thousand (2016: BAM 53,503 thousand) of placements and loans to related parties.

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

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Balance as at 1 January	124	124	124
Changes	-	-	-
Balance as at 31 December	**124**	**124**	**124**

19. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Debt securities available-for-sale	409,517	433,484	433,484
Equity securities available-for-sale	199	214	214
	409,716	**433,698**	**433,698**

During 2017 and 2016, there were no overdue and unpaid financial assets available-for-sale or impairment losses on available-for-sale financial assets.

Debt securities available-for-sale

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Bonds of the Government of Federation of BiH	244,453	294,958	294,958
Bonds of the Government of Republika Srpska	68,073	74,555	74,555
Bonds of other foreign governments	96,991	-	-
Treasury bills of the Government of Republic of Croatia	-	3,487	3,487
Foreign bank bonds	-	60,484	60,484
	409,517	**433,484**	**433,484**

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

19 FINANCIAL ASSETS AVAILABLE-FOR-SALE (CONTINUED)

Equity securities available-for-sale

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Listed or quoted	199	214	214
	199	**214**	**214**

20. 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 2017		31 December 2016	
	Nominal value	Fair value	Nominal value	Fair value
Financial assets				
Forward foreign exchange contracts	4,472	18	5,845	3
Foreign exchange swap contracts	35,546	431	4,281	1
	40,018	**449**	**10,126**	**4**
Financial liabilities				
Forward foreign exchange contracts	1,004	14	352	2
Foreign exchange swap contracts	33,921	980	200	-
	34,925	**994**	**552**	**2**

21. LOANS AND RECEIVABLES FROM CLIENTS

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Corporate (including state and public sector)			
- in domestic currency	1,450,455	1,393,431	1,393,066
- in foreign currency	28,199	32,694	32,694
	1,478,654	1,426,125	1,425,760
Retail			
- in domestic currency	1,789,086	1,663,564	1,662,779
- in foreign currency	362	367	367
	1,798,448	1,663,931	1,663,146
Total loans before allowance	***3,268,102***	***3,090,056***	***3,088,906***
Less: allowance for impairment losses	(287,245)	(306,592)	(306,348)
Net loans	**2,980,857**	**2,783,464**	**2,782,558**
Expected to be recovered:			
- no more than twelve months after the reporting period	1,380,963	1,317,454	1,317,019
- more than twelve months after the reporting period	1,887,139	1,772,602	1,771,887
Less: Allowance for impairment losses	(287,245)	(306,592)	(306,348)
	2,980,857	**2,783,464**	**2,782,558**

Included in Bank's retail loans in domestic currency is BAM 764,489 thousand of gross loans (2016: BAM 663,008 thousand), and in corporate loans in domestic currency BAM 689,542 thousand (2016: BAM 699,207 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 BAM, unless otherwise stated)

21. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

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

Bank	Retail	Corporate	Total
Balance as at 1 January 2016	**98,527**	**197,607**	**296,134**
Increase in provisions for impairment losses	21,269	16,972	38,241
Release of provisions due to decreased exposure	(9,293)	(4,703)	(13,996)
Release on the basis of recoveries of amounts previously reserved	(5,470)	(1,369)	(6,839)
Provisions for impairment losses recognised in the profit or loss (Note 14)	***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**
Increase in provisions for impairment losses	22,895	15,524	38,419
Release of provisions due to decreased exposure	(8,243)	(19,451)	(27,694)
Release on the basis of recoveries of amounts previously reserved	(5,427)	(4,006)	(9,433)
Provisions for impairment losses recognised in the profit or loss (Note 14)	***9,225***	***(7,933)***	***1,292***
Release due to writte-offs	(206)	(18,964)	(19,170)
Effects of acquisition of subsidiary	161	193	354
Other movements	43	(1,609)	(1,566)
Effect of foreign exchange	(10)	(3)	(13)
Balance as at 31 December 2017	**113,967**	**173,278**	**287,245**

Group	Retail	Corporate	Total
Balance as at 1 January 2016	**98,597**	**197,820**	**296,417**
Increase in provisions for impairment losses	21,333	16,987	38,320
Release of provisions due to decreased exposure	(9,293)	(4,703)	(13,996)
Release on the basis of recoveries of amounts previously reserved	(5,580)	(1,376)	(6,956)
Provisions for impairment losses recognised in the profit or loss (Note 14)	***6,460***	***10,908***	***17,368***
Release due to writte-offs	(117)	(4,479)	(4,596)
Cost of special provisions for interest stated in interest income (Note 7)	(156)	(2,422)	(2,578)
Effect of foreign exchange	(7)	(12)	(19)
Balance as at 31 December 2016	**104,777**	**201,815**	**306,592**

21. LOANS AND RECEIVABLES FROM CLIENTS (CONTINUED)

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

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Corporate (including state and public sector)			
Industry:			
Food and drinks	101,275	70,847	70,847
Wood and paper	77,836	84,749	84,749
Electricity, gas and water	43,129	26,171	26,171
Metal and engineering	44,983	29,150	29,150
Chemicals	28,642	28,639	28,639
Electrical and optical equipment	3,039	3,331	3,331
Textile and leather	16,793	5,580	5,580
Tobacco	649	739	739
Other manufacturing	45,220	41,474	41,474
Total industry	***361,566***	***290,680***	***290,680***
Retail and wholesale trade	446,774	389,084	389,084
Central and local governments	128,793	136,845	136,845
Construction	58,452	81,536	81,536
Real estate	86,474	98,939	98,939
Transport and communications	56,805	47,428	47,283
Health and social care	23,296	29,281	29,281
Tourism	66,609	69,625	69,625
Agriculture, forestry and fisheries	16,879	13,389	13,389
Financial intermediaries	8,018	4,195	4,195
Education and other public services	6,108	3,497	3,497
Other	45,602	59,812	59,812
Total corporate	**943,810**	**1,224,310**	**1,224,166**
Retail			
Non-purpose loans	1,223,192	1,133,022	1,133,022
Housing loans	264,298	235,664	235,664
Other retail loans	187,991	190,467	189,706
Total retail	**1,675,481**	**1,559,154**	**1,558,392**
Total loans and receivables from clients	**2,980,857**	**2,783,464**	**2,782,558**

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

22. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Within one year	50,756	56,277	45,870	51,046
In the second to fifth year inclusive	61,125	75,562	55,242	66,885
Over five years	10,207	18,033	9,225	15,167
Gross lease investments	***122,088***	***149,872***	***110,337***	***133,098***
Less: unearned lease income	(11,751)	(16,774)		-
Less: allowance for impairment loss	(25,501)	(17,635)	(25,501)	**(17,635)**
	84,836	**115,463**	**84,836**	**115,463**

The Bank provides financial lease for equipment, vehicles and property. Average term of financial lease is 24 months for vehicles and equipment, and 83 months for property.

Movements in allowance for impairment losses are presented as follows:

	2017	2016
Balance at 1 January	**0**	**14,552**
Increase in provisions for impairment losses	8,722	2,877
Release of provisions due to decreased exposure	(710)	22
Release on the basis of recoveries of amounts previously reserved	(801)	-
Effects of acquisition of subsidiary	18,353	-
Other movements	(63)	228
Balance at 31 December	**25,501**	**17,635**

23. OTHER ASSETS AND RECEIVABLES

	Bank	Group	Bank
	31 December 2017	31 December 2016	31 December 2016
Receivables from debit and credit cards	39,383	29,968	29,968
Assets acquired in lieu of uncollectible receivables	16,425	14,559	-
Accrued fees	625	621	621
Other assets	16,922	13,854	12,183
	73,355	***59,002***	***42,772***
Less: allowance for impairment loss	(12,189)	(11,165)	(5,534)
	61,166	**47,837**	**37,238**

23. OTHER ASSETS AND RECEIVABLES (CONTINUED)

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

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Balance as at 1 January	**5,534**	**13,632**	**8,698**
Effects of acquisition of subsidiary	4,305		
Net charge to profit or loss (Note 14)	635	3,075	520
Reversal of impairment in transfer to investment property	-	(1,740)	-
Reversal of impairment in transfer to tangible assets	2,800	(13)	-
Release due to writte-offs	(1,081)	(425)	(320)
Transfer to investment property (Note 25)	-	(3,364)	(3,364)
Effects of foreign exchange	(4)	-	-
Balance as at 31 December	**12,189**	**11,165**	**5,534**

Assets acquired in lieu of uncollectible receivables are assets (property, vehicles and other equipment) related to the collection of the overdue receivables from loan and financial lease clients, which are not classified in the investment property portfolio.

24. 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 2017 on Group level to BAM 767 thousand due to generated profit of the associate for the previous two periods.

	31 December 2017	31 December 2016
Total assets	925	690
Total liabilities	7	46
Net assets	645	291
Net profit for the year	273	353

25. 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.

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

25. INVESTMENT PROPERTY (CONTINUED)

	Bank 2017	Group 2016	Bank 2016
COST			
Balance as at 1 January 2016	**-**	**10,836**	**-**
Transfer from other assets	5,090	4,206	5,090
Sales	(637)	(637)	(637)
Balance as at 31 December 2016	**4,453**	**14,407**	**4,453**
Transfer from/to other assets	(4,453)	-	-
Effects of acquisition of subsidiary (Note 5)	1,039	-	-
Balance as at 31 December 2017	**1,039**	**-**	**-**
ACCUMULATED DEPRECIATION			
Balance as at 1 January 2016	**-**	**6,385**	**-**
Transfer from other assets (Note 23)	3,364	3,364	3,364
Depreciation charge for the year	-	124	-
Sales	(564)	(564)	(564)
Impairment (Note 14)	-	853	-
Balance as at 31 December 2016	**2,800**	**10,162**	**2,800**
Transfer from/to other assets (Note 23)	(2,800)	-	-
Depreciation charge for the year	8	-	-
Effects of acquisition of subsidiary (Note 5)	133	-	-
Balance as at 31 December 2017	**141**	**-**	**-**
NET CARRYING AMOUNT			
Balance as at 31 December 2017	**898**	**-**	**-**
Balance as at 31 December 2016	**1,653**	**4,245**	**1,653**

Information about the fair value hierarchy as at 31 December 2017 is as follows:

Level 1	Level 2	Level 3
-	-	898

26. PROPERTY AND EQUIPMENT

Bank	Land and buildings	Motor vehicles and equipment	Computers	Leasehold improvements	Assets in progress	Total
COST						
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**
Additions	-	-	-	-	9,349	9,349
Write-offs	-	(4,655)	(5,603)	(1,153)	-	(11,411)
Disposals	-	(380)	(1,632)	-	-	(2,012)
Transfers (from) / to	572	2,209	3,259	711	(6,750)	1
Transfer to intangible assets	-	-	-	-	107	107
Effects of acquisition of subsidiary (Note 5)	663	564	295	-	-	1,522
Other movements	-	-	-	228	60	288
Balance as at 31 December 2016	**53,532**	**30,610**	**41,229**	**23,622**	**6,609**	**155,602**
ACCUMULATED DEPRECIATION						
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 14)	267	-	49	-	-	316
Balance as at 31 December 2016	**19,398**	**25,508**	**39,963**	**21,968**	**-**	**106,837**
Depreciation charge for the year	1,016	1,930	2,068	1,158	-	6,172
Write-offs	-	(4,555)	(5,582)	(1,153)	-	(11,290)
Effects of acquisition of subsidiary (Note 5)	549	467	257	-	-	1,273
Disposals	-	(329)	(1,632)	-	-	(1,961)
Other changes	-	-	-	228	-	228
Balance as at 31 December 2017	**20,963**	**23,021**	**35,074**	**22,201**	**-**	**101,259**
NET BOOK VALUE						
31 December 2017	**32,569**	**7,589**	**6,155**	**1,421**	**6,609**	**54,343**
31 December 2016	**32,899**	**7,364**	**4,947**	**1,868**	**3,843**	**50,921**

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

26. PROPERTY AND EQUIPMENT (CONTINUED)

Group	Land and buildings	Vehicles under operating lease	Motor vehicles and equipment	Computers	Leasehold improvements	Assets in progress	Total
COST							
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 2015	18,124	1,418	26,807	46,519	20,975	-	113,843
Effects of acquisition of subsidiary (Note 5)							
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 14)	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**

26. PROPERTY AND EQUIPMENT (CONTINUED)

The Group's assets in progress as at 31 December 2016 represent equipment, motor vehicles and investment for long-term business lease that have not been activated yet. The Bank had no operating lease in 2017. Operating lease for 2016 relates to vehicles owned by the Group. Since UniCredit Leasing d.o.o. was merged with the Bank, and the Bank is not allowed to perform operating lease operations in accordance to Law on Banks, UniCredit Leasing d.o.o. terminated its operating lease contracts before the merger.

The carrying value of the Bank's non-depreciating land within land and buildings amounted to BAM 404 thousand on 31 December 2017.

During 2017, the Bank did not capitalise any borrowing costs related to the acquisition of property and equipment. During 2017, Bank's property and equipment were not pledged as collateral.

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

27. INTANGIBLE ASSETS

Bank

	Software	Leasehold improvements	Other intangible assets	Assets in progress	Total
COST					
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)
As at 31 December 2016	**41,683**	**-**	**7,217**	**7,336**	**56,236**
Additions	-	-	-	4,876	4,876
Disposals	(1,329)	-	-	(38)	(1,367)
Transfers (from) / to	4,418	-	117	(4,535)	-
Transfer to tangible assets	-	-	-	(107)	(107)
Effects of acquisition of subsidiary	90	-	153	-	243
Transfer within intangible assets	-	-	-	-	-
Other movements	391	-	(7)	(3)	381
As at 31 December 2017	**45,253**		**7,480**	**7,529**	**60,262**
ACCUMULATED DEPRECIATION					
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 14)	113	-	-	-	113
Balance as at 31 December 2016	**35,844**	**-**	**6,657**	**552**	**43,053**
Depreciation charge for the year	3,365	-	273	-	3,638
Effects of acquisition of subsidiary	67	-	122	-	189
Disposals	(1,329)	-	**-**	(38)	(1,367)
Other movements	390	-	(4)	-	386
Impairment (Note 14)	-	-	-	-	38
Balance as at 31 December 2017	**38,337**	**-**	**7,048**	**552**	**45,937**
NET BOOK VALUE					
31 December 2017	**6,916**	**-**	**432**	**6,977**	**14,325**
31 December 2016	**5,839**	**-**	**560**	**6,784**	**13,183**

27. INTANGIBLE ASSETS (CONTINUED)

Group

	Software	Leasehold improvements	Other intangible assets	Assets in progress	Total
COST					
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)
As at 31 December 2016	**41,889**	**-**	**7,767**	**7,336**	**56,992**
ACCUMULATED DEPRECIATION					
As at 31 December 2015	**34,055**	**-**	**7,156**	**552**	**41,763**
Depreciation charge for the year	2,924	-	411	-	3,335
Disposals	(1,105)	-	(407)	-	(1,512)
Impairment (Note 14)	113	-	-	-	113
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**

The Bank's assets in progress as at 31 December 2017 and 2016 represent software that has not been activated yet.

During 2017 and 2016, the Bank did not capitalise any borrowing costs related to the acquisition of intangible assets. During 2017 and 2016, intangible assets were not pledged as collateral for the Bank's borrowings.

28. CURRENT ACCOUNTS AND DEPOSITS FROM BANKS

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Demand deposits			
- in foreign currency	4,374	6,491	6,491
- in BAM	17,000	34,879	34,879
Fixed-term deposits			
- in foreign currency	161,185	140,612	140,612
- in BAM	4,502	4,812	4,812
	187,061	**186,794**	**186,794**

Current accounts and deposits from banks include BAM 165,745 thousand due to related parties (2016: BAM 170,651 thousand).

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

29. CURRENT ACCOUNTS AND DEPOSITS FROM CLIENTS

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Retail			
Current and savings accounts and term deposits - foreign currency	1,448,708	1,386,800	1,386,800
Current and savings accounts and term deposits - BAM	1,135,862	1,039,670	1,039,670
	2,584,570	***2,426,470***	***2,426,470***
Corporate (including state and public sector)			
Demand deposits			
- in BAM	1,097,641	794,099	797,827
- in foreign currency	261,939	178,215	179,546
Fixed-term deposits			
- in BAM	82,744	133,989	133,989
- in foreign currency	44,100	41,118	41,118
	1,486,424	**1,147,421**	**1,152,480**
	4,070,994	**3,573,891**	**3,578,950**

The Bank's retail deposits in BAM include BAM 599 thousand (2015: BAM 681 thousand) and corporate and state deposits in BAM include BAM 48,922 thousand (2016: BAM 62,137 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 2,775 thousand from related parties (2016: BAM 7,047 thousand).

30. BORROWINGS

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Foreign banks	64,605	229,923	91,843
Domestic banks	-	11,939	11,939
	64,605	**241,862**	**103,782**
Maturity analysis:			
Within one year	29,270	176,347	73,192
In the second year	11,694	32,054	13,194
Third to fifth year	22,752	28,190	15,031
After five years	889	5,271	2,365
	64,605	**241,862**	**103,782**

Bank's interest-bearing borrowings include BAM 34,930 thousand (2016: BAM 58,751 thousand) related to borrowings from related parties.

31. OTHER LIABILITIES

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Liabilities for items in the course of settlement	63,602	66,624	66,624
Accrued expenses	23,187	19,656	19,522
Credit card payables	12,498	8,411	8,411
Deferred income	2,547	2,608	2,560
Lease users' down payments	413	765	-
Other liabilities	7,159	8,730	8,630
	109,406	**106,794**	**105,747**

32. PROVISIONS FOR LIABILITIES AND CHARGES

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 2016	**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**
Net charge in profit or loss	1,774	4,490	325	-	6,589
Release due to use of provisions	-	(381)	(223)	-	(604)
Actuarial gain/loss for the period	-	-	89	-	89
Reclassification from other liabilities	-	-	43	-	43
Effects of acquisition of subsidiary	12	139	38	-	189
Foreign currency differences	(16)	-	-	-	(16)
Balance as at 31 December 2017	**19,351**	**9,080**	**2,684**	**-**	**31,115**

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

32. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

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 2016	**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**

Except for long-term provisions for employees, which are presented within personnel costs in Note 13, provisions for liabilities and charges are presented within impairment losses and provisions in Note 14.

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. 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 2017	Bank 2017	Group 2016	Bank 2016
Net profit for the year attributable to ordinary shareholders	89,665	89,531	75,912	81,527
Weighted average number of ordinary shares during the period	118,935	118,935	118,935	118,935
Basic earnings per share (BAM)Basic earnings per share (KM)	**753.89**	**752.77**	**638.27**	**685.48**

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

35. COMMITMENTS AND CONTINGENT LIABILITIES

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

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Unused loan facilities	580,748	501,371	500,675
Payment and custom guarantees	170,955	163,207	163,207
Performance bonds	88,947	122,486	122,486
Letters of credit	18,487	11,236	11,236
	859,137	**798,300**	**797,604**

36. FUNDS MANAGED ON BEHALF OF THIRD PARTIES AND CUSTODY SERVICES

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Assets under custody	498,450	493,847	493,847
Loans managed on behalf of third parties	39,545	55,549	55,549
	537,995	**549,396**	**549,396**

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.

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

37. RELATED PARTY TRANSACTIONS

The Bank is a member of the UniCredit Group ("UCI Group"). The key shareholders of the Bank are Zagrebačka banka d.d. with a holding of 65.59% (2011: 65.59%) and UniCredit Bank Austria AG with 24.4% (2011: 24.4%). The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; its associate (up until disposal); Supervisory Board members, Management Board members and other executive management (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 2017 is presented in the table below:

		2017		2016
Bank	**Income**	**Expenses**	**Income**	**Expenses**
UniCredit Bank Austria AG Wien, Austria	224	1,606	216	1,471
UniCredit Bank a.d. Banja Luka	372	52	797	192
Zagrebačka banka d.d. Zagreb, Croatia	114	674	231	843
UniCredit Bank Slovenija d.d. Ljubljana, Slovenia	12	-	21	-
UniCredit Broker d.o.o. Sarajevo	3	-	2	-
BACA Nekretnine d.o.o. Sarajevo	-	-	3	1
UniCredit Global Information Services	-	4,674	-	4,762
UniCredit S.p.A Milano, Italy	765	756	954	720
UniCredit Bank AG Munich, Germany	1	1,511	241	1
ZANE BH d.o.o. Sarajevo	1	157	1	74
I-Faber SPA	-	44	-	44
UniCredit Bussines Integrated Solutions S.C.p.A.	-	472	-	445
UniCredit Bank Czech Republic and Slovakia a.s.	-	226	-	38
UniCredit Bank Srbija a.d. Beograd, Serbia	-	12	-	1
Uctam BH d.o.o.	1	-	-	-
Total related parties	**1,493**	**10,184**	**2,466**	**8,592**
Subsidiaries				
UniCredit Leasing d.o.o. Sarajevo	65	-	123	1
Total subsidiaries	***65***	***-***	***123***	***1***
Management Board and other key management personnel, and parties related to the Management Board and other key management personnel	114	6,684	151	6,496
	1,672	**17,048**	**2,740**	**15,089**

There were no transactions with the members of the Supervisory Board during 2017 and 2016.

Income from UniCredit Group members in 2017 includes interest income in the amount of BAM 870 thousand (2016: BAM 1,640 thousand) and fee and commission income in the amount of BAM 433 thousand (2016: BAM 462 thousand). Income in 2017 also includes other income in the amount of BAM 255 thousand (2016: BAM 488 thousand).

37. RELATED PARTY TRANSACTIONS (CONTINUED)

Expenses towards UniCredit Group members in 2017 include interest expense in the amount of BAM 1,778 thousand (2016: BAM 1,732 thousand), fees in the amount of BAM 659 thousand (2016: BAM 743 thousand), other administrative expenses in the amount of BAM 6,243 thousand (2016: BAM 5,703 thousand) and other expenses in the amount of BAM 1,504 thousand (2014: BAM 415 thousand).

An overview of balances at 31 December 2017 and 31 December 2016 is presented below:

		31 December 2017		31 December 2017
Bank	**Exposure***	**Liabilities**	**Exposure***	**Liabilities**
UniCredit Bank Austria AG Wien, Austria	6,232	35,496	66,518	82,785
UniCredit Bank a.d. Banja Luka	18,053	3,006	49,973	4,805
Zagrebačka banka d.d. Zagreb, Croatia	14,253	5,596	10,297	4,828
UniCredit Global Information Services	2,538	2,896	2,037	2,811
UniCredit S.p.A Milano, Italy	28,865	157,351	3,936	137,778
UniCredit Bank AG Munich, Germany	12,542	67	1,471	66
ZANE BH d.o.o. Sarajevo	-	1,635	-	1,535
UniCredit Broker d.o.o. Sarajevo	-	723	-	453
UniCredit Bank Slovenija d.d. Ljubljana, Slovenia	-	299	1	395
UniCredit Business Integrated Solutions S.C.p.A.	-	52	-	82
I-Faber SPA	-	44	-	44
UniCredit Bank Czech Republic and Slovakia, a.s.	-	226	-	-
UniCredit Serbia	-	7	-	-
Uctam BH d.o.o.	-	416	-	-
Total related parties	***82,483***	***207,814***	***134,233***	***235,582***
Subsidiary				
UniCredit Leasing d.o.o. Sarajevo	-	-	-	5,059
Total subsidiaries	-	-	-	5,059
Management Board and other key management personnel, and parties related to Management Board and other key management personnel	2,374	9,390	2,233	10,216
	84,857	**217,204**	**136,466**	**250,857**

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

Regarding exposure toward the related parties, the Bank did not have any impairment losses in 2017 and 2016, and the balance of impairment allowance at 31 December 2017 and 31 December 2016 was nil.

Further, the Bank received guarantees from UniCredit Bank Austria AG at 31 December 2017 in the amount BAM 11,924 thousand (31 December 2016: BAM 11,124 thousand), while as at 31 December 2017 the Bank had BAM 489 thousand of given guarantees (31 December 2016: BAM 3,905 thousand).

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

37. RELATED PARTY TRANSACTIONS (CONTINUED)

Remuneration paid to Management Board and other key management personnel:

	Bank 2017	Bank 2016
Gross salaries	4,044	3,877
Bonuses	1,044	1,079
Other benefits	992	584
	6,040	**5,540**

41 employees were included in the Management Board and other key management personnel (2016: 39 employees).

38. 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 Bank 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.

38.1 Credit risk

The Bank 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 Bank.

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.

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

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.1 Maximum exposure to credit risk

The choice of collateral instruments for covering the Bank'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 Bank has implemented a 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 Bank 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:

	Bank	Group	Bank
	31 December 2017	31 December 2016	31 December 2016
Statement of financial position			
Current accounts at CBBH and other banks (Note 16)	787,001	596,318	596,318
Obligatory reserve at CBBH (Note 17)	416,710	366,379	366,379
Loans to and receivables from banks (Note 18)	275,882	282,158	282,149
Debt securities within financial assets available-for-sale (Note 19)	409,517	433,484	433,484
Financial assets at fair value through profit or loss (Note 20)	449	4	4
Financial lease receivables (Note 22)	84,836	115,463	-
Loans and receivables from clients (Note 21)	2,980,857	2,783,464	2,782,558
Other assets exposed to credit risk (part of Note 23)	58,064	46,000	35,666
Total credit risk exposure relating to assets	***5,013,316***	***4,623,270***	***4,496,558***
Off-balance-sheet items (Note 36)			
Unused loan facilities	580,748	501,371	500,675
Guarantees	259,902	285,693	285,693
Letters of credit	18,487	11,236	11,236
Total off-balance sheet credit risk exposure	***859,137***	***798,300***	***797,604***
	5,872,453	**5,421,570**	**5,294,162**

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

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.1 Maximum exposure to credit risk

The above table represents the maximum credit risk exposure of the Group as at 31 December 2017 and 2016, 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.

50.8% of the Bank's total maximum exposure to credit risk is derived from loans and receivables from clients (2016: 52.6%), while 4.7% refers to loans and receivables from banks (2016: 5.3%), and investments in financial assets available for sale 6.0% (2016: 8.2%). The Management is confident in its ability to continue to control and sustain acceptable exposure to credit risk.

38.1.2 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:

	Bank	Group	Bank
	31 December 2017	31 December 2016	31 December 2016
Current account with CBBH (Note 16)	613,431	341,117	341,117
Obligatory reserve at CBBH (Note 17)	416,710	366,379	366,379
Bonds of the Government of Federation of Bosnia and Herzegovina (Note 19)	244,453	294,958	294,958
Bonds of the Government of Republika Srpska	68,073	74,555	74,555
Current tax liability	(1,202)	(1,310)	(1,300)
Deferred tax liability (Note 15)	(1,319)	(1,129)	(1,129)
	1,340,146	**1,074,570**	**1,074,580**

The Bank and the Group had no off-balance sheet sovereign risk exposure at 31 December 2017 and 31 December 2016.

In addition, liabilities to state institutions are as follows:

	Bank	Group	Bank
	31 December 2017	31 December 2016	31 December 2016
Short-term deposits	27,453	(1,816)	(1,816)
Off-balance-sheet exposure	5	4	4

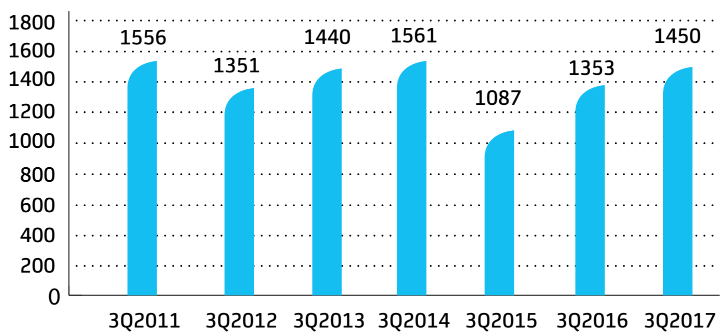
38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.3 Real estate market trends

According to latest information from the Agency for Statistics of Bosnia and Herzegovina in the first nine months of 2017, the number of completed dwellings was 1,450, which is 7.2% more than in the same period of 2016 (1,353). Unfinished apartments at the end of the third quarter of 2017 was 3,077, which is 3.3% more compared to the same period last year (2,976).

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



In the first nine months of 2017, the average price of sold new dwellings records increase for 9.3% compared to the first nine months of 2016. The average price of sold new dwellings in the third quarter of 2017 amounts to BAM 1,628. Compared to the average price of sold new dwellings in 2017, the average price is 4.3% higher, and compared to the third quarter of 2016 it is 11.3% higher. The number of sold new dwellings in the third quarter of 2017 compared to the third quarter of 2017 is 27.8% higher. The number of sold new dwellings compared to 2016 is 4.1% higher.

The prices of properties did not significantly change during 2017 on the BiH real estate market. Small apartments in good locations are the most attractive. It is estimated that the growth of average prices in 2017 compared to 2016 is cca. 2.5% in BiH. The increase in prices is mainly a result of prices growth in large cities in BiH, while prices in small towns are mainly stagnating or have a decreasing tendency.

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

38.1.4 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 Bank.

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

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.4 Reprogramed and restructured receivables (continued)

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 Bank's proposed measures to improve collateral coverage in order to strengthen its position in the collection of receivables.

In 2017, restructured corporate portfolio amounted to BAM 122,142 thousand, with the portfolio coverage by provisions of 44%, while restructured retail portfolio amounted to BAM 3,248 thousand, with the portfolio coverage by provisions of 29%. We emphasize that the effects of integration of UniCredit Leasing's clients into UniCredit Bank d.d. Mostar has been included in the stated volumes.

In 2017, restructured corporate portfolio records a decrease in volume of 15.6% compared to the Group level corporate portfolio at the end of 2016. The evident portfolio decrease is a result of migrations from the aspect of client responsibilities with the regular portfolio collection.

The restructured retail records a decrease of 30.4% compared to the Group level retail portfolio at the end of 2016. Portfolio decrease is a result of pre-segmentation of clients from Restructuring portfolio with the regular portfolio collection.

Received collateral and other instruments of credit security

The Bank 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.

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.

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

38.1.4 Reprogramed and restructured receivables (continued)

Received collateral and other instruments of credit security (continued)

Coverage on loans and financial lease	Bank 31 December 2017	Bank 31 December 2016	Group 31 December 2016
Loans – retail	**1,789,448**	**1,663,146**	**1,663,931**
Uncovered	1,552,575	1,447,464	1,447,593
Covered	236,866	215,682	216,338
Deposits	11,189	13,899	13,899
Mortgage on housing objects	225,677	201,783	202,439
Loans – corporate	**1,478,654**	**1,425,760**	**1,426,125**
Uncovered	822,568	834,895	835,245
Covered	656,085	590,865	590,880
Deposits	55,093	67,932	67,932
State guarantees	19,181	25,758	25,758
Mortgage on housing objects	573,897	491,590	491,590
Other	7,914	5,585	5,600
Finance lease	**110,337**	**-**	**133,098**
Uncovered	110,337	-	112,065
Covered	-	-	21,033
Mortgage on housing objects	-	-	1,153
Other	-	-	19,880

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

Impairment allowance coverage of the non-performing loan portfolio in 2017 is 87.28 % for the Bank (2016: 84.19%).

Total impairment allowances for loans to and receivables from clients and finance lease of the Bank for 2017 are BAM 312,746 thousand (2016: BAM 306,348 thousand), of which BAM 247,804 thousand (2016: BAM 252,149 thousand) relates to impairment allowances for loans for which individual impairment had been identified, and the rest of the value of BAM 64,942 thousand (2016: BAM 54,199 thousand) relates to impairment allowances on portfolio basis.

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

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continued)

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

	Bank 31 December 2017	Group 31 December 2016	Bank 31 December 2016
Retail loans			
Loans that are neither past due nor impaired	1,633,215	1,518,199	1,517,647
Past due loans that are not impaired	61,889	57,172	57,172
Impaired loans	94,344	88,560	88,327
Gross	**1,789,448**	**1,663,931**	**1,663,146**
Less: allowance for impairment losses	(113,967)	(104,777)	(104,754)
Net	**1,675,481**	**1,559,154**	**1,558,392**
Corporate, including state and public sector			
Loans that are neither past due nor impaired	1,308,598	1,157,650	1,157,498
Past due loans that are not impaired	8,900	57,085	57,085
Impaired loans	161,156	211,390	211,177
Gross	**1,478,654**	**1,426,125**	**1,425,760**
Less: impairment allowance	(173,278)	(201,815)	(201,594)
Net	**1,305,376**	**1,224,310**	**1,224,166**
Finance lease			
Financial lease receivables that are not past due	80,121	85,660	-
Past due receivables on financial leasing that are not impaired (Note 22)	1,792	17,927	-
Non-performing receivables on financial leasing (impaired receivables on financial leasing)	28,424	29,511	-
Gross	**110,337**	**133,098**	**-**
Less: impairment allowances	(25,501)	(17,635)	-
Net	**84,836**	**115,463**	**-**

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continue)

38.1.5 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
Bank	**Cash and consumer loans**	**Credit cards and overdrafts**	**Housing loans**	**Sole traders**	**Total**	**Large**	**Medium**	**Small**	**Total**	**Total**
31 December 2017										
Standard monitoring	992,607	145,526	212,393	-	1,350,526	629,540	359,570	103,133	1,092,243	74,849
Special monitoring	205,631	28,728	48,330	-	282,689	162,181	48,347	5,827	216,355	5,282
	1,198,238	**174,254**	**260,723**	**-**	**1,633,215**	**791,721**	**407,917**	**108,960**	**1,308,598**	**80,121**
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**	**-**
Group										
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

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

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continue)

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

b) Past due loans that are not impaired

	Retail					Corporate, including state and public sector				Financial lease
Bank 31 December 2017	**Cash and consumer loans**	**Credit cards and overdrafts**	**Housing loans**	**Sole traders**	**Total**	**Large**	**Medium**	**Small**	**Large**	**Total**
Past due up to 30 days	38,534	14,475	3,406	-	56,415	-	5,568	3,326	8,894	995
Past due 31 to 60 days	2,961	835	489	-	4,285	-	6	-	6	797
Past due 61 to 90 days	846	317	26	-	1,189	-	-	-	-	-
Past due over 90 days	-	-	-	-	-	-	-	-	-	-
	42,341	**15,627**	**3,921**	**-**	**61,889**	**-**	**5,574**	**3,326**	**8,900**	**1,792**
Estimated value of collateral	**480**	**-**	**1,652**	**-**	**2,132**	**-**	**2,454**	**601**	**3,055**	**-**

38. RISK MANAGEMENT (CONTINUED)
38.1 Credit risk (continue)
38.1.5 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				Finance lease
Bank **31 December 2016**	**Cash and consumer loans**	**Credit cards and overdrafts**	**Housing loans**	**Sole traders**	**Total**	**Large**	**Medium**	**Small**	**Total**	**Total**
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**	**-**
Past due over 90 days	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	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**	**-**
Group **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 BAM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continue)

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

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

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.

c) Non-performing loans (impaired loans)

Gross amount of non-preforming loans to clients and financial lease receivables for the Bank as of 31 December 2017 amounts to BAM 283,924 thousand (2016: BAM 299,504), while on net level before cash flows from received collateral instruments they amount to BAM 36,154 thousand (2016: BAM 47,355 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:

Bank

					Retail	Corporate, including state and public sector				Financial lease
31 December 2017	**Cash and consumer loans**	**Credit cards and overdrafts**	**Housing loans**	**Sole traders**	**Total**	**Large**	**Medium**	**Small**	**Total**	**Total**
Non-performing loans	9,897	924	3,894	-	**14,715**	11,739	3,852	401	**15,992**	**5,447**
Estimated value of collateral	**1,286**	**-**	**2,725**	**-**	**4,011**	**4,692**	**1,808**	**362**	**6,862**	**-**

38. RISK MANAGEMENT (CONTINUED)

38.1 Credit risk (continue)

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

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

Bank

	78kh					Corporate, including state and public sector				Finance lease
31 December 2017	**Cash and consumer loans**	**Credit cards and overdrafts**	**Housing loans**	**Sole traders**	**Total**	**Large**	**Medium**	**Small**	**Total**	**Total**
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**	**-**

Group

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**

The Bank expects 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.

38.RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk

Liquidity risk is the potential risk that the Bank will not be able to meet its obligations as scheduled, in full and without delay. It arises in the Bank'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 Bank 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.

38.2.1 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.
- Since the company UniCredit Leasing d.o.o. was merged with the Bank as of 1 July 2017, the Structural liquidity report as at 31 December 2017 is comparable with the Group Structural liquidity report as at 31 December 2016 (below).

38. RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk (continued)

38.2.1 Structural liquidity risk (continued)

Bank

31 December 2017 (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	**-**	**1,308**	**323**	**(100)**	**102**	**353**	**(1,297)**	**(686)**
Assets	**5,634**	**1,497**	**608**	**222**	**710**	**1,209**	**1,168**	**400**
Statement of financial position	***5,559***	***1,497***	***535***	***222***	***708***	***1,209***	***1,168***	***400***
Loans to and receivables from clients	*2,868*	*48*	*156*	*182*	*547*	*901*	*1,002*	*32*
Retail	1,361	5	28	50	203	426	630	19
Corporate	1,507	43	128	132	344	475	372	13
Mortgage loans to clients	*242*	-	*2*	*4*	*16*	*43*	*115*	*62*
Retail	242	-	2	4	16	43	115	62
Securities	*391*	*86*	*148*	-	*28*	*81*	*48*	-
Financial assets available-for-sale	391	86	148	-	28	81	48	-
Loans and receivables from banks	*1,473*	*1,201*	*229*	*36*	-	*4*	*3*	-
Current accounts	171	171	-	-	-	-	-	-
Deposits	272	-	229	36	-	4	3	-
Obligatory reserve at CBBH	1,030	1,030	-	-	-	-	-	-
Other assets	*585*	*162*	-	-	*117*	-	-	*306*
Cash	162	162	-	-	-	-	-	-
Impaired loans	236	-	-	-	-	-	-	236
Investments in subsidiaries and associates	1	-	-	-	-	-	-	1
Other assets	186	-	-	-	117	-	-	69
Off-balance sheet								
Derivatives	*75*	-	*73*	-	*2*	-	-	-
Unused credit facilities	-	-	-	-	-	-	-	-
Liabilities	**5,634**	**189**	**285**	**322**	**608**	**676**	**2,465**	**1,086**
Statement of financial position	***5,556***	***189***	***212***	***322***	***606***	***676***	***2,465***	***1,086***
Demand deposits	*3,243*	*165*	*180*	*124*	*264*	*361*	*2,149*	-
Retail	1,834	19	28	22	51	81	1,633	-
Corporate	1,409	146	152	102	213	280	516	-
Time deposits	*810*	*3*	*27*	*27*	*157*	*293*	*303*	-
Retail	572	3	20	24	106	205	214	-
Corporate	238	-	7	3	51	88	89	-
Liabilities to banks	*251*	*21*	*5*	*171*	*19*	*22*	*13*	-
Borrowings	65	-	-	14	16	22	13	-
Current accounts and deposits	186	21	5	157	3	-	-	-
Other liabilities and equity	*1,252*	-	-	-	*166*	-	-	*1,086*
Equity	766	-	-	-	-	-	-	766
Other liabilities	166	-	-	-	166	-	-	-
Provisions	320	-	-	-	-	-	-	320
Issued debt securities	,	-	-	-	-	-	-	-
Off-balance sheet								
Derivatives	*75*	-	*73*	-	*2*	-	-	-

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

38. RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk (continued)

38.2.1 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 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
Incestments 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*	-	-	-	-	-

38. RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk (continued)

38.2.1 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
Incestments 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 BAM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk (continued)

38.2.2 Future cash flows from financial instruments

The following table details the Group's and Bank'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

Bank	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
31 December 2017							
Non-interest bearing	-	149,317	-	-	-	-	149,317
Variable interest rate instruments	6.43%	1,233,391	55,955	258,758	842,640	541,232	2,931,976
Fixed interest rate instruments	4.40%	598,500	269,999	399,841	999,758	198,137	2,466,234
		1,981,208	**325,954**	**658,599**	**1,842,398**	**739,369**	**5,547,527**
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**
Group							
31 December 2015							
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**

The following table details the 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.

38. RISK MANAGEMENT (CONTINUED)

38.2 Liquidity risk (continued)

38.2.2 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
Bank							
31 December 2017							
Non-interest bearing	-	22,809	4,828	7,056	13,059	1,026	48,777
Variable interest rate instruments	0.24%	2,211,113	54,951	173,534	248,261	1,842	2,689,700
Fixed interest rate instruments	1.14%	37,918	197,866	263,710	444,330	7,234	951,057
		2,271,839	**257,644**	**444,300**	**705,649**	**10,101**	**3,689,533**

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**

Group							
31 December 2015							
Non-interest bearing	-	43,271	4,169	13,153	11,854	869	73,316
Variable interest rate instruments	0,29%	2,307,505	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

The Bank expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

38.3 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.

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

38. RISK MANAGEMENT (CONTINUED)

38.3 Market risk (continued)

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 Bank are coordinated by Zagrebačka banka. In addition to development and implementation of techniques for measuring market risk, the Bank continuously works on improving its business processes and quality of data.

Market risk measurement techniques:

On Bank 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 Bank'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.

38.3.1 Value at Risk

The Bank 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.

Bank's VaR according to risk types in 2017 and 2016 is as follows:

Bank	Minimum 2017	Average 2017	Maximum 2017	End of 2017
Interest risk	(215)	(386)	(1,098)	(747)
Currency risk	-	(1)	(16)	(1)
Securities price risk	(1,131)	(1,532)	(1,808)	(1,211)
Total VaR	**(1,140)**	**(1,663)**	**(1,998)**	**(1,173)**

38. RISK MANAGEMENT (CONTINUED)

38.3 Market risk (continued)

38.3.1 Value at Risk (continued)

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 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)**

38.3.2 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.

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

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

38. RISK MANAGEMENT (CONTINUED)

38.4 Foreign currency risk (continued)

Bank	BAM	EUR	USD	Other currencies	Total
As of 31 December 2017					
Assets	734,644	125,306	11,797	61,467	933,214
Cash and cash equivalents	416,710	-	-		416,710
Obligatory reserve at CBBH	18,004	167,056	76,210	14,612	275,882
Loans and receivables from banks	204,937	172,989	31,790	-	409,716
Financial assets available-for-sale	-	449	-	-	449
Financial assets at fair value through profit or loss	1,664,284	1,316,573	-	-	2,980,857
Loans and receivables from clients		84,836			84,836
Other assets and receivables	47,112	682	48	91	47,933
Investments in subsidiaries and associates	460	-	-	-	460
	3,086,151	**1,867,891**	**119,845**	**76,170**	**5,150,057**
Liabilities					
Current accounts and deposits in banks	21,503	165,558	-	-	187,061
Current accounts and deposits from clients	2,266,725	1,609,757	119,100	75,413	4,070,995
Received deposits-down payments of lease users	-	-	-	-	-
Financial liabilities at fair value through profit or loss	-	994	-	-	994
Borrowings and subordinated debt		64,605			64,605
Other liabilities	84,751	18,106	1,605	84	104,546
Provisions for liabilities and expenses	11,764	-	-	-	11,764
	2,384,743	**1,859,020**	**120,705**	**75,497**	**4,439,965**
Net position	**701,408**	**8,871**	**(860)**	**673**	**710,092**

38. RISK MANAGEMENT (CONTINUED)

38.4 Foreign currency risk (continued)

Bank	BAM	EUR	USD	Ostale valute	Ukupno
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 BAM, unless otherwise stated)

38. RISK MANAGEMENT (CONTINUED)

38.4 Foreign currency risk (continued)

Group	BAM	EUR	USD	Ostale valute	Ukupno
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
Finance lease receivables	-	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-down payments 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**

38.4.1 Foreign currency sensitivity analysis

The Bank 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). Received deposits – down payments of lease users.

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.

38. RISK MANAGEMENT (CONTINUED)

38.4 Foreign currency risk (continued)

38.4.1 Foreign currency sensitivity analysis (continued)

		USD Impact
Group	**31 December 2017**	**31 December 2016**
Loss	(86)	(88)

38.5 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).

38.5.1 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.

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 2017						
BAM	1	(8)	(6)	(77)	-	(90)
EUR	(8)	(27)	59	159	9	192
USD	-	1	(3)	-	-	(3)
	9	**36**	**69**	**236**	**9**	**285**

Values in 2017 are presented as absolute values.

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

38.RISK MANAGEMENT (CONTINUED)

38.5 Interest rate risk (continued)

38.5.1 Interest rate sensitivity analysis (continued)

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)
	10	**18**	**54**	**93**	**-**	**129**

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.

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

38.5.2 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:

	Bank 2017 %	Group 2016 %	Bank 2016 %
Cash and cash equivalents	-0.23	-0.11	-0.11
Obligatory reserve at CBBH	0.00	0.00	0.00
Financial assets available-for-sale	3.36	3.27	3.27
Loans and receivables from banks	-0.06	0.04	0.04
Loans and receivables from clients	5.41	5.9	5.90
Finance lease receivables	4.76	5.41	-
Current accounts and deposits from banks	0.24	1.03	1.03
Current accounts and deposits from clients	0.74	1.01	1.01
Interest-bearing borrowings	2.37	2.37	2.21

38. RISK MANAGEMENT (CONTINUED)

38.6 Operating risk

Operating risk is a risk of losses caused by inadequate or unsuccessful internal processes, personnel and systems or external events, including legal risk.

The Bank 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 Bank 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 Bank, through regular, strategic, supervisory, and audit management. In this way the Bank has a special focus on continuous analysis and development of solutions to avoid, control and transfer operating risk to third parties.

With the system of adequate measures, the Bank intends to decrease the possibility of operating risk events that would have negative implications for the Bank's operations, i.e. to decrease them when they occur. In that sense, the Bank particularly ensured adequate management of the following, given their significance and scope:

- information system and information system risks
- outsourcing risks
- legal risk
- business continuity
- anti-money laundering and terrorism financing system, and
- other relevant systems in the Bank.

The Bank 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, assessment of risk of information and communication technology, scenario analysis and analysis and reporting of the Operating and reputational risk board, Management and other key management personnel and supervisory bodies on the Bank's exposure to operating risk, which also includes reporting on the results of operating risk management.

The Bank 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 Bank's specific policies, processes and procedures.

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.

38.RISK MANAGEMENT (CONTINUED)

38.7 Reputational risk

Reputational risk represents the risk of loss of confidence in the Bank's integrity caused by unfavourable public opinion on the Bank's business practice, which arises from its activities, business relationships with individual clients or activities of the members of Bank's bodies, regardless of whether the basis for such public opinion exists.

The Bank is exposed to reputational risks in all its activities since 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).

The Bank recognises the importance of preventing and mitigating actions in reputational risk management. According to the standards of UniCredit Group, and Bank's own knowledge based on extensive experience and continuous improvements in the area, in its daily operating activities, the BankGroup is systematically approaching to the strategy, monitoring and evaluation for each individual case of reputational risk, as well as continuous education of employees.

Reputational risk management system encompasses tools and mechanisms for continuous recognition, assessment and monitoring of actual or potential reputational risk events, and reporting to the higher management and responsible bodies on the Bank's exposure to reputational risk.

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

38.8 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 2017, the Bank has been in compliance with all regulatory capital requirements and according to the local regulations had a capital adequacy ratio of 16.4% as at 31 December 2017.

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
- 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 2017, 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.

38. RISK MANAGEMENT (CONTINUED)

38.8 Capital management (continued)

In accordance with the above requirements, the Bank has excluded from capital an amount of BAM 42.591 thousand. Out of this amount, BAM 20,682 thousand were already recognised as within the equity in the financial statements; the rest of BAM 21.909 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 2017 was also significantly above the prescribed limit. The composition of the Bank's net capital and ratios for the years ended 31 December 2017 and 2016 is given in the table below (information on risk-weighted assets is unaudited at the date of issuance of this report).

	Bank 2017	Bank 2016
Core capital		
Ordinary shares	119,011	119,011
Treasury shares	(81)	(81)
Share premium	48,317	48,317
Reserve and retained earnings	463,870	376,747
Intangible assets	(14,325)	(13,183)
Negative revaluation reserves due to effects of fair value changes of assets	(211)	(329)
Total share capital	**616,581**	**530,482**
Supplement capital		
ORKG under FBA rules	49,305	44,120
Positive revaluation reserves due to effects of fair value changes of assets	2,101	203
Preference shares	184	184
Subordinated debt	-	-
Total additional capital	**51,590**	**44,507**
Deductions from capital		
Adjustment for shortfall in regulatory reserves per regulatory requirement	(21,909)	(19,113)
Total deductions from capital	**(21,909)**	**(19,113)**
Net capital	**646,262**	**555,876**
Risk weighted assets (unaudited)		
Credit-risk – weighted assets	3,682,931	3,279,395
Other weighted assets	261,479	250,242
Total risk weighted assets	**3,944,410**	**3,529,637**
Capital adequacy ratio	**16.4%**	**15.7%**

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

38. RISK MANAGEMENT (CONTINUED)

38.9 Financial leverage rate

The Bank is obligated to ensure and maintain financial leverage rate starting with the position as of 31 December 2017, 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 2017	Average IV quarter 2016
Exposure value	6,026,667	5,412,430
Active balance positions	5,167,908	4,628,533
Off-balance positions	858,759	783,897
Financial leverage rate	**10.0%**	**9.8%**

39. FAIR VALUE MEASUREMENT

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

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

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).

Bank

31 December 2017			**Fair values**
	Level 1	**Level 2**	**Level 3**
Financial assets available-for-sale (see Note 19)			
Listed equity securities in Bosnia and Herzegovina	154	-	55
Unlisted debt securities in Bosnia and Herzegovina:			
Bonds of the Government of Federation of BiH	-	244,453	-
Bonds of the Government of Republika Srpska	-	68,073	-
Bonds of the Government of Republic of Croatia	96,991	-	-
Unlisted debt securities in Croatia:			
Treasury bills of the Government of Republic of Croatia	-	-	-
Unlisted debt securities in Austria (banking)	-	-	-
Foreign currency forward contracts (see Note 20)			
Assets	-	430	19
Liabilities	-	994	-

39. FAIR VALUE MEASUREMENT (CONTINUED)

39.1 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 19)***			
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 20)			
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 2017 and 2016.

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

39. FAIR VALUE MEASUREMENT (CONTINUED)

39.2 Fair value of the Bank's and 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.

	Bank		Group		Bank	
	31 December 2017		31 December 2016		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Loans and receivables:						
Loans and receivables from clients	2,980,857	3,185,709	2,783,464	2,967,196	2,782,558	2,966,290
Finance lease receivables	84,836	90,737	115,463	115,463	-	-
Financial liabilities						
Financial liabilities held at amortised cost:						
- Current accounts and deposits from clients	4,070,994	4,072,227	3,578,950	3,580,297	3,578,950	3,580,297
- Borrowings	64,605	64,625	241,862	241,216	103,782	103,136

Bank	Fair value hierarchy as at 31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- Loans and receivables from clients	-	107,127	3,078,582	**3,185,709**
- Receivables on financial lease	-		90,737	90,737
	-	**107,127**	**3,169,319**	**3,276,446**
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from clients	-	303,714	3,768,514	**4,072,228**
- Borrowings	-	64,625	-	**64,625**
	-	**368,339**	**3,768,514**	**4,136,853**

39. FAIR VALUE MEASUREMENT (CONTINUED)

39.2 Fair value of the Bank's and 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**

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**

Assumptions used for estimate and measurement of fair value of particular financial instruments for 2017 are based on requirements of IFRS 13, by applying the methodology developed on UniCredit Group level.

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

39. FAIR VALUE MEASUREMENT (CONTINUED)

39.2 Fair value of the Bank's and 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)

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.

39.3 Reconciliation of Level 3 fair value measurements

Fair value of 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.

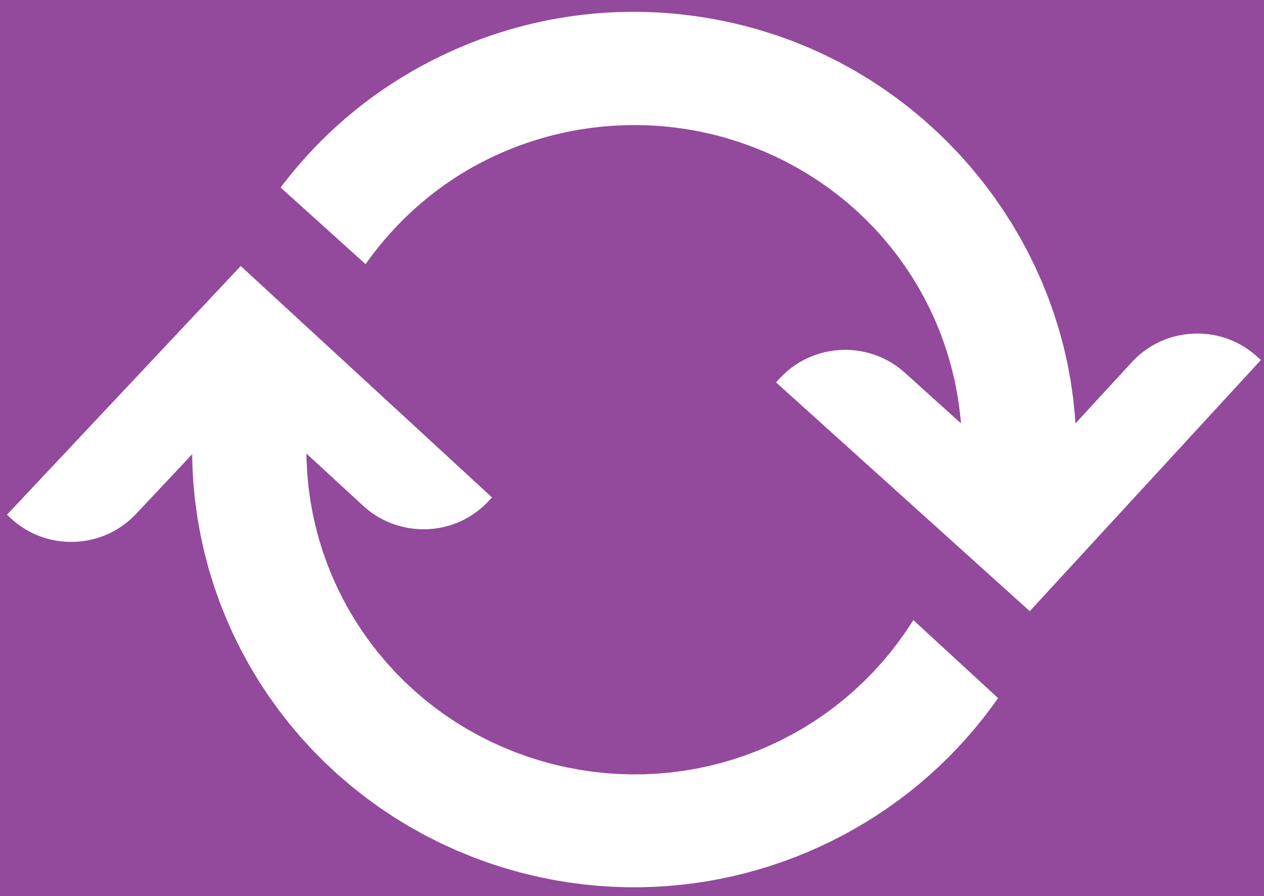
40.APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on the pages 34 do 132 were approved by the Management Board on 15 February 2018 for the submission to the Supervisory Board:

UniCredit Bank • dioničko društvo

President of the Management Board	Member of the Board for Finance Management
Dalibor Ćubela	Viliam Pätoprstý

Transform operating model.



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

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 31.12.2017) 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 31.12.2017).

BALANCE SHEET Statement of financial position as at 31 December 2017 in BAM **BAM**

ITEM	Code for AOP			Current year			Previous year (initial balance)
				Gross	Impairment value	Net (3-4)	
1	2			3	4	5	6
Assets							
A. CURRENT ASSETS AND RECEIVABLES (002+008+011+014+018+022+030+031+032+033+034)	0	0	1	**5,509,504,529**	**329,139,155**	**5,180,365,374**	**4,666,851,488**
1. Cash and cash equivalents,gold and receivables from business (003 to 007)	0	0	2	1,002,093,818	10,720,516	991,373,302	790,275,671
a) Cash and cash equivalents in domestic currency	0	0	3	734,981,353	4,395,269	730,586,084	455,832,094
b) Other receivables in domestic currency	0	0	4	63,381,321	6,053,108	57,328,213	43,873,819
c) Cash and cash equivalents in foreign currency	0	0	5	202,627,789	0	202,627,789	289,682,490
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	1,066,814	272,139	794,675	850,727
2. Deposits and loans in local and foreign currency (009 + 010)	0	0	8	416,709,952	0	416,709,952	366,379,032
a) Deposits and loans in domestic currency	0	0	9	416,709,952	0	416,709,952	366,379,032
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	6,453,037	5,473,910	979,127	1,036,453
a) Fee and interest receivables,receivables based on sale and other receivables in local currency	0	1	2	6,211,305	5,235,004	976,301	1,035,526
b) Fee and interest receivables,receivables based on sale and other receivables in foreign currency	0	1	3	241,732	238,906	2,826	927
4. Loans and deposits (015 to 017)	0	1	4	2,799,591,021	85,095,471	2,714,495,550	2,541,038,507
a) Loans and deposits in local currency	0	1	5	1,463,733,466	40,342,161	1,423,391,305	1,404,345,257
b) Loans and deposits with hedge local currency currency	0	1	6	1,072,786,013	41,528,099	1,031,257,914	900,154,558
c) Loans and deposits in foreign currency	0	1	7	263,071,542	3,225,211	259,846,331	236,538,692
5. Securities (019 to 021)	0	1	8	406,511,446	23,814	406,487,632	431,083,482
a) Securities in local currency	0	1	9	204,704,708	23,814	204,680,894	257,692,628
b) Securities with hedge local currency	0	2	0	106,433,326	0	106,433,326	109,715,137
c) Securities in foreign currency	0	2	1	95,373,412	0	95,373,412	63,675,717
6. Other placements and prepayments (023 to 029)	0	2	2	861,542,787	223,220,280	638,322,507	535,101,803
a) Other placements in local currency	0	2	3	1,563,672	1,547,332	16,340	0
b) Other placements with hedge local currency	0	2	4	65,058,353	9,923,295	55,135,058	0
c) Due placements and current maturities of long-term placements in local currency	0	2	5	754,738,754	196,761,732	557,977,022	509,935,923
d) Prepayments in local currency	0	2	6	13,627,030	381,913	13,245,117	14,305,763
e) Other placements in foreign currency	0	2	7	10,849,054	7,789,041	3,060,013	3,495,941
f) Due placements and current maturities of long-term placements in foreign currency	0	2	8	12,379,210	6,810,523	5,568,687	5,386,711
g) Prepayments in foreign currency	0	2	9	3,326,714	6,444	3,320,270	1,977,465
7. Inventories	0	3	0	16,602,468	4,605,164	11,997,304	1,936,540
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**	**216,897,386**	**147,331,117**	**69,566,269**	**64,103,047**
1. Tangible assets and investment in property 037 to 040)	0	3	6	156,637,693	101,396,385	55,241,308	50,920,419
a) Tangible assets owned by the bank	0	3	7	126,408,677	79,193,863	47,214,814	45,212,748
b) Investment in property	0	3	8	23,622,914	22,202,522	1,420,392	1,867,359
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	6,606,102	0	6,606,102	3,840,312
2. Intangible assets (042 to 046)	0	4	1	60,259,693	45,934,732	14,324,961	13,182,628
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	52,730,957	45,934,732	6,796,225	5,846,259
e) Advances and assets acquired but not brought into use	0	4	6	7,528,736	0	7,528,736	7,336,369
C. DEFFERED TAX ASSETS	**0**	**4**	**7**	**20,217**	**0**	**20,217**	**32,915**
D. OPERATING ASSETS (001+035+047)	**0**	**4**	**8**	**5,726,422,132**	**476,470,272**	**5,249,951,860**	**4,730,987,450**
E. OFF BALANCE SHEET ASSETS	**0**	**4**	**9**	**1,004,220,148**	**0**	**1,004,220,148**	**841,929,387**
F. TOTAL ASSETS (048+049)	**0**	**5**	**0**	**6,730,642,280**	**476,470,272**	**6,254,172,008**	**5,572,916,837**

ITEM	AOP Code	Current year	Previous year (initial balance)
1	2	3	4
A. LIABILITIES (102+106+109+113)	1 0 1	**4,483,791,129**	**4,019,759,016**
1. Deposits and borrowings (103 to 105)	1 0 2	4,277,067,972	3,776,088,429
a) Deposits and interest-bearing borrowings in domestic currency	1 0 3	2,285,284,316	1,941,832,259
b) Hedging deposits and borrowings	1 0 4	49,505,468	74,656,594
c) Deposits and interest-bearing borrowings in foreign currency	1 0 5	1,942,278,188	1,759,599,576
2. Interests and fees (107+108)	1 0 6	17,011	15,096
a) Interests and fees in domestic currency	1 0 7	17,011	15,095
b) Interests and fees in foreign currency	1 0 8	0	1
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	206,706,146	243,655,491
a) Salaries and fees	1 1 4	2,412,352	2,328,338
b) Other liabilities in domestic currency , excluding liabilities for tax and contributions	1 1 5	82,760,606	76,143,185
c) Tax and contributions ,excluding current and deffered income tax	1 1 6	1,986,645	2,649,470
d) Current tax liability	1 1 7	12,020,447	10,989,938
e) Deffered tax liability	1 1 8	1,339,591	1,162,375
f) Provisions	1 1 9	31,114,994	24,824,561
g) Accruals in domestic currency	1 2 0	11,828,179	12,592,930
h) Commission operations,AFS assets,discontinued operation assets,subordinated debt liabilities and current liabilities	1 2 1	385,467	4,569,812
i) Other liabilities in foreign currency	1 2 2	19,794,411	21,101,087
j) Accruals in foreign currency	1 2 3	13,578,106	17,689,218
k) Commission operations, due and subordinated liabilities and current maturities in goreign currency	1 2 4	29,485,348	69,604,577
B. EQUITY (126+132+138+142-148)	1 2 5	**766,160,731**	**711,228,434**
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	484,699,755	397,576,169
a) Reserves from profit	1 3 3	464,018,066	376,894,480
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	1,636,303	-72,923
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	1,707,586	-90,654
c) Other revaluation resererves	1 4 1	-71,283	17,731
4. Profit (143 to 147)	1 4 2	112,541,090	146,441,605
a) Profit for the year	1 4 3	89,530,601	81,527,007
b) Unallocated profit from prior years	1 4 4	23,010,489	64,914,598
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	**5,249,951,860**	**4,730,987,450**
D. OFF BALANCE SHEET LIABILITIES	1 5 2	**1,004,220,148**	**841,929,387**
E. TOTAL LIABILITIES (151+152)	1 5 3	**6,254,172,008**	**5,572,916,837**

BALANCE SHEET Statement of financial result as at 31 December 2017 **in BAM**

ITEM	Code for AOP			VALUE Current year	Prior year
1	2				
A. OPERATING INCOME AND EXPENSES **1. Interest income**	**2**	**0**	**1**	**191,132,472**	**192,746,292**
2. Interest expense	2	0	2	28,472,340	33,125,448
Net interest income (201-202)	2	0	3	162,660,132	159,620,844
Net interest expense (202-201)	2	0	4	0	0
3. Fee and commissions income	2	0	5	93,071,157	85,708,885
4. Fee and commissions expense	2	0	6	17,653,986	15,003,262
Net fee and commission income (205-206)	2	0	7	75,417,171	70,705,623
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	0
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	0
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	0
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	238,077,303	230,326,467
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	121,278,239	117,546,344
a) Expenses of gross salaries and contribution expense	2	2	7	48,607,279	46,448,123
b) Expenses of fees for temporary and occasional work contracts	2	2	8	52,725	140,270
c) Other personnel expenses	2	2	9	3,399,376	3,595,209
d) Material expenses	2	3	0	4,352,104	4,423,527
e) Production services expenses	2	3	1	28,121,411	28,115,581
f) Depreciation expenses	2	3	2	9,817,641	10,002,390
g) Expenses from leasing activities	2	3	3	0	0
h) Non-material expenses (excluding taxes and contributions)	2	3	4	24,886,502	23,038,299
i) Tax and contributions expenses	2	3	5	2,041,201	1,782,945
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	121,278,239	117,546,344
C) GAIN AND LOSS ON PROVISIONS 1. Bad debts recovered (240 to 243)	**2**	**3**	**9**	**192,909,026**	**156,793,437**
a) Income from recovered provisions for placements	2	4	0	157,504,645	126,705,994
b) Income from recovered provisions for off-balance sheet items	2	4	1	35,185,905	29,789,118
c) Income from recovered provision for liabilities	2	4	2	218,476	298,325
d) Income from other provisions recovered	2	4	3	0	0
2. Provision charges (245 to 248)	2	4	4	208,968,846	180,338,971
a) Provisions charges for placements	2	4	5	166,945,392	144,741,490
b) Provision charges for off-balance sheet items	2	4	6	36,960,336	34,251,844
c) Charges based on provisions for liabilities	2	4	7	4,708,070	907,605
d) Other provision charges	2	4	8	355,048	438,032
PROVISIONS INCOME (239-244)	2	4	9	0	0
PROVISION CHARGES (244-239)	2	5	0	16,059,820	23,545,534
D. OTHER INCOME AND EXPENSES 1. Other income (252 to 258)	**2**	**5**	**1**	**4,572,843**	**2,390,342**
a) Income from bad debts previously written off	2	5	2	109,111	55,350
b) Losses from sales of fixed assets, and intangible investments	2	5	3	3,007,325	976,744
c) Income from reduction in liabilities	2	5	4	0	0
d) Income from dividends and shares	2	5	5	106,249	12,138
e) Surplus	2	5	6	31,627	63,024

f) Other income	2	5	7	1,318,531	1,283,086
g) Gains grom discounted operations	2	5	8	0	0
2. Other expense (260 to 266)	2	5	9	3,981,454	699,531
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	2,361,731	0
c) Losses from disposals and write-offs of fixed and intangible assets	2	6	2	113,905	61,607
d) Shortfalls	2	6	3	116,773	27,042
e) Inventorywrite-offs	2	6	4	0	0
f) Other expenses	2	6	5	1,389,045	610,882
g) Expenses from discontinued operations	2	6	6	0	0
GAIN FROM OTHER INCOME AND EXPENSES (251-259)	2	6	7	591,389	1,690,811
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	101,330,633	90,925,400
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**	**171,671,862**	**183,680,965**
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	171,671,862	183,680,965
2. Expenses from change in value of assets and liabilities (278 to 282)	2	7	7	171,451,449	182,290,363
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	57,215	428,351
e) Expenses from unfavorable foreign exchange differences	2	8	2	171,394,234	181,862,012
PROFIT ARISING FROM THE CHANGE IN VALUE OF ASSETS AND LIABILITIES (271-277)	2	8	3	220,413	1,390,602
LOSS FROM CHANGE IN VALUE OF ASSETS AND LIABILITIES (277-271)	2	8	4	0	0
PROFIT BEFORE TAX (269+283-270-284))	2	8	5	101,551,046	92,316,002
LOSS BEFORE TAX (270+284-269-283)	2	8	6	0	0
F. CURRENT AND DEFFERED INCOME TAX 1. Income tax	**2**	**8**	**7**	**12,020,445**	**10,989,936**
2. Profit from increase of deffered tax assets and decrease of deffered tax liabilities	2	8	8	0	200,941
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	89,530,601	81,527,007
LOSS AFTER TAX (286+287+289-288) ili (287+289-285-288)	2	9	1		
G. OTHER PROFIT AND LOSSES FOR THE PERIOD 1. Capital gains (293 to 298)	**2**	**9**	**2**	**1,899,141**	**288,627**
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	1,988,155	270,896
c) Income from transferring financial reports of foreign operations	2	9	5	0	0
d) Actuarial income from defined income scheme	2	9	6	-89,014	17,731
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	0
a) Losses from change in fair value of securities available for sale	3	0	0	0	0
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	1,899,141	288,627
H. INCOME TAX RELATING TO OTHER TOTAL RESULT FOR THE PERIOD	3	0	6	**-189,914**	**-27,267**
OTHER TOTAL RESULT FOR THE PERIOD (305±306)	3	0	7	1,709,227	261,360
TOTAL NET PROFIT FOR THE YEAR (290±307)	3	0	8	91,239,828	81,788,367
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	753	685
Diluted earings per share	3	1	3	753	685
Average number of employees based on hours worked	3	1	4	1,250	1,223
Average number of employees based on periods end	3	1	5	1,235	1,221

CONSOLIDATED BALANCE SHEET Statement of financial position as at 31 December 2017 **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							
A. CURRENT ASSETS AND RECEIVABLES (002+008+011+014+018+022+ 030+031+032+033+034)	**0**	**0**	**1**	**5,509,811,325**	**329,139,155**	**5,180,672,170**	**4,799,677,499**
1. Cash and cash equivalents,gold and receivables from business (003 to 007)	0	0	2	1,002,093,818	10,720,516	991,373,302	790,276,762
a) Cash and cash equivalents in domestic currency	0	0	3	734,981,353	4,395,269	730,586,084	455,832,283
b) Other receivables in domestic currency	0	0	4	63,381,321	6,053,108	57,328,213	43,873,819
c) Cash and cash equivalents in foreign currency	0	0	5	202,627,789	0	202,627,789	289,683,392
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	1,066,814	272,139	794,675	850,727
2. Deposits and loans in local and foreign currency (009 + 010)	0	0	8	416,709,952	0	416,709,952	366,379,032
a) Deposits and loans in domestic currency	0	0	9	416,709,952	0	416,709,952	366,379,032
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	6,453,037	5,473,910	979,127	1,954,736
a) Fee and interest receivables,receivables based on sale and other receivables in local currency	0	1	2	6,211,305	5,235,004	976,301	1,101,779
b) Fee and interest receivables,receivables based on sale and other receivables in foreign currency	0	1	3	241,732	238,906	2,826	852,957
4. Loans and deposits (015 to 017)	0	1	4	2,799,591,021	85,095,471	2,714,495,550	2,541,776,629
a) Loans and deposits in local currency	0	1	5	1,463,733,466	40,342,161	1,423,391,305	1,404,345,257
b) Loans and deposits with hedge local currency currency	0	1	6	1,072,786,013	41,528,099	1,031,257,914	900,892,680
c) Loans and deposits in foreign currency	0	1	7	263,071,542	3,225,211	259,846,331	236,538,692
5. Securities (019 to 021)	0	1	8	406,818,242	23,814	406,794,428	431,256,641
a) Securities in local currency	0	1	9	205,011,504	23,814	204,987,690	257,865,785
b) Securities with hedge local currency	0	2	0	106,433,326	0	106,433,326	109,715,137
c) Securities in foreign currency	0	2	1	95,373,412	0	95,373,412	63,675,717
6. Other placements and prepayments (023 to 029)	0	2	2	861,542,787	223,220,280	638,322,507	656,986,029
a) Other placements in local currency	0	2	3	1,563,672	1,547,332	16,340	0
b) Other placements with hedge local currency	0	2	4	65,058,353	9,923,295	55,135,058	81,508,890
c) Due placements and current maturities of long-term placements in local currency	0	2	5	754,738,754	196,761,732	557,977,022	550,046,646
d) Prepayments in local currency	0	2	6	13,627,030	381,913	13,245,117	14,570,376
e) Other placements in foreign currency	0	2	7	10,849,054	7,789,041	3,060,013	3,495,941
f) Due placements and current maturities of long-term placements in foreign currency	0	2	8	12,379,210	6,810,523	5,568,687	5,386,711
g) Prepayments in foreign currency	0	2	9	3,326,714	6,444	3,320,270	1,977,465
7. Inventories	0	3	0	16,602,468	4,605,164	11,997,304	10,984,366
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	63,306
B. FIXED ASSETS (036+041)	**0**	**3**	**5**	**216,897,386**	**147,331,117**	**69,566,269**	**72,659,777**
1. Tangible assets and investment in property (037 to 040)	0	3	6	156,637,693	101,396,385	55,241,308	59,367,132
a) Tangible assets owned by the bank	0	3	7	126,408,677	79,193,863	47,214,814	51,067,907
b) Investment in property	0	3	8	23,622,914	22,202,522	1,420,392	4,458,913
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	6,606,102	0	6,606,102	3,840,312
2. Intangible assets (042 to 046)	0	4	1	60,259,693	45,934,732	14,324,961	13,292,645
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	52,730,957	45,934,732	6,796,225	5,956,276
e) Advances and assets acquired but not brought into use	0	4	6	7,528,736	0	7,528,736	7,336,369
C. DEFFERED TAX ASSETS	**0**	**4**	**7**	**20,217**	**0**	**20,217**	**32,915**
D. OPERATING ASSETS (001+035+047)	**0**	**4**	**8**	**5,726,728,928**	**476,470,272**	**5,250,258,656**	**4,872,370,192**
E. OFF BALANCE SHEET ASSETS	**0**	**4**	**9**	**1,004,220,148**	**0**	**1,004,220,148**	**876,214,448**
F. TOTAL ASSETS (048+049)	**0**	**5**	**0**	**6,730,949,076**	**476,470,272**	**6,254,478,804**	**5,748,584,640**

ITEM	AOP Code	Current year	Previous year (initial balance)
1	2	3	4
A. LIABILITIES (102+106+109+113)	**1 0 1**	**4,483,791,129**	**4,154,015,473**
1. Deposits and borrowings (103 to 105)	1 0 2	4,277,067,972	3,806,718,544
a) Deposits and interest-bearing borrowings in domestic currency	1 0 3	2,285,284,316	1,942,597,218
b) Hedging deposits and borrowings	1 0 4	49,505,468	74,656,594
c) Deposits and interest-bearing borrowings in foreign currency	1 0 5	1,942,278,188	1,789,464,732
2. Interests and fees (107+108)	1 0 6	17,011	15,699
a) Interests and fees in domestic currency	1 0 7	17,011	15,095
b) Interests and fees in foreign currency	1 0 8	0	604
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	206,706,146	347,281,230
a) Salaries and fees	1 1 4	2,412,352	2,328,338
b) Other liabilities in domestic currency , excluding liabilities for tax and contributions	1 1 5	82,760,606	76,167,045
c) Tax and contributions ,excluding current and deffered income tax	1 1 6	1,986,645	2,657,904
d) Current tax liability	1 1 7	12,020,447	10,999,762
e) Deffered tax liability	1 1 8	1,339,591	1,162,375
f) Provisions	1 1 9	31,114,994	25,004,462
g) Accruals in domestic currency	1 2 0	11,828,179	12,746,009
h) Commission operations,AFS assets,discontinued operation assets,subordinated debt liabilities and current liabilities	1 2 1	385,467	4,569,812
i) Other liabilities in foreign currency	1 2 2	19,794,411	21,172,006
j) Accruals in foreign currency	1 2 3	13,578,106	17,714,946
k) Commission operations, due and subordinated liabilities and current maturities in goreign currency	1 2 4	29,485,348	172,758,571
B. EQUITY (126+132+138+142-148)	**1 2 5**	**766,467,527**	**718,354,717**
1. Issued share capital (127+128+129-130-131)	1 2 6	167,283,583	175,762,937
a) Share capital	1 2 7	119,195,000	119,195,000
b) Other forms of capital	1 2 8	0	8,479,354
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	484,699,755	397,576,168
a) Reserves from profit	1 3 3	464,018,066	376,894,480
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	1,636,303	-72,923
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	1,707,586	-90,654
c) Other revaluation resererves	1 4 1	-71,283	17,731
4. Profit (143 to 147)	1 4 2	112,847,886	147,923,873
a) Profit for the year	1 4 3	89,664,238	81,700,166
C. LIABILITIES (101+125)	**1 5 1**	**5,250,258,656**	**4,872,370,192**
D. OFF BALANCE SHEET LIABILITIES	**1 5 2**	**1,004,220,148**	**876,214,448**
E. TOTAL LIABILITIES (151+152)	**1 5 3**	**6,254,478,804**	**5,748,584,640**

UniCredit Leasing d.o.o. was merged with the Bank as of 1 July 2017.
Net profit of UniCredit Leasing d.o.o. is BAM 70,173.03 as at 30 June 2017, and is included in the financial statements of the Bank in reserves as retained earnings acquired in the merger process, and it is directly recognized in the Bank's equity; as such it is not included in the statement of profit or loss of the Bank.

CONSOLIDATED BALANCE SHEET Statement of financial result as at 31 December 2017 **in BAM**

ITEM	Code for AOP			VALUE Current year	Prior year
1	2				
A. OPERATING INCOME AND EXPENSES					
1. Interest income	**2**	**0**	**1**	**191,132,472**	**199,990,069**
2. Interest expense	2	0	2	28,472,340	36,556,761
Net interest income (201-202)	2	0	3	162,660,132	163,433,308
Net interest expense (202-201)	2	0	4	0	0
3. Fee and commissions income	2	0	5	93,071,157	85,819,015
4. Fee and commissions expense	2	0	6	17,653,986	15,033,498
Net fee and commission income (205-206)	2	0	7	75,417,171	70,785,517
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	0
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	0
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	0
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	238,077,303	234,218,825
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**	**1,919,519**
a) Income from leasing activities	2	2	4	0	1,510,239
b) Other operating income	2	2	5	0	409,280
2. Operating expense (227 to 236)	2	2	6	121,278,239	122,249,908
a) Expenses of gross salaries and contribution expense	2	2	7	48,607,279	47,789,341
b) Expenses of fees for temporary and occasional work contracts	2	2	8	52,725	206,622
c) Other personnel expenses	2	2	9	3,399,376	3,633,532
d) Material expenses	2	3	0	4,352,104	4,523,855
e) Production services expenses	2	3	1	28,121,411	28,973,748
f) Depreciation expenses	2	3	2	9,817,641	11,505,443
g) Expenses from leasing activities	2	3	3	0	178,379
h) Non-material expenses (excluding taxes and contributions)	2	3	4	24,886,502	23,349,914
i) Tax and contributions expenses	2	3	5	2,041,201	2,089,074
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	121,278,239	120,330,389
C) GAIN AND LOSS ON PROVISIONS					
1. Bad debts recovered (240 to 243)	**2**	**3**	**9**	**192,909,026**	**157,370,078**
a) Income from recovered provisions for placements	2	4	0	157,504,645	127,282,635
b) Income from recovered provisions for off-balance sheet items	2	4	1	35,185,905	29,789,118
c) Income from recovered provision for liabilities	2	4	2	218,476	298,325
d) Income from other provisions recovered	2	4	3	0	0
2. Provision charges (245 to 248)	2	4	4	208,968,846	184,724,653
a) Provisions charges for placements	2	4	5	166,945,392	145,542,507
b) Provision charges for off-balance sheet items	2	4	6	36,960,336	34,251,844
c) Charges based on provisions for liabilities	2	4	7	4,708,070	1,092,769
d) Other provision charges	2	4	8	355,048	3,837,533
PROVISIONS INCOME (239-244)	2	4	9	0	0
PROVISION CHARGES (244-239)	2	5	0	16,059,820	27,354,575
D. OTHER INCOME AND EXPENSES					
1. Other income (252 to 258)	**2**	**5**	**1**	**4,706,480**	**3,112,968**
a) Income from bad debts previously written off	2	5	2	109,111	440,870
b) Losses from sales of fixed assets, and intangible investments	2	5	3	3,007,325	976,744
c) Income from reduction in liabilities	2	5	4	0	0
d) Income from dividends and shares	2	5	5	239,886	185,297
e) Surplus	2	5	6	31,627	63,024

f) Other income	2	5	7	1,318,531	1,447,033
g) Gains grom discounted operations	2	5	8	0	0
2. Other expense (260 to 266)	2	5	9	3,981,454	745,531
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	2,361,731	0
c) Losses from disposals and write-offs of fixed and intangible assets	2	6	2	113,905	97,016
d) Shortfalls	2	6	3	116,773	27,042
e) Inventorywrite-offs	2	6	4	0	0
f) Other expenses	2	6	5	1,389,045	621,473
g) Expenses from discontinued operations	2	6	6	0	0
GAIN FROM OTHER INCOME AND EXPENSES (251-259)	2	6	7	725,026	2,367,437
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	101,464,270	88,901,298
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**	**171,671,862**	**183,680,967**
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	171,671,862	183,680,967
2. Expenses from change in value of assets and liabilities (278 to 282)	2	7	7	171,451,449	182,290,369
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	57,215	428,351
e) Expenses from unfavorable foreign exchange differences	2	8	2	171,394,234	181,862,018
PROFIT ARISING FROM THE CHANGE IN VALUE OF ASSETS AND LIABILITIES (271-277)	2	8	3	220,413	1,390,598
LOSS FROM CHANGE IN VALUE OF ASSETS AND LIABILITIES (277-271)	2	8	4	0	0
PROFIT BEFORE TAX (269+283-270-284))	2	8	5	101,684,683	90,291,896
LOSS BEFORE TAX (270+284-269-283)	2	8	6	0	0
F. CURRENT AND DEFFERED INCOME TAX 1. Income tax	**2**	**8**	**7**	**12,020,445**	**11,124,084**
2. Profit from increase of deffered tax assets and decrease of deffered tax liabilities	2	8	8	0	200,941
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	89,664,238	79,368,753
LOSS AFTER TAX (286+287+289-288) ili (287+289-285-288)	2	9	1		
G. OTHER PROFIT AND LOSSES FOR THE PERIOD 1. Capital gains (293 to 298)	2	9	2	1,899,141	288,627
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	1,988,155	270,896
c) Income from transferring financial reports of foreign operations	2	9	5	0	0
d) Actuarial income from defined income scheme	2	9	6	-89,014	17,731
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	0
a) Losses from change in fair value of securities available for sale	3	0	0	0	0
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	1,899,141	288,627
H. INCOME TAX RELATING TO OTHER TOTAL RESULT FOR THE PERIOD	**3**	**0**	**6**	**-189,914**	**-27,267**
OTHER TOTAL RESULT FOR THE PERIOD (305±306)	3	0	7	1,709,227	261,360
TOTAL NET PROFIT FOR THE YEAR (290±307)	3	0	8	91,373,465	79,630,113
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	754	637
Diluted earings per share	3	1	3	754	637
Average number of employees based on hours worked	3	1	4	1,250	1,263
Average number of employees based on periods end	3	1	5	1,235	1,258

Maximise commercial bank value.

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

Addresses 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) 33 491 708
CORPORATE	00387 (0) 36 312 112
RISK MANAGEMENT	00387 (0) 33 491 708
FINANCE	00387 (0) 36 356 610
GBS	00387 (0) 36 312 112

Business network of UniCredit Bank d.d. as at 31 December 2017

Branch	Address	City	ZIP code	Phone
BUSINESS CENTER MOSTAR				
Branch 1 Mostar (Mepas)	Kardinala Stepinca bb	Mostar (Mepas Mall)	88000	036/356-277 ; 036/356-545
Branch 2 Mostar - Mostarka	Dubrovačka 4	Mostar (Mostarka)	88000	036/325-702 ; 036/323-424
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
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
Branch Čitluk	Kralja Tvrtka 1	Čitluk	88260	036/640-439 ; 036/640-435
Branch Konjic	Trg Državnosti bb	Konjic	88400	036/712-430 ; 036/712-432
BUSINESS CENTER ZAPADNA HERCEGOVINA				
Branch Grude	Franje Tuđmana br. 124	Grude	88340	039/660-123 ; 039/660-746
Branch 1 Široki Brijeg	Fra Didaka Buntića 13	Široki Brijeg	88220	039/705-546 ; 039/700-212
Branch Ljubuški	Ulica IV. Brigade HVO Stjepana Radića br.63	Ljubuški	88320	039/831-340 ; 039/831-355;
Branch Livno	Kralja Tvrtka bb	Livno	80101	034/208-222 ; 034/208-220
Branch Tomislavgrad	Brigade Kralja Tomislava bb	Tomislavgrad	80240	034/356-203 ; 034/356-209
Branch Posušje	Fra Grge Martića 28	Posušje	88240	039/685-415 ; 039/685-157
BUSINESS CENTER SREDIŠNJA BOSNA				
Branch Vitez	Petra Krešimira IV	Vitez	72250	030/717-410 ; 030/718-741
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 ; 030/795-500
Branch Fojnica	Mehmeda Spahe 18	Fojnica	71270	030/547-022
Branch 1 Travnik	Bosanska 56	Travnik	72270	030/547-017 ; 030/547-012
Branch Jajce	Maršala Tita bb	Jajce	70101	030/654-564 ; 030/654-562
Poslovnica Rama	Kralja Tomislava bb	Rama	88440	036/770-919 ; 036/771-990
Branch Bugojno	Zlatnih ljiljana 16	Bugojno	70230	030/259-577 ; 030/259-576
Branch Kiseljak	Josipa Bana Jelačića bb	Kiseljak	71250	030/877-122
BUSINESS CENTER ZENICA				

Branch	Address	City	ZIP code	Phone
Branch Žepče	Stjepana Tomaševića bb	Žepče	72230	032/887-903
Branch 1 Visoko	Branilaca 20a	Visoko	71300	032/730-057 ; 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 Kakanj	Alije Izetbegovića bb	Kakanj	72240	032/557-212 ; 032/557-211
Branch Tešanj	Braće Pobrić bb	Tešanj	74260	032/665-196 ; 032/665-194
Branch Jelah	Mustafe Ćemana 7	Jelah	74264	032/667-892
Branch Breza	Alije Izetbegovića 80	Breza	71370	032/786-014 ; 032/786-011
Branch Zavidovići	Pinkasa Bandta bb	Zavidovići	72220	032/869-200
Branch Vareš	Zvijezda 63	Vareš	71330	032/848-032 ; 032/848-031
Branch Olovo	Branilaca 17	Olovo	71340	032/829-535 ; 032/829-530
Branch Maglaj	Aleja ljiljana bb	Maglaj	74250	032/609-811 ; 032/609-810
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	033/491-748 ; 033/253-378 ; 033/253-372
Branch 3 Sarajevo	Zagrebačka 2-4	Sarajevo (Kovačići)	71000	033/253-973 ; 033/253-974 ; 033/253-974
Branch 4 Sarajevo	Alipašina 45a	Sarajevo (Ciglane)	71000	033/560-790 ; 033/560-795
Branch 11 Sarajevo	Gajev trg 2	Sarajevo	71000	033/251-950 ; 033/251- 955
Branch 12 Sarajevo	Zelenih beretki 24	Sarajevo	71000	033/491-636 ; 033/491-600
Branch 13 Sarajevo	Branilaca grada 53	Sarajevo	71000	033/491-997 ; 033/491-931
Branch 16 Sarajevo	Fra Anđela Zvizdovića 1	Sarajevo UNITIC	71000	033/252-280 ; 033/491-754
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	Address	City	ZIP code	Phone
Branch 18 Novo Sarajevo	Zmaja od Bosne 74	Sarajevo	71000	033/727-022 ; 033/727-021
Branch 19 Sarajevo	Mustafe Kamarića 5	Sarajevo	71000	033/775-851 ; 033/775-854
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; 033/776-157
Branch Hadžići	Hadželi 153	Hadžići	71240	033/475-396 ; 033/475-390
BUSINESS CENTER BOSNA SI				
Branch 1 Tuzla	Džafer Mahala 53-55	Tuzla	75000	035/259-059 ; 035/259-037
Branch 2 Tuzla	Armije BiH 3	Tuzla	75000	035/306-478 ; 035/306-482
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
Branch Gračanica	22 Divizije bb	Gračanica	75320	035/701-471 ; 035/701-470
Branch Srebrenik	21 Srebreničke Brigade	Srebrenik	75350	035/646-093 ; 035/646-094
Branch Živinice	Ulica Oslobođenja bb	Živinice	75270	035/743-143
Branch Kalesija	Trg šehida bb	Kalesija	75260	035/610-111 ; 035/610-110
Branch Orašje	Treća ulica 47	Orašje	76270	031/716-713
Branch Odžak	Titova 17	Odžak	76290	031/762-437
Branch Brčko	Trg mladih 1	Brčko	76120	049/233-760
BUSINESS CENTER BANJA LUKA				
Branch Banja Luka	I Krajiškog korpusa br.39	Banja Luka	78000	051/348-063
Branch Laktaši	Karađorđeva bb	Laktaši	78250	051/535-961 ; 051/530-662
Branch Prijedor	Zanatska bb	Prijedor	79101	052/234-258 ; 052/240-765
Branch Doboj	Kralja Dragutina 2a	Doboj	74000	053/209-402 ; 053/209-401
Branch Bijeljina	Majora Dragutina Gavrilovića 2 - ulaz s ulice Svetog Save	Bijeljina	76300	055/225-090 ; 055/225-080