One Bank, One UniCredit.

2018

Annual Report

Banking that matters. | UniCredit

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Board President's Message

"I am extremely proud of our common achievements, reflecting strong focus on our customers and maximum dedication to innovations."

Dalibor Ćubela
President of the Board

Dear clients, shareholders and business partners,

I thank you for being part of our business success in 2018, and it is a special pleasure to present you the business results of UniCredit Bank d.d. (hereinafter the Bank).

Following digitalization trends and business environment, which are in constant transformation, we are continuously committed to quality services and improving customer experience of our clients. Our persistence has not been recognized and rewarded only by loyalty of our clients, but also by leading world experts, who have given us respectable and valuable acknowledgments in this year as well. For the second consecutive year, we earned title of the best bank in Bosnia and Herzegovina, and the magazine The Banker, owned by the Financial Times, which is one of the most significant achievements in banking in the world.

These valuable acknowledgments would not be possible without the dedication and teamwork of all employees, and I am extremely proud of our common achievements, reflecting our strong focus on meeting customer needs, maximum dedication to innovations and the growing strength of our international network.

Respecting the wishes and needs of the clients, this year the Bank retained its leading position by all the most important financial criteria, and concluded this year with the highest net profit in its history. We realized KM 97.2 million, which is 7.7 million KM more than in 2017.

Furthermore, steady growth and development in various segments are a guarantee of continued Bank's success. In 2018, the ratio of loans to deposits was 76.2%, and positive effects were also achieved in the area of credit coverage by provisions, both performing and non-performing portfolio. The Bank's assets increased to KM 5,952.2 million. With the corresponding increase of 10.3% compared to 2017, the total net loans amounted to KM 3,380 million, while the growth of loans on the entire BiH market was 5.9%. Growth of customer deposits was 8.9%, and in this segment we finished the year with the amount of KM 4.433,3 million, while deposit growth on the entire BiH market was 10.6%. With a capital balance of KM 796.1 million, the Bank has confirmed its high capitalization through a capital adequacy ratio of 18.1%, which confirms the stability and security of doing business with the Bank.

As a market leader, we have the responsibility to be the bearers of change and market improvement. Thus we launched new projects this year, which should ensure the continuity of our clients' and employees' satisfaction. Clients are in the first place for us every day, and we have thoroughly started to improve their more enjoyable user experience. With the same fervor we have also focused on internal activities aimed at providing our employees with an even better working environment and prerequisites for further development. The satisfaction of our employees has been recognized, and this year, we have received recognition for the 10 most desirable employers in BiH, according to the selection of the portal Posao.ba. We are aware that, by improving the conditions in which we work, we can achieve more for our customers and society as well. Therefore, in the past year, we have accomplished many improvements, which will make our business even simpler and more efficient in the time to come.

We enjoy the trust of our clients, not only as the leading Bank in the market, but also as an active participant in responsible business in our society. Through continuous work we contribute to the economic, but also to the social development and progress of Bosnia and Herzegovina. Through humanitarian activities, cultural, artistic and sporting projects in 2018, we supported individuals and organizations who, through their actions, want to improve and present our country in the best light. We paid special attention this year to the youngest members of our society, and we supported the work of institutions that work for the benefit of children across Bosnia and Herzegovina. Our desire is to be the leading financial institution, which is a base for society, contributing to the preconditions for a better, more beautiful and humane environment.

In line with the vision of our Group “One Bank, One UniCredit”, we create a shared knowledge base, complement our expertise, and focus on delivering the best services to our customers, thus providing the company with stable support in further development.

On behalf of the Management Board of the Bank and on my own behalf, I would like to thank all clients and business partners for their trust. The joint work and dedication of our employees is the key to our success and we are especially proud of this. I hope our advancements and activities will strengthen our successful relationships in the year ahead.

Sincerely yours,

Dalibor Ćubela
President of the Board

One Bank, One UniCredit.

Our strategy is clear and long-term. We are transforming the Group to build the bank of tomorrow for our extensive client franchise. Everything we do is designed to make UniCredit a true pan-European winner.

Economic Environment in Bosnia and Herzegovina

Macroeconomic review of the year 2018

Global growth impulse from the previous year continued in 2018, and key economic indicators point that global growth is at its peak. Backward a few years ago, stable growth is present, especially in emerging European countries. More than half of the world's nations are experiencing an increase in growth, and it seems that the world economy has left legacy of the global financial crisis of ten years ago behind. The of Central and Eastern Europe regions, driven by a low unemployment rate and the growth of investment, continues to have good economic results, but production activity is gradually characterized by a slowdown. Global growth in 2019 should keep a similar path, although the aggravating factors of the countries of the region are visible in the form of political and economic turbulence in the Eurozone, economic repercussions as a result of Brexit and the expected decline in demand from Turkey.

In 2018, the International rating agency Standard & Poor's confirmed the credit rating for Bosnia and Herzegovina, B with stable outlook, while Moody's Investors Service confirmed the "B3 with stable outlook" rating. Ratings are based on the fact that the country has a stable economic growth that enables the growth of indirect tax revenues and is relatively low in debt.

The main growth holders in 2018 in Bosnia and Herzegovina were export and final consumption and to some extent investments. The real growth of GDP was the subject of corrections during the year, mainly due to the decisions of entity governments that have adversely affected the relationship with the International Monetary Fund, and according to the latest forecasts it should reach 2.9% in 2018.

On the wings of continued strong consumption and growth of investment, the expected growth of GDP in 2019 is projected to 3.2%. Exports will continue to strongly support growth, but at a slightly slower pace due to the expected decline in demand in major markets.

The sluggish growth trend is noticeable in industrial production throughout 2018, driven by weakening in the part of the export-oriented manufacturing industry, which at the end of November recorded a negative growth rate of 1.1%. Overall, industrial production recorded a modest growth rate of 1.6% driven by the growth in electricity production.

Export was one of the main drivers of growth in 2018, where Bosnia and Herzegovina realized exports of goods worth KM 11,9 billion, which represent a nominal increase of 7.6% over the same period last year. In the same period, exports to CEFTA countries amounted to KM 1,9 billion, which is 8.8% more than in the same period of 2017. Exports to EU countries amounted to KM 8,7 billion, which is 10.3% more than in the same period last year. The increase in exports is mainly a result of export demand and the increase in prices for certain products, primarily metals and energy products. The most significant contribution to exports growth, seen by products, was recorded in exports of coke, metal products and electricity.

Thanks to the increase in disposable income and lower consumer prices, personal consumption also increased. Increasing personal consumption is reflected in higher imports. Imports from EU countries amounted to KM 11,7 billion, which is 5.3% more than in the same period last year, while imports from CEFTA countries amounted to KM 2,3 billion, 0.4% more than to the previous year.

It should be noted that the real increase of these foreign trade indicators was modest compared to the previous year due to the increase in export and import prices in 2018.

Bosnia and Herzegovina accounts for almost three-quarters of its total economic exchange with the EU countries, and the main foreign trade partner is Germany. Countries that are other most important partners are Croatia, Italy and Serbia.

The current account deficit is likely to increase due to the dependence of the economy on imports, with the expected increase in imports of finished goods, but should not exceed 6% of GDP in 2019. On the other hand, the majority of the deficit can be covered by the inflow of foreign direct investment and other available resources by international financial institutions.

The Consumer Price Index in 2018 has reached 1.4% on annual base. The index notes an inflation trend driven by rising energy and food prices, rising disposable income, and influencing foreign trade, but inflationary pressures should not be particularly pronounced and the consumer price index should not exceed 2%. Positive trends are also present in the labor market where the unemployment rate has declined steadily with respect to the end of 2017, but with the decrease of the total number of active inhabitants as a result of migration of the population. Unemployment rate by ILO methodology is 18.4%. Although characterized by a downtrend, the problem is the unemployment rate among young people. Youth unemployment and the problem of gray economy are a significant obstacle to potential growth and this is a clear sign that deeper structural reforms in labor market regulation are needed to achieve a higher level of working activity and employment. Average gross and net wages slightly grow compared to the end of 2017, but are still at a low level.

There is a slight decrease in total construction works by 0.2% compared to the same quarter last year. Decrease was recorded in civil engineering projects that largely depend on foreign funding sources. Regardless of the reduced activity, BiH has recorded a rise in foreign investment over the last two years, and in the first nine months of 2018 KM 668.6 million was recorded for foreign investment. The presence of foreign investors in the country sends the message that BiH is a country where the investment of foreign capital is profitable, thus contributing to the improvement of the reputation of BiH in the business sense.

The total public debt in the first half of 2018 was 35% of GDP. This percentage puts Bosnia and Herzegovina in the category of moderately indebted countries. The fiscal position should remain stable because a more rational fiscal policy is expected in the post-election period, with the announced increase in fuel excise revenues and the restriction of public spending. Public finances are still low, and public spending is inefficient. Public finance should focus on growth-sustaining investment and, accordingly, act to reduce still high unemployment in order to keep macroeconomic stability in the country.

Although the funds of the International Monetary Fund were approved, the payment of funds was stopped mid-year due to disagreement over the increase in payments to budget users in both entities.

It is expected that the new government will soon start negotiating with the IMF soon after the formation of the government and reach a compromise in order to continue funding, as further delays will have negative repercussions on investment projects and the implementation of reforms.

Macroeconomic expectations for 2019

It is expected that private consumption, investment activity and exports will remain key growth holders in 2019 in Bosnia and Herzegovina. There is a particular expectation of an increase in the investment domain, but assuming that the International Monetary Fund will continue to finance after the formation of government. Consequently, major infrastructure projects are expected to continue. Risk factors are present in the form of decisions by entity governments that may make it difficult to negotiate with the IMF and slow down the expected growth.

Economic Environment in Bosnia and Herzegovina (continued)

Banking Sector in 2018

In September 2018, the banking sector in BiH comprised 23 banking institutions, of which 15 in FBiH and 8 in RS. Banks had a total assets of KM 29 billion, an increase of 7.5% compared to the end of the previous year, mostly as a result of the increase in loans.

Only two banks in the market have total assets over KM 4 billion, while 7 of them have assets above KM 1 billion. The number of employees in the banking sector has slightly increased in the third quarter of 2018 and amounts to 9,704, which represents an increase of 1.4% compared to the end of the year.

The banking sector is well capitalized, which is reflected in the level of capitalization of 15.6% in the third quarter of 2018 and is highly liquid which is evident in the amount of free funds at the Central Bank above the amount of obligatory reserve.

At the end of September 2018, the banking system of Bosnia and Herzegovina achieved profit before tax of KM 323 million, representing a decrease of 1% over the same period last year. Two banks on the market recorded a loss.

The total net interest income of the sector was KM 630 million, an increase of KM 10.6 million or +1.7%, compared to the same period last year.

Given the strong competition in the market and the downward interest rate trend, banks largely compensate for the deficit in revenues by fees. Although non-interest income in the sector recorded a slight decline compared to the same period last year, the sector achieved KM 443 million for the first nine months of 2018 and represents a 41% share in total revenue.

The two largest banks on the market comprise almost half of the total profit before tax in the nine months of 2018.

The year is characterized by the growth of loans by +5.9% compared to the end of 2017.

Long-term loans recorded continued growth in 2018 in both segments.

Loans to citizens continue to grow at a trend of +7.3% compared to the end of 2017, while legal entities recorded a growth rate of +4.6%. Loans to private companies increased by 3.7% compared to the end of 2017.

The share of non-performing loans (NPL) has a downward trend and is 9.3% at the end of September 2018. The decline in NPLs of -0.7pp compared to the end of 2017 was the result of credit growth and collection activity. The Republika Srpska entity continues to report a higher ratio of NPLs of 10.1%, while the share of NPLs in FBiH is 9.1%.

Interest rates on deposits recorded a steady downward trend, but the volume of total deposits recorded a record amount of KM 21.7 billion, an increase of 10.6% compared to the end of 2017. The volume of deposits of citizens recorded the amount of KM 12.1 billion, which represents a 7.8% increase compared to the end of the previous year, while the deposits of legal entities increased 14.4% compared to the end of the year. Total customer deposits exceeded the total loan amount by more than KM 2.4 billion, and the loan and deposit ratio decreased to 89%.

The average amount of reserve requirements is continuously increasing in 2018 compared to the end of the previous year. Banks are investing a part of their assets in securities, mostly issued by FBiH and RS, which has resulted in an increase in securities in banks' balances.

Banking sector - Expectations for 2019

The precondition for further development of the banking sector is the stable political environment in the country. 2019 is expected to continue in positive trends, but it is certainly unrealistic to expect a significant growth in loans since the risk is reflected in the fact that in 2019, a prolongation in government formation is expected, which directly affects large infrastructural projects.

The continuation of digitalization activities as well as the full implementation of the electronic signature are certainly activities that will lead to a more efficient banking sector.

Business description

UniCredit Bank d.d. Mostar (hereinafter the “Bank”) is a licensed commercial bank headquartered in Bosnia and Herzegovina, and it is a part of UniCredit Group.

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's associate as of 31 December 2018 is presented in the table below:

Associate 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 KM 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 and other comprehensive income of the Bank for 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 10 regions, which are further split into branches located throughout Bosnia and Herzegovina, and as of the end of 2018, there were 75 such branches.

Business in 2018

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 UniCredit Bank d.d. Mostar from its competition.

According to 2018 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 2018 a significant growth of the Bank's volume of both loans and deposits has been recorded.

During 2018, the Bank has been continuously working on adjusting the supply of a wide range of credit products to the needs of our clients, with a special emphasis on improving and simplifying the loan realization process.

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 clients, and to continuously educate them about their advantages. The focus on raising our clients' awareness about the advantages of doing business through mobile internet banking services achieved in 2018 through contiuous sale and promotional activities, resulted at year-end in over 145,000 active users of electronic services, which is a significant increase compared to the previous year. It should be emphasized that, in line with global trends, our clients prefer mobile banking service, supported by the fact that we had over 128,000 active mobile banking users at the end of the year.

The Bank will continue to develop and improve electronic services in the upcoming period in accordance with the needs and habits of its customers.

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 274 ATM machines total, of which we had 80 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.

In the area of the card business, the year was marked activities related to activating and encouraging the use of cards at sales outlets. as well as attracting new card users, all through a specially designed campaign with benefits for card users. The Bank has paid particular attention to contracting, advertising and offering customer benefits at sales outlets.

In 2018, a major focus has been placed on increasing the number of retail outlets that enable the contactless transactions, and the majority of EFT POS network was migrated to the technology that allows contactless payments. The annual increase in turnover on card transaction acceptance continues to record an upward trend, which now exceeds 18%. The growth of non-interest bearing deferred instalment payments and customer card payments has continued, and over 5,000 retail outlets provide such convenience for UniCredit credit card users.

Also, the Bank has supported the new payment card acceptance model in the BiH market, which enables traders to contract one EFT POS terminal and process card transactions across multiple accepting banks.

During 2018, the success in the sale and use of the package of products and services MODULA has been recorded, the first package on the BiH market that has been made available to its customers a free choice in the definition of the package, depending on client needs and habits.

Along with the basic set of products and services (current account, contactless Debit Mastercard and m-ba mobile banking), the remaining products and services are selected and added by the customer, thus achieving significant annual savings in relation to the prices of their individual use.

Business description (continued)

Corporate and Investment Banking Segment

Based on the available indicators for 2018, it can be concluded that the trend of economic activity in Bosnia and Herzegovina continued to grow.

This year, Bosnia and Herzegovina also recorded growth of foreign direct investment, rising foreign exchange reserves, increased direct and indirect tax revenues, and an increase in exports. However, in addition to the estimated GDP growth of about 3.2%, Bosnia and Herzegovina is lagging behind for the other Western Balkans countries. According to the World Bank Group's new report "Doing Business", Bosnia and Herzegovina ranked 89th in its ease of business (fall of three places compared to last year) and is the last among the Western Balkan countries.

This result of the domestic economy in 2018 and the lag behind the countries of the region is largely due to the complex political relations in the country and the lack of key reforms on the path to obtaining candidate status for association with the European Union.

Business in 2018

Operations of the banking sector in 2018 are still characterized by high liquidity and growth of deposits, and a significant growth of loans. The share of NPLs recorded decrease compared to the preivous year, which is a result of credit growth and collection activity.

The Corporate and Investment Banking segment also achieved a significant result in 2018 and confirmed the position of the leading bank in the market when it comes to business with corporate clients achieving better results than planned with a significant increase in market share in loans to legal entities.

Significant growth of the deposit base confirms high trust from our clients, to whom we guarantee security and stability in further business. Deposits of corporate customers at the end of 2018 amounted to KM 1,631 million and are higher by KM 145 million compared to 2017.

Total corporate loans at the end of 2018 amounted to KM 1,742 million and are higher for KM 159 million compared to 2017, which resulted in a significant increase in market share.

Significant growth in credit activity was recorded in crediting public sector clients, private companies, and domestic and international clients. In the public sector, by lending to the authorities and public administration, in 2018 we realized the largest transaction in the history of the Corporate and Investment Banking segment, thus demonstrating that we are an important partner in financing all major state-level projects. In dealing with domestic private companies, we are proud to contribute to economic growth through participation in significant investments in the energy sector and the manufacturing and trade sectors.

In its operations with international clients, Corporate and Investment Banking has made a significant step forward by improving its access to this segment of the market and adapting the business model by organizing the International Clients segment, exclusively for international companies operating in Bosnia and Herzegovina. Recognizing the specificities of international clients, we further develop this business model, and in that sense continued to develop the service model organization, resulting in a significant growth in international customers in 2018.

In parallel with the significant growth of the client loan portfolio, we continued to work on its quality and stability by reducing the share of NPLs in total loans. In this respect, our task is to further strengthen the culture of awareness and risk management.

In mid-2017, the process of merging UniCredit Leasing d.o.o. Sarajevo was successfully completed, with the aim to offer our clients better services and more efficient business. In 2018, we consolidated the Leasing business and carried out organizational changes, thus increasing our market share in contracting new leasing arrangements. The leasing activity in 2018 was based on financing new and used vehicles and equipment, where the largest share of the realized volume of financial leasing is placements given to legal entities.

Technological development and progress speeds up a series of processes, changing habits and offering new solutions, and all market participants need to continually adapt to the changes that are taking place. By investing in innovation and using digital technology, we continuously improve our business, as we strive to be adapted to global trends. By developing direct channels and investing in electronic banking, we strive to make our customers more efficient and take into account the security of their business. In an effort to adapt to the real needs of the market, its constant changes and high expectations of customers, we will continue to improve our business model. In this connection, we want to improve and streamline existing business processes, and by developing the best people to create a unique positive work experience with the Bank.

Our products are constantly upgraded and developed according to the needs of our clients, and through all sales channels we are trying to accelerate the digital transformation. The digital transformation that we are implementing through the Big Data project is adapted to improving our understanding of corporate clients and their needs.

We continually improve the basic application platform that provides key financial data relevant to managing a business relationship with clients, and implies a structured process of corporate client analysis and planning of future commercial activities. Through these improvements, we expect improvement in the quality of business relationship management with our customers and more active sales management.

Thanks to UniCredit Group, this year we have offered our customers in BiH a unique opportunity and the privilege to join the

ELITE program by joining UniCredit CEE Lounge. Through ELITE, UniCredit Bank, as the key bank partner of the London Stock Exchange Group, enables small and medium-sized companies from CEE clients to expand and improve business operations, offering top management specialization with the support of leading European business schools, direct contact with financial and advisory community and exchange of knowledge and best practices.

The quality of our business has been recognized by bank experts for years and we have received numerous acknowledgments. However, in spite of the professional acknowledgment, a special acknowledgment came in 2018 from our clients, the confirmation of the continuous high level of customer satisfaction with our business relationship with the Bank and our products and services.

Together with UniCredit Group and other Group members, we have significant synergic effects on domestic and foreign markets to add value to all customers who have decided to do business with us.

On Bosnia and Herzegovina's path to European integration and the implementation of the reforms needed to achieve this goal, we face new challenges and new opportunities both for our country and for all businesses. The prosperity of Bosnia and Herzegovina on the road to EU accession and the implementation of major strategic projects from different industrial sectors will provide the basis for investment growth in the private and public sectors and the best confirmation of a positive investment climate. Our long-term and partnership business relationship with our clients, as well as the growth and strengthening of our economy remain our core priorities.

Banking that matters.

We are dedicated to creating tangible value for all our clients, employees and stakeholders by providing real solutions to real needs. Everything we do is grounded on ethics and respect.

Financial Overview and Business Performance

Overview of business operations of the Bank

In 2018, the Bank generated KM 110.1 million profit before taxation, which is the growth of KM 8.6 million (+8.4%) 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 slight 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, 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 2018 amounts to KM 252.7 million, which is KM 12.7 million more than the last year (+5.3%).

Total net interest income amounts to KM 164.9 million, comprising 65.2% of total income and displaying growth of KM 2.6 million (+1.6%) as a result of lower interest expenses and lower interest income. Net income from fees and commissions amount to KM 70.4 million, representing 27.8% in the structure of total income, and it displays growth of 7.8% compared to 2017.

Net interest income

The 2018 net interest income amounted to KM 164.9 million, which is the increase of KM 2.6 million (+1.6%) 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 (-1.8%) is a result of smaller income from loans and lower income from securities. The decrease of interest expenses (-21.1%) 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 (+8.9%).

Net fee and commission Income

The net fee and commission income amounts to KM 70.4 million, with an annual growth of KM 5.1 million (+7.8%).

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 2018 amounted to KM 14.1 million, displaying decrease of KM 3.6 million compared to the previous year.

Other income

Other income amounts to KM 3.2 million and is KM 1.3 million higher compared to the previous year.

Operating expenses

The 2018 total operating expenses amount to KM 124.2 million, which is higher by KM 1.2 million (+1.0%) compared to previous year, mainly due to increase in personnel costs and higher deposit insurance expenses.

Personnel costs amounted to KM 57.7 million and are higher by KM 1.8 million (+3.3%) compared to the previous year, partly due to acquisition of UniCredit Leasing on 1 July 2017.

Other operating expenses display decrease compared to the previous year affected by lower administrative and marketing expenses, with lower lease expenses, and slightly higher deposit insurance costs. The Bank aims to continuously improve process efficiency of cost management. Share of operating costs in operating income amounts to 49.2%, which is 2.1 pp less compared to the previous year.

Impairment losses and provisions

In 2018, total impairment and provisions expenses amounted to KM 18.3 million, which is KM 2.9 million (+18.8%) more compared to the previous year.

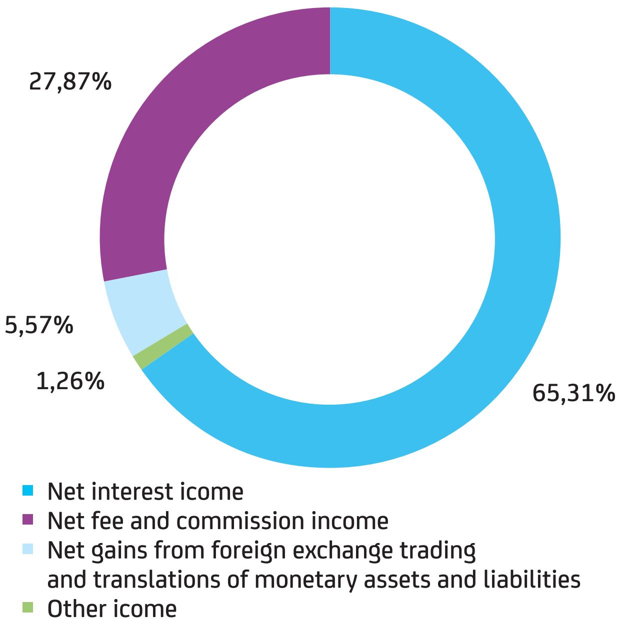
Impairment losses and provisions on loans and receivables, including finance lease receivables, amounted to KM 15.1 million, and they resulted from KM 12.6 million of Stage 1 and Stage 2 provisions costs (out of which KM 7.3 million refers to corporate loans, and KM 5.3 refers to retail loans), plus new costs of provisioning for the NPL portfolio in the amount of KM 2.5 million (out of which KM 8,1 million of new costs refers to retail loans and release of provisions for corporate loans amounts to KM 5.6 million).

Other impairment losses and provisions amount to KM 3.2 million and are the result of a new expense for off-balance sheet provisions of KM 2.3 million, the reversed provisions cost for securities and banks KM 1.0 million, the provision expense of other assets of KM 0.4 million, impairment of tangible assets of KM 0.3 million and provisions for court proceedings KM 1.2 million.

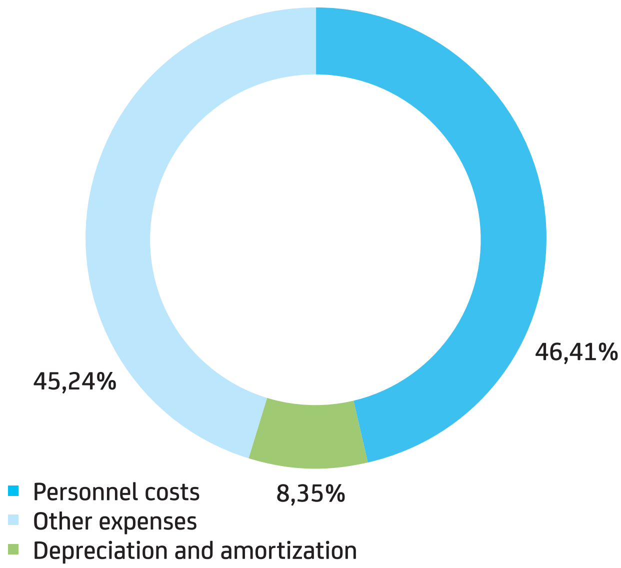
Overview of business operations of the Bank (continued)

Income and expenses structure for 2018

Structure of operating income



Structure of operating expenses

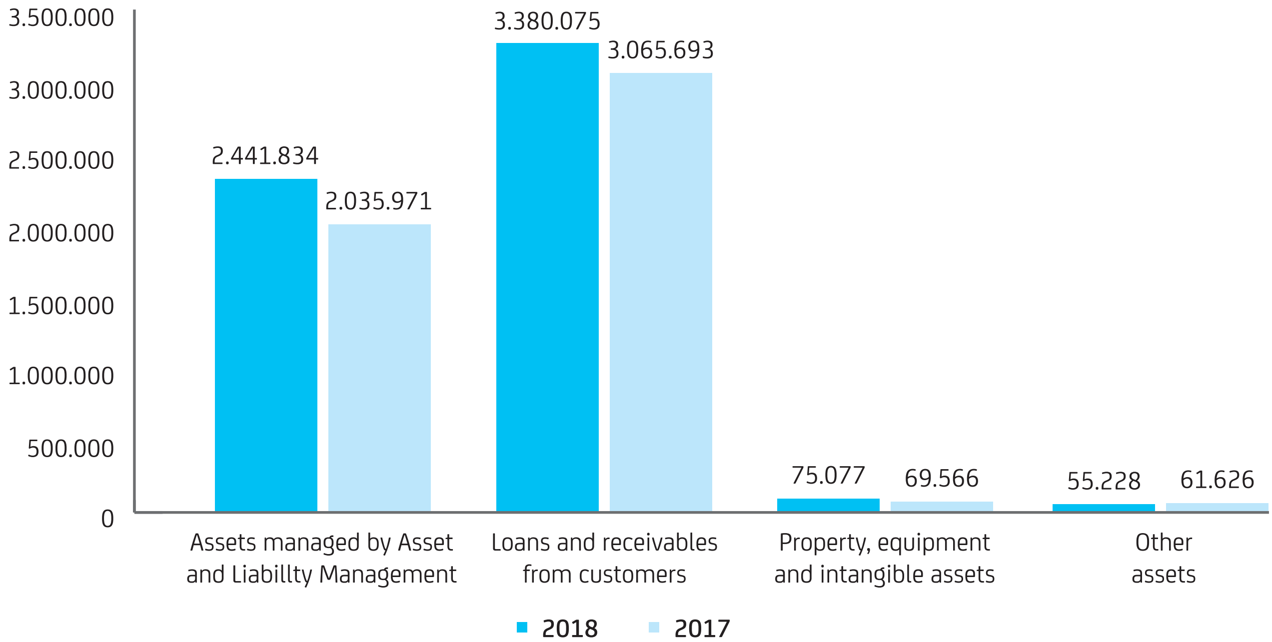


Bank's assets and liabilities

Bank's assets

As of 31 December 2018, the Bank's assets amounted to KM 5,952.2 million, with an increase in the amount of KM 719.4 million (+13.7%) compared to previous year. Significant increase of assets is mainly a result of increase in assets of the Assets and Liabilities Management (+KM 405.7 million/+19.9%) and increase in loans and receivables from clients, which display growth of KM 314.4 million (+10.3%) compared to the previous year.

Structure of Bank's assets – comparison to the previous year in KM '000



Assets managed by 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 41.0% of total Bank's assets, which is increase compared to the previous year for KM 405.7 million (19.9%), with the total amount of KM 2,441.2 million.

The structure of these assets is as follows:

(in KM '000)	31 December 2018	31 December 2017	Change
Cash and cash equivalents	746.453	933.214	(186.761)
Obligatory reserve with CBBH	484.141	416.710	67.431
Placements and loans to other banks	718.686	275.882	442.804
Financial assets at FVOCI	491.946	409.716	82.230
	2.441.226	**2.035.522**	**405.704**

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 KM '000)	31 December 2018	31 December 2017	Change
Gross loans			
Corporate	1.742.192	1.583.429	158.763
Retail	1.955.988	1.795.012	160.976
	3.698.180	**3.378.441**	**319.739**
Impairment			
Corporate	194.727	197.518	(2.791)
Retail	123.378	115.230	8.148
	318.105	**312.748**	**5.357**
Net loans			
Corporate	1.547.465	1.385.911	161.554
Retail	1.832.610	1.679.783	152.828
	3.380.075	**3.065.693**	**314.382**

Gross loans to clients, including finance lease receivables, increased by KM 319.7 (+9.5%) million on a yearly basis, and with the end of 2018 amount to KM 3,698.2 million.

Gross loans to corporate clients (including state and public institutions) at the end of 2018 amounted to KM 1,742.2 million and are increased by KM 158.8 milion (+10.0%), despite the still present lack of quality investments on the market. Their participation in the total portfolio amounted 47.1% and is decreased by 0.2pp compared to the last year.

Gross loans to citizens at the end of 2018 amounted to KM 1,956.0 million, and are increased in the amount of KM 161.0 million (+9.0%), as a result of recognizing client's demands and needs.

Their share in the total portfolio amounts to 52.9%.

The largest portion in the overall retail loans portfolio referred to long-term all-purpose loans (72.5%), long-term housing loans (16.1%), and receivables based on current accounts (6.2%) and credit card loans (2.3%).

Long-term corporate loans participate with 64.0% in the total gross loans, while short-term loans made 36.0% of the total corporate loans.

Allowance for impairment losses on loans compared to the previous year increased by KM 5.4 million, out of which impairment for retail loans increased by KM 8.1 million, and impairment for corporate loans decreased by KM 2.8 million, including impairment for finance lease in the amount of KM 24.0 million.

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 KM 3,380.1 million, recording an increase of KM 314.4 million (+10.3%) compared to the previous year, and they comprise 56.8% of Bank's total assets, including finance lease receivables in the amount of KM 80.1 million.

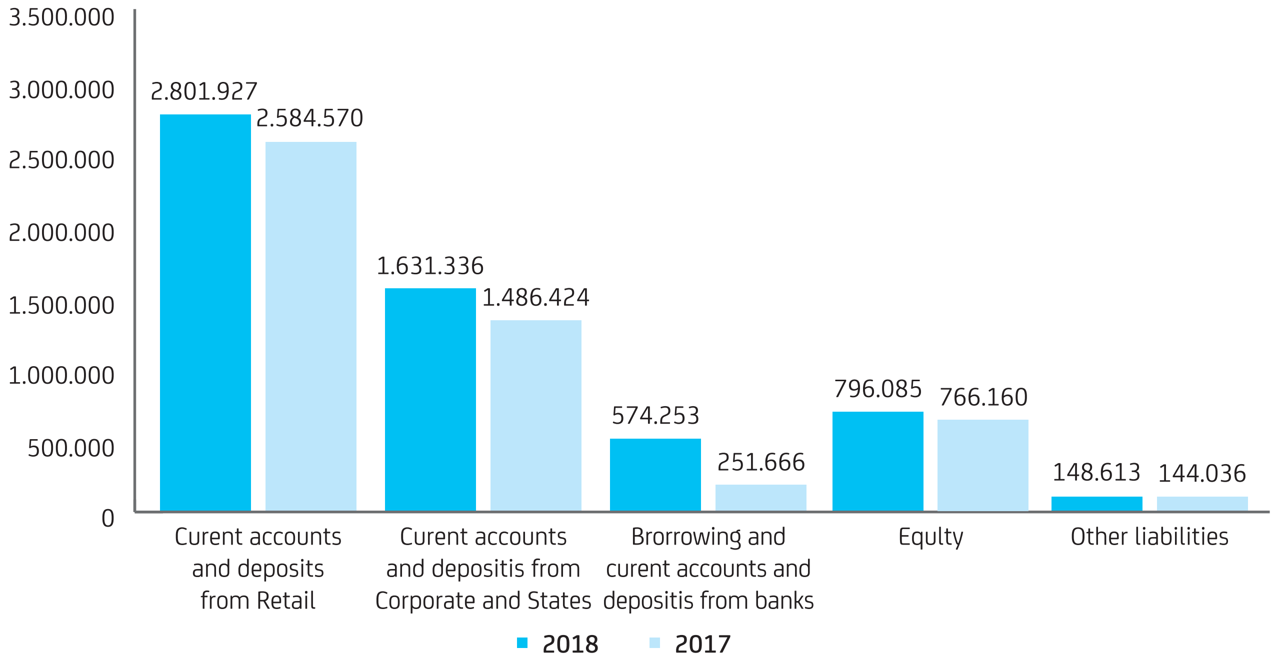
Overview of business operations of the Bank (continued)

Bank’s assets and liabilities (continued)

Bank’s liabilities

Liabilities, equity and reserves

Structure of Bank’s liabilities, equity and reserves – comparison to the previous year in KM ‘000



Current accounts and deposits from clients
Total current accounts and deposits from clients at the end of 2018 amount to KM 4,433.3 million and are increased by KM 362.3 million (8.9%) compared to the previous year. This position comprises 74.5% of Bank’s total liabilities.

Current accounts and deposits of corporate clients (including state and public institutions) amount to KM 1,631.3 million and were increased by KM 144.9 million (9.7%), compared to previous year. Their share in total current accounts and deposits of clients amounted to 36.8%.

The share of total corporate demand deposits (including state and public institutions) amounts to 91.8%, and fixed-term deposits 8.2%.

Current accounts, savings and fixed-term deposits of retail clients at the end of 2018 amounted to KM 2,801.9 million, and are higher compared to previous year by KM 217.4 million (+8.4%). Their share in total current accounts and client deposits amounted to 63.2%. Within the total retail deposits, fixed-term deposits make up 38.1% and a vista deposits make up 61.9%.

Current accounts and deposits with banks, and borrowings
Current accounts and bank deposits at the end of 2018 amounted to KM 539.1 million and are increased by KM 352.0 million (+188.2%) compared to the previous year.

Borrowings at the end of 2018 amounted to KM 35.2 million and are decreased by KM 29.5 million compared to the previous year, due to servicing of scheduled liabilities on borrowings.

Borrowings represent liabilities toward UniCredit SPA, UniCredit Bank Austria AG, the EBRD[1], KfW[2], IFC[3].

The share of bank deposits in total liabilities of the Bank is 9.1%, while the share of borrowings is 0.6%. Compared to the previous year, the share of bank deposits and borrowings in total liabilities and equity of the Bank was increased by 4.9pp.

Equity and reserves
The Bank's equity amounted to KM 796.1 million and compared to the end of previous year is increased by KM 29.9 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 KM 67.7 million.

1 European Bank for Reconstruction and Development
2 Kreditanstalt fuer Wiederaufbau
3 International Finance Corporation

Equity and reserves make 13.5% of the total funding which.

The capital adequacy ratio, presented according to the local regulator methodology, is 18.1%, and it is higher compared to the previous year for 1.7pp.

Key performance indicators

The profitability ratio ROE is 12.5% and it's above the last year's level (+0.4 pp).

ROA is 2.0%, and it is the same compared to the previous year

The efficiency indicator (cost to income ratio) is 49.2% and it's higher by 2.1pp due increased income.

Net loans to deposits ratio is 76.2% and it continuously confirms the ability to maintain high level of self-sustainability, i.e. financing of loans from the Bank's own resources.

Profitability per employee (gross operating profit in relation to the number of employees) is KM 102.8 thousand and it has decreased by KM 10.0 thousand compared to the previous year, as a result of increased gross operating income and deceased number of employees.

Management and Corporate governance

Management and Corporate governance in 2018

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 2018, 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 KM 119,195,000 and it is divided into: 119,011 ordinary "A" class shares (with the face value of KM 1,000 per share) and 184 prefered "D" class shares (with the face value of KM 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 2018 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 subsidiary, 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 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 2018, 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 business (until 28 February 2018)
6.	Viliam Pätoprstý	Member of the Board for Finance management / CFO

Audit Committee

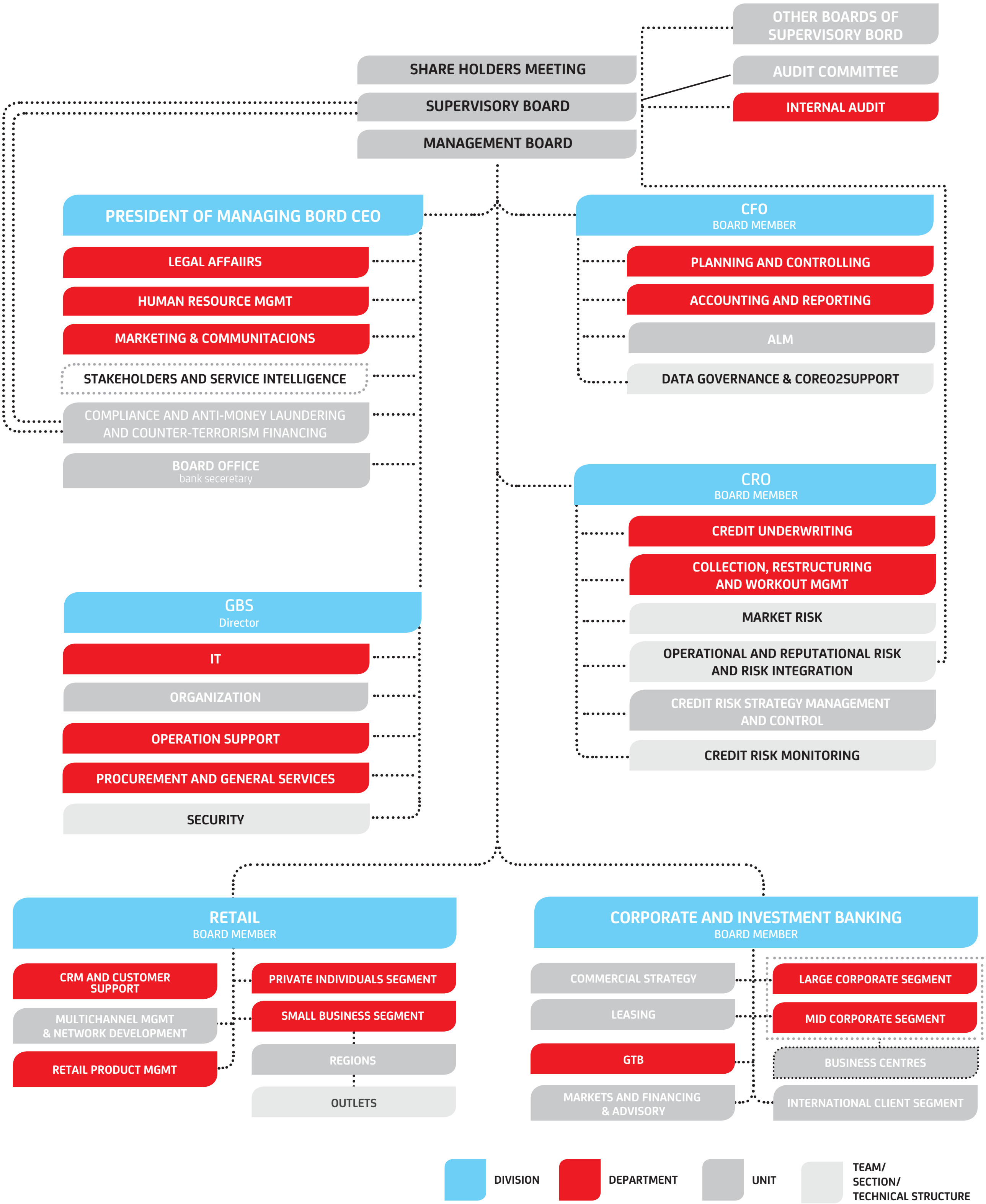
The Audit Committee is responsible for supervising performance and appointment of an external audit company that will conduct an audit of the annual financial statements, and supervises the work of the internal audit, including annual calculation control. The Audit Committee has 5 members who are appointed 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 2018, 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 2018 – division into key organizational units of the Bank:



Employees

As of 31 December 2018, the Bank employed 1,250 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 2018, the Bank had the following shareholder structure:

Shareholders		% Participation of all owned shares	Amount of equity in KM '000
1	Zagrebačka banka d.d., Zagreb, Croatia	99,30%	118.365
2	Other shareholders	0,70%	830
	TOTAL	**100,00%**	**119.195**

Responsibility for the Financial Statements

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. Mostar (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 Bank and Group have 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 Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

UniCredit Bank dioničko društvo

President of the Board
Dalibor Ćubela

Member of the Board for Finance Management
Viliam Pätoprstý

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

14 February 2019

Independent Auditor's Report

To the shareholders of UniCredit Bank d.d. Mostar

Opinion

We have audited the accompanying separate 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 separate and consolidated statement of financial position as at 31 December 2018, the separate and consolidated statement of profit or loss and other comprehensive income, the separate and consolidated statement of changes in equity, and the separate and consolidated statement of cash flows for the year then ended, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2018, 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 for the Audit of the Separate and Consolidated Financial Statements section of our report. We are independent of the Bank and 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 separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Impairment of carrying value of loans and receivables

The International Accounting Standards Board (IASB) issued IFRS 9 – "Financial Instruments" which replaces "IAS 39 – Financial Instruments" as of the date of its effectiveness on 1 January 2018.

The key changes arising from adoption of IFRS 9 are that the Group's credit losses are now based on expected losses rather than an incurred loss model, and the change in the classification and measurement of the Group's financial assets and liabilities, which are detailed in Note 2.3.1 to the consolidated financial statements.

As at 31 December 2018, the Group's gross loans and receivables amount to KM 3,698,180 thousand and the related impairment allowances amount to KM 318,105. The policy for impairment of loans and receivables is presented in the accounting policies in Note 2.11.2 to the consolidated financial statements.

The Group exercises significant judgement using subjective assumptions over both when and how much to record as loan impairment, and estimation of the amount of the impairment allowances for loans and receivables. Because loans and receivables form a major portion of the Group's assets, and due to the significance of the judgments used in classifying loans and receivables into various stages stipulated in IFRS 9 and determining related impairment requirements, this audit area is considered a key audit risk.

Key areas of judgment included:

- The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model.
- The identification of exposures with a significant deterioration in credit quality.
- Assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices).
- The need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.

To the shareholders of UniCredit Bank d.d. Mostar (continued)

Key audit matters (continued)

How the key audit matter was addressed in the audit

With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following:

- We read the Group's IFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of IFRS 9;
- We obtained an understanding and checked the Group's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are "solely payments of principal and interest" [SPPI test]; and
- We checked the appropriateness of the opening balance adjustments.

With respect to impairment methodology, our audit procedures comprised the following:

- We read the Group's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9;
- We gained understanding of the Group's key credit processes comprising granting and monitoring, and tested operating effectiveness of key controls over these processes;
- We assessed the design and tested the operating effectiveness of relevant controls over the:
    a. Data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of date and interfaces to the expected credit loss model.
    b. Expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.
- For exposures determined to be individually impaired, we tested a sample of loans and receivables and examined management's estimate of future cash flows, assessed their reasonableness and checked the resultant impairment calculations; and
- For provision against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Group's impairment methodology, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the management.
- We checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages;
- For a sample of exposures, we checked the appropriateness of the Group's staging;
- We checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) models used by the Group to determine impairment allowances;
- For forward looking assumptions used by the Group's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information;
- For a sample of exposures, we checked the appropriateness of determining Exposure at Default, including the consideration of prepayments and repayments in the cash flows and the resultant arithmetical calculations;
- For Probability of Default (PD) used in the ECL calculations, we checked the Through the Cycle (TTC) PDs calculation and checked the appropriateness of development of PDs at a point in time (PIT);
- We checked the calculation of the Loss Given Default (LGD) used by the Group in the ECL calculations, including the appropriateness of the use of collateral and the resultant arithmetical calculations;
- We checked the completeness of loans and receivables, off-balance sheet items, and other financial assets included in the ECL calculations as of 31 December 2018; We understood the theoretical soundness and tested the mathematical integrity of the models;
- For data from external sources, we understood the process of choosing such data, its relevance for the Group, and the controls and governance over such data;
- Where relevant, we used information system specialists to gain comfort on data integrity;
- We checked consistency of various inputs and assumptions used by the Group's management to determine impairment provisions; and
- We checked the appropriateness of the opening balance adjustments.

We assessed the financial statement disclosures arising on adoption of IFRS 9 to determine if they were in accordance with the requirements of the Standard.

Refer to the accounting policies, critical accounting estimates and judgements, disclosures of loans and receivables and credit risk management in Notes 2, 20. and 36. to the consolidated financial statements.

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 separate 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 separate 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 Separate 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 separate 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 Board is responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate and Consolidated 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:

- 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.

Independent Auditor's Report (continued)

To the shareholders of UniCredit Bank d.d. Mostar (continued)

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

- 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 separate 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 separate and consolidated financial statements, including the disclosures, and whether the separate 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 separate 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate 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 separate 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 separate financial statements on pages 132 to 147, and they contain the consolidated and consolidated statement of financial position as at 31 December 2018, and the consolidated and separate 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 separate 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 Adna Valjevac.

Sead Bahtanović, director and licensed auditor

Deloitte
d.o.o.
Zmaja od Bosne 12c
71000 Sarajevo
ID: 4200047380000

Adna Valjevac, licensed auditor

Deloitte d.o.o.
Zmaja od Bosne 12c,
Sarajevo, Bosnia and Herzegovina
14 February 2019

Strengthen and optimise capital.

We will maintain a strong capital position by generating solid profit. We confirm our MDA buffer. The Group fared well in the EBA stress test results, with the third highest CET1 ratio among systemic banks in the Eurozone.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2018

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

	Notes	Group 2018	Bank 2018	Group 2017	Bank 2017
Interest income	6	187.480	187.480	190.917	190.917
Interest expense	7	(22.596)	(22.596)	(28.639)	(28.639)
Net interest income		**164.884**	**164.884**	**162.278**	**162.278**
Fee and commission income	8	74.165	74.165	68.713	68.713
Fee and commission expenses	9	(3.806)	(3.806)	(3.437)	(3.437)
Net fee and commission income		**70.359**	**70.359**	**65.276**	**65.276**
Dividend income		224	224	106	106
Net gains from foreign exchange trading and translation of monetary assets and liabilities	10	14.065	14.065	10.436	10.436
Net gains from security investments Other income	11	3.169	3.169	1.919	1.919
Operating income		**252.701**	**252.701**	**240.015**	**240.015**
Depreciation and amortization	23, 24, 25	(10.374)	(10.374)	(9.818)	(9.818)
Operating expenses	12	(113.862)	(113.862)	(113.206)	(113.206)
Profit before impairment losses and taxation		**128.465**	**128.465**	**116.991**	**116.991**
Impairment losses and provisions, net	13	(18.338)	(18.338)	(15.440)	(15.440)
Share in profit of associates	22	88	-	134	-
Profit before taxation		**110.215**	**110.127**	**101.685**	**101.551**
Income tax expense	14	(12.917)	(12.917)	(12.020)	(12.020)
NET PROFIT		**97.298**	**97.210**	**89.665**	**89.531**

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

	Notes	Group 2018	Bank 2018	Group 2017	Bank 2017
Profit for the year		**97.298**	**97.210**	**89.665**	**89.531**
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 through OCI		(223)	(223)	1.919	1.919
Deffered taxes	14	22	22	(190)	(190)
Changes in impairment of financial assets at FVOCI		(695)	(695)	-	-
Items that may be reclassified subsequently to profit or loss:					
FX differences on fair value of financial assets at FVOCI		1	1	(20)	(20)
Total other comprehensive (loss) / income		**(895)**	**(895)**	**1.709**	**1.709**
TOTAL COMPREHENSIVE INCOME		**96.403**	**96.315**	**91.374**	**91.240**
Basic and diluted earnings per share (KM)	32	818,08	817,34	753,89	752,77

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

Statement of financial position
for the year ended 31 December 2018

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

	Notes	Group 31 December 2018	Bank 31 December 2018	Group 31 December 2017	Bank 31 December 2017
ASSETS					
Cash and cash equivalents	15	746.453	746.453	933.214	933.214
Obligatory reserve at the CBBH	16	484.141	484.141	416.710	416.710
Loans and receivables from banks at amortized cost	17	718.686	718.686	275.882	275.882
Financial assets at fair value through other comprehensive income	18	491.946	491.946	409.716	409.716
Financial assets at fair value through profit or loss	19	608	608	449	449
Loans and receivables from clients at amortized cost	20	3.380.075	3.380.075	3.065.693	3.065.693
Other assets and receivables	21	54.768	54.768	61.166	61.166
Investments in associates	22	855	460	767	460
Investment property	23	881	881	898	898
Property and equipment	24	56.836	56.836	54.343	54.343
Intangible assets	25	17.360	17.360	14.325	14.325
TOTAL ASSETS		**5.952.609**	**5.952.214**	**5.233.163**	**5.232.856**
LIABILITIES					
Current accounts and deposits from banks at amortized cost	26	539.098	539.098	187.061	187.061
Clients' current accounts and deposits at amortized cost	27	4.433.263	4.433.263	4.070.994	4.070.994
Financial liabilities at fair value through profit or loss	19	515	515	994	994
Borrowings	28	35.155	35.155	64.605	64.605
Other liabilities	29	111.632	111.632	109.406	109.406
Provisions for liabilities and charges	30	34.009	34.009	31.115	31.115
Current tax liability	14	1.027	1.027	1.202	1.202
Deferred tax liability	14	1.430	1.430	1.319	1.319
TOTAL LIABILITIES		**5.156.129**	**5.156.129**	**4.466.696**	**4.466.696**
EQUITY					
Share capital	31	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		2.344	2.344	1.700	1.700
Revaluation reserve for actuarial gain/loss		58	58	(64)	(64)
Regulatory reserves for credit losses		20.337	20.337	20.682	20.682
Retained earnings		606.310	605.915	576.718	576.411
TOTAL EQUITY		**796.480**	**796.085**	**766.467**	**766.160**
TOTAL LIABILITIES AND EQUITY		**5.952.609**	**5.952.214**	**5.233.163**	**5.232.856**

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

Signed on behalf of the Management Board on 14 February 2019:

President of the Board
Dalibor Ćubela

UniCredit Bank dioničko društvo

Member of the Board for Finance Management
Viliam Pätoprstý

Statement of cash flows
for the year ended 31 December 2018

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

	Bank and Group 2018	Bank and Group 2017
Cash flow from operating activities		
Interest received	187.201	190.767
Fee and commission received	74.336	68.709
Interest paid	(26.548)	(32.619)
Fee and commission paid	(3.806)	(2.844)
Operating expenses paid	(105.525)	(109.412)
Net proceeds from trading activities	14.065	10.434
Other proceeds	1.214	1.791
Net cash from operating activities before changes in operating assets and liabilities	**140.937**	**126.826**
(Increase) / decrease in operating assets:		
Obligatory reserve with Central Bank of BiH	(68.544)	(50.331)
Loans and receivables from banks at amortized cost	(441.887)	(6.752)
Loans and receivables from clients and finance lease at amortized cost	(328.518)	(182.668)
Other assets	5.980	(9.502)
Net increase in operating assets	**(832.969)**	**(249.253)**
Increase / (decrease) in operating liabilities:		
Current accounts and deposits in banks	351.926	319
Current accounts and deposits from clients	358.915	518.676
Other liabilities	(4.880)	(125)
Net increase in operating liabilities	**705.961**	**518.870**
Net increase in cash from operating activities before corporate income tax	**13.929**	**396.443**
Corporate income tax paid	(13.092)	(12.094)
Net cash from operating activities	**837**	**384.349**
Cash flow from investing activities		
Acquisition of property and equipment	(8.728)	(9.349)
Proceeds from sale of property and equipment	321	128
Acquisition of intangible assets	(7.159)	(4.876)
Receipts on redemption of financial assets at FVOCI	69.742	140.931
Purchases of financial assets at FVOCI	(147.257)	(119.123)
Dividend paid	(67.706)	(37.050)
Dividend receipts	224	106
Net cash used in investing activities	**(160.563)**	**(29.233)**

Statement of cash flows
for the year ended 31 December 2018

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

	Bank and Group 2018	Bank and Group 2017
Cash flows from financing activities		
Proceeds from interest-bearing borrowings	-	11.735
Repayment of interest-bearing borrowings	(29.395)	(185.110)
Net cash used in financing activities	**(29.395)**	**(173.375)**
Net cash (outflow) / inflow	**(189.121)**	**181.741**
Effect of foreign exchange rate fluctuations on cash and cash equivalents	2.475	(5.010)
Net (decrease) / increase in cash and cash equivalents	(186.646)	176.731
Cash and cash equivalents at the beginning of the year	**933.214**	**745.515**
Cash acquired from a subsidiary	-	10.968
Cash and cash equivalents at the end of the year	**746.568**	**933.214**

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

Statement of changes in equity for the year ended 31 December 2018

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

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 2017	**119.195**	**(81)**	**48.317**	**(89)**	**16**	**20.682**	**523.189**	**711.229**
Effects of acquisition of subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**742**	**742**
Net profit for the year	-	-	-	-	-	-	89.531	89.531
Change in fair value of financial assets at FVOCI	-	-	-	2.008	-	-	-	2.008
Change in fair value at actuarial gain/loss	-	-	-	-	(89)	-	-	(89)
FX differences on fair value of financial assets at FVOCI	-	-	-	(20)	-	-	-	(20)
Deferred tax on revaluation reserve at actuarial gain/loss (Note 14)	-	-	-	-	9	-	-	9
Deferred tax on financial assets available-for-sale (Note 14)	-	-	-	(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**
Net profit for the year	-	-	-	-	-	-	97.210	97.210
Change of the accounting policy (Note 2.3.1)	-	-	-	-	-	(345)	-	(345)
First application of IFRS 9 securities	-	-	-	1.661	-	-	-	1.661
Cost of provisions for financial assets at FVOCI	-	-	-	(695)	-	-	-	(695)
FX differences on financial assets at FVOCI	-	-	-	1	-	-	-	1
Change in fair value of financial assets at FVOCI	-	-	-	(359)	-	-	-	(359)
FX differences on fair value of financial assets available-for-sale	-	-	-	-	-	-	-	-
Change in fair value at actuarial gain/loss	-	-	-	-	136	-	-	136
Deferred tax on revaluation reserve at actuarial gain/loss (Note 14)	-	-	-	-	(14)	-	-	(14)
Deferred tax on financial assets through OCI (Note 14)	-	-	-	36	-	-	-	36
Changes directly in equity	-	-	-	*1.661*	-	*(345)*	-	*1.316*
Other comprehensive income	-	-	-	*(1.017)*	*122*	-	-	*(895)*
Total changes	**-**	**-**	**-**	***644***	***122***	***(345)***	***97.210***	***97.631***
Dividend payment for the year	-	-	-	-	-	-	(67.706)	(67.706)
Balance as at 31 December 2018	**119.195**	**(81)**	**48.317**	**2.344**	**58**	**20.337**	**605.915**	**796.085**

Statement of changes in equity
for the year ended 31 December 2018

(all amounts are expressed in thousands of KM, 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 2017	**119.195**	**(81)**	**48.317**	**(89)**	**16**	**20.682**	**524.342**	**712.382**
Effects of acquisition of subsidiary	-	-	-	-	-	-	**742**	**742**
Unallocated losses of acquired subsidiary	-	-	-	-	-	-	(981)	(981)
Net profit for the year	-	-	-	-	-	-	89.665	89.665
Change in fair value of financial assets at FVOCI	-	-	-	2.008	-	-	-	2.008
Change in fair value at actuarial gain/loss	-	-	-	-	(89)	-	-	(89)
FX differences on fair value of financial assets through OCI	-	-	-	(20)	-	-	-	(20)
Deferred tax on revaluation reserve at actuarial gain/loss (Note 14)	-	-	-	-	9	-	-	9
Deferred tax on financial assets at FVOCI (Note 14)	-	-	-	(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**
Net profit for the year	-	-	-	-	-	-	97.298	97.298
Change of the accounting policy (Note 2.3.1)	-	-	-	-	-	(345)	-	(345)
First application of IFRS 9 securities	-	-	-	1.661	-	-	-	1.661
Cost of provisions for financial assets at FVOCI	-	-	-	(695)				(695)
FX differences on financial assets at FVOCI	-	-	-	1	-	-		1
Change in financial assets at FVOCI	-	-	-	(359)	-	-	-	(359)
Change in fair value at actuarial gain/loss	-	-	-	-	136	-	-	136
Deferred tax on revaluation reserve at actuarial gain/loss (Note 14)	-	-	-	-	(14)	-	-	(14)
Deferred tax on financial assets at FVOCI (Note 14)	-	-	-	36	-	-	-	36
Changes directly in equity	-	-	-	*1.661*	-	*(345)*	-	*1.316*
Other comprehensive income	-	-	-	*(1.017)*	*122*	-	-	*(895)*
Total changes	**-**	**-**	**-**	***(644)***	***122***	***(345)***	***97.298***	***97.719***
Dividend payment for the year	-	-	-	-	-	-	(67.706)	(67.706)
Balance as at 31 December 2018	**119.195**	**(81)**	**48.317**	**2.344**	**58**	**20.337**	**606.310**	**796.480**

The accompanying notes form an integral part of these financial statements

Improve asset quality.

We are continuing to improve our asset quality by de-risking our balance sheet, fully on track for the accelerated rundown of our Non Core portfolio by 2021. A disciplined risk management approach guarantees high quality origination across the Group.

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.

For 2018, the Bank consolidated the Statement of profit or loss and Statement of financial position 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 Bank and 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 Bank and 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 Bank and Group take into account the characteristics of the asset or liability which 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 Bank and 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 Bank and Group. The Convertible mark (KM) is officially tied to the Euro (EUR 1 = KM 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.

2.3.1 Change of the accounting policy

The Bank and the Group adopted the International Financial Reporting Standard 9: "Financial Instruments" ("IFRS 9") on the date of transition on 1 January 2018, resulting in changes in accounting policies and adjustments to the amounts previously disclosed in the financial statements. The Bank and the Group did not use the early application of this standard.

As prohibited by the transitional measures of IFRS 9, the Bank and the Group have not changed comparative amounts. On the transition date, all adjustments to the net carrying amount of financial assets and liabilities are recognized initially through retained earnings and other reserves in the current period.

In accordance with the foregoing, for disclosure notes, subsequent amendments to IFRS 7 disclosures have also been adopted in the current period. Disclosure notes for comparative periods are repeated as disclosed in the previous period.

Adoption of IFRS 9 has resulted in changes in accounting policies for the recognition, classification and measurement of financial assets and financial liabilities as well as impairment of financial assets. IFRS 9 also has a significant impact on changes in other standards that define financial instruments such as IFRS 7. Below are the effects of IAS 39 transition to IFRS 9.

<u>Classification and measurement of financial instruments</u>

	IAS 39		IFRS 9	
Financial instruments	**Measurement category**	**Net amount 31 December 2017**	**Measurement category**	**Net amount 1 January 2018**
Cash and cash equivalents	At amortized cost (loans and receivables)	933.214	At amortized cost	933.160
Obligatory reserve at the Central Bank of BiH	At amortized cost (loans and receivables)	416.710	At amortized cost	415.115
Loans and receivables from banks	At amortized cost (loans and receivables)	275.882	At amortized cost	275.745
Loans and receivables from clients	At amortized cost (loans and receivables)	2.980.857	At amortized cost	
Loans and receivables from clients	At amortized cost (loans and receivables)	84.836	At amortized cost	3.067.917
Financial assets at FVOCI	FVOCI (available-for-sale)	409.716	FVOCI	409.716
Financial assets at fair value	Through profit or loss	449	Through profit or loss	449
Other assets and receivables	At amortized cost	61.166	At amortized cost	61.396
Current accounts and deposits of banks and amortized cost	At amortized cost	187.061	At amortized cost	187.061
Current accounts and deposits of customers	At amortized cost	4.070.994	At amortized cost	4.070.994
Financial liabilities at fair value	Through profit or loss	994	Through profit or loss	994
Loans	At amortized cost	64.605	At amortized cost	64.605
Other liabilities	At amortized cost	109.406	At amortized cost	109.406
Provisions for liabilities and charges	At amortized cost	19.350	At amortized cost	18.702

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Basis of presentation (continued)

2.3.1 Change of the accounting policy (continued)

Positions in the statement of financial position

Reclassifications	As at 31 December 2017 (IAS 39)	Reclassification	Subsequent measurement	As at 1 January 2018 (IFRS 9)
Cash and cash equivalents				
Opening balance under IAS 39	933.214			
Re-measurement under IFRS 9			(54)	
Closing balance under IFRS 9				933.160
Obligatory reserve at the Central Bank of BiH				
Opening balance under IAS 39	416.710			
Re-measurement under IFRS 9			(1.595)	
Closing balance under IFRS 9				415.115
Loans and receivables from banks				
Opening balance under IAS 39	275.882			
Re-measurement under IFRS 9			(137)	
Closing balance under IFRS 9				275.745
Loans and receivables from clients				
Opening balance under IAS 39	3.065.693			
Re-measurement under IFRS 9			2.224	
Closing balance under IFRS 9				3.067.917
Financial assets available-for-sale				
Opening balance under IAS 39	409.716			
Re-measurement under IFRS 9				
Closing balance under IFRS 9 (FVOCI)				409.716
Other assets and receivables				
Opening balance under IAS 39	61.166			
Re-measurement under IFRS 9			230	
Closing balance under IFRS 9 (FVOCI)				61.396
Financial assets at fair value				
Opening balance under IAS 39	449			
Re-measurement under IFRS 9				
Closing balance under IFRS 9 (FVOCI)				449
Current accounts and deposits of banks at amortized cost				
Opening balance under IAS 39	187.061			
Re-measurement under IFRS 9				
Closing balance under IFRS 9 (FVOCI)				187.061
Current accounts and deposits of customers				
Opening balance under IAS 39	4.070.994			
Re-measurement under IFRS 9				
Closing balance under IFRS 9 (FVOCI)				4.070.994
Financial liabilities at fair value				
Opening balance under IAS 39	994			
Re-measurement under IFRS 9				
Closing balance under IFRS 9 (FVOCI)				994
Loans				
Opening balance under IAS 39	64.605			
Re-measurement under IFRS 9				
Closing balance under IFRS 9 (FVOCI)				64.605
Other liabilities				
Opening balance under IAS 39	109.406			
Re-measurement under IFRS 9				
Closing balance under IFRS 9 (FVOCI)				109.406

Presentation of impairment positions

	Provisions under IAS 39 (balance as at 31 December 2018) in KM '000	Reclassification	Subsequent measurement (balance as at 1 January 2018) in KM '000	Provisions under IFRS 9
Cash and cash equivalents			54	54
Obligatory reserve at the Central Bank of BiH			1.595	1.595
Loans and receivables from banks	124		137	1.595
Loans and receivables from clients	312.746		(2.224)	310.522
Impairment of other assets	13.059		(230)	12.829
Financial assets at FVOCI			1.661	1.661
Provisions for liabilities and charges	19.350		(648)	18.702
Total	**345.279**		**345**	**346.958**

Effects of first application of IFRS 9 are presented in the statement of changes in equity.

2.4 Consolidation

Consolidated financial statements for 2018 include financial statements of the Bank and entities controlled by the Bank and its subsidiaries, including the financial statements of the associate (UniCredit Broker d.o.o.) consolidated using equity method (Group).

Associates

Associates are all companies in which the Bank 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. Bank'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.

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

Non-performed gains from transactions between the Bank and its associates are eliminated up to the size of Bank'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 Bank's policies.

2.5 Interest income and expense

Interest income and expense are recognised in the statement profit or loss and other comprehensive income for the accounting period to which they refer using effective interest rate for all interest-bearing instruments, including those accrued at amortized cost at FVTPL, i.e. accrued at FVOCI. 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.

Interest income and expense also includes fees and commission income and expense relating to loans and receivables from customers and banks, borrowings, finance leases, subordinated debt and debt securities issued, premium or discount amortization, as well as other differences between initial the carrying amount of the interest-bearing financial instrument and its value at maturity, which are recognized using the effective interest rate method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Interest income and expense (continued)

Interest income will be calculated using the effective interest method. This will be calculated by applying the effective interest rate to the gross carrying amount of financial assets except for:

- purchased or originated credit-impaired financial assets. For such financial asset, the entity applies an effective interest rate adjusted for credit risk to the amortized cost of financial assets from initial recognition.
- financial assets that are neither purchased nor originated credit-impaired financial assets, but subsequently become credit-impaired financial assets. For such financial assets, an entity applies the effective interest rate in the following reporting periods to the amortized cost of financial assets.

If, in the reporting period, interest income is calculated using the effective interest method at amortized cost of financial assets in accordance with the aforementioned, in the future reporting periods, the interest income is calculated by applying the effective interest rate to the gross carrying amount if the credit risk of the financial instrument is improved so that the value financial assets no longer diminishes for credit losses, whereby improvement can be objectively linked to an event that has arisen following the application of the above (such as improving the credit rating of the borrower).

In some cases, when it comes to initial recognition, financial assets are reduced by credit losses because credit risk is very high, and in the case of a purchase, financial assets are acquired with a large discount. The Bank and Group are required to include initial expected credit losses in estimated cash flows when calculating the effective interest rate adjusted for the credit risk for financial assets for which, at initial recognition, it is considered that the financial asset will be purchased or originated credit-impaired. This does not mean, however, that the effective interest rate adjusted for credit risk should be applied only because of the high credit risk at initial recognition of financial assets.

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 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.

2.7 Leases

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

Finance lease

The amount owed by lessees under finance lease are recorded as receivables in the amount of Bank and 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

Bank and Group as lessee

For operating leases in which the Bank and Group is a lessee, the underlying assets are not recognized in the Bank and Group's statement of financial position and operating lease payments are recognized as operating expenses in the statement of profit or loss using a straight-line method over the life of the lease.

Leased or received rental incentives are recognized as an integral part of the total cost or lease income during the lease period.

2.8 Employee benefits

On behalf of its employees, the Bank and Group pay 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 and Group pay 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 Long-term Incentive Plan of the Bank and Group are defined based on criteria related to their contribution to the banks long-term sustainable and growing profitability of the Bank and Group. The estimated amount is recognised as personnel costs in the statement of profit or loss and other comprehensive incomein the year when it is earned.

2.8.2 Other employee benefits

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

2.9 Foreign currency translation

Transactions in foreign currencies are translated into KM at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into KM 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 at FVOCI, 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 Bank and Group's statement of financial position at the reporting dates were as follows:

31 December 2018	EUR 1 = KM 1.95583	USD 1 = KM 1.707552
31 December 2017	EUR 1 = KM 1.95583	USD 1 = KM 1.63081

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 Bank and Group become 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 the statement of profit and loss and other comprehensive income.

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 the statement of profit or loss and other comprehensive income.

2.11.1 Financial assets

A financial asset shall be measured at amortised cost if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Bank and Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

The Bank and Group may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in the statement of profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

2.11.1.1 Debt instruments

Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost.

Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI.

All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Bank and Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Bank and Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI, and
- the Bank and Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

2.11.1.2. Debt instruments at amortized cost or at FVTOCI

The Bank and Group assess the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank and Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank and Group determine the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

Reclassifications

When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In accordance with if an entity reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date, defined as the first day of the first reporting period following the change in business model. The Bank and Group shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

There were no reclassifications of the Bank and Group's financial assets during the current year or previous reporting periods.

The Bank and Group have more than one business model for managing its financial instruments which reflect how the Bank and Group manage their financial assets in order to generate cash flows. The Bank and Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Bank and Group consider all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Bank and Group do not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank and Group take into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank and Group's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Bank and Group determine whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank and Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Bank and Group have not identified a change in their business models.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.1 Financial assets (continued)

2.11.1.2 Debt instruments at amortized cost or at FVTOCI (continued)

Reclassifications (continued)

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to the statement of profit or loss and other comprehensive income. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment. See note 17.

2.11.1.3 Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in the statement of profit or loss and other comprehensive income.

Reclassifications

If the business model under which the Bank and Group hold financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank and Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Bank and Group hold financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

2.11.2 Impairment

The Bank and Group recognize loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- loans and advances to banks at amortized cost;
- loans and advances to customers at amortized cost;
- financial assets at fair value through other comprehensive income;
- financial guarantees and letters of credit;
- other undrawn commitments.

No impairment loss is recognised on equity investments.

With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in note 36.

2.11.2.1 Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank and Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

The Bank and Group measure ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual or a collective basis.

For loan commitments and financial guarantee contracts impairment is recognized as a provision. The Bank and Group disclose information on impairment losses on financial assets separately from those for loan commitments and financial guarantee contracts.

2.11.2.2 Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because assets are credit-impaired at initial recognition. For such assets, the Bank and Group recognize all changes in lifetime ECLs since initial recognition as impairment losses, and all changes are recognized in the statement of profit or loss and other comprehensive income. Favorable changes for such assets create impairment gains.

2.11.2.3 Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see note 36).

The Bank and Group consider the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Bank and Group; or
- the borrower is unlikely to pay its credit obligations to the Bank and Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the client has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

Significant increase in credit risk

The Bank and Group monitor all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank and Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank and Group compare the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Bank and Group consider both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank and Group's historical experience and expert credit assessment including forward-looking information.

See Note 36 Risk management for more details.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.3 Modification and derecognition of financial assets

The Bank and Group initially recognize loans and receivables on the date when they occur

Purchase and sale of financial assets is recognized on a settlement date on a regular basis. The settlement date is the date when the asset was delivered to or by the Bank and Group and the asset or liability in question was not recognized until the settlement date. Changes in the fair value of financial assets and liabilities at fair value through profit or loss (other than derivatives) and at fair value through other comprehensive income of financial assets are recognized as of the trading date. All other financial assets and liabilities are recognized at the trading date on which the Bank and Group become a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recognized at fair value plus transaction costs for all financial assets and liabilities that are not carried at FVTPL. Financial assets and liabilities at FVTPL are initially recognized at fair value, and transaction costs are recognized immediately in the statement of profit or loss and other comprehensive income.

Derecognition of financial assets due to significant change of conditions

The Bank and Group derecognize a financial asset, such as a loan to a client, when the terms of business have changed to the extent that the contract becomes a new loan, where the difference is recognized in the profit or loss on derecognition, but to the extent that the impairment loss is not already recorded. Newly recognized loans are classified as Stage 1 for ECL measurement purposes unless the new loan is considered POCI.

When assessing whether or not the loan is derecognized, the Bank and Group considers, among other things, the following factors: change in the currency of a loan, introduction of ownership of a property, change of the other counterparty, or if the change is such that the instrument no longer meets the SPPI criterion.

Changes in financial assets that do not result in significantly different cash flows

If the change does not result in cash flows that are substantially different, the change does not result in derecognition. Based on the change in the cash flows discounted by the original EIR, the Bank and Group record gain or loss on the change, to the extent that the impairment loss has not been recorded yet.

Derecognition financial assets in the event of significant changes to the conditions

Financial assets (or any part thereof or part of a group of similar financial assets) are derecognised when the rights to receive cash flows from the financial asset have expired or when they are transferred, and or

- The Bank and Group transfer almost all the risks and benefits associated with ownership, or
- The Bank and Group neither transfer nor retain almost all of the risks and benefits associated with ownership and the Bank and Group do not retain control.

The Bank and Group consider that the control is transferred if and only if the acquirer has the practical ability to sell the property to the wholly unrelated third party and is able to use that ability unilaterally and without introducing additional transfer restrictions.

The Bank and Group enter into transactions in which it retains contractual terms for receiving cash flows from the asset but assumes the contractual obligation to pay these cash flows to other entities and transfers all risks and benefits. These transactions are recorded as "pass-through" arrangements that result in derecognition if the Bank and Group:

- have no obligation to pay, unless it collects equivalent amounts from the property,
- have a ban on selling or pledging assets, and
- have the obligation to allocate any money that is collected from the property without any significant delay.

When the Bank and Group have netiher transferred or retained almost all risks and benefits, and retained control of the assets, the assets continue to be recognized only to the extent of the continued participation of the Bank and Group, in which case the Bank and Group also recognize the related obligation. Transferred assets and related liabilities are measured on a basis reflecting the rights and liabilities held by the Bank and Group. The continuation of the collateral in relation to the transferred assets is measured at a lower value between the original carrying amount of the asset and the maximum amount of compensation that the Bank and Group would be required to pay.

Collateral (such as shares and bonds) that the Bank and Group issue under standard repurchase and securities lending agreements are derecognized as the Bank and Group retain all significant risks and rewards on a pre-determined purchase price and hence the criteria for termination of recognition are not met.

2.11.4 Write-off

Loans and debt securities are written off when the Bank and Group have no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank and Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Banka and Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank and Group's enforcement activities will result in impairment gains.

2.11.5 Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve (see Statement of changes in equity);
- for loan commitments and financial guarantee contracts: as a provision.

2.11.6 Financial liabilities and equity

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

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank and Group or a contract that will or may be settled in the Bank and Group's own equity instruments and is a non-derivative contract for which the Bank and Group are or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank and Group's own equity instruments.

2.11.6.1 Equity instruments

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

Repurchase of the Bank and Group's own equity instruments is recognised and deducted directly in equity. No gain/loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank and Group's own equity instruments.

2.11.6.2 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred 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 Bank and Group manage 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 or contingent consideration that may be paid by an acquirer as part of a business combination 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 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 Bank and 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 IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments (continued)

2.11.6 Financial liabilities and equity (continued)

2.11.6.2 Financial liabilities at FVTPL (continued)

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in the statement of profit or loss and other comprehensive income to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in the statement of profit or loss and other comprehensive income incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL line item in the profit or loss account.

In making the determination of whether recognising changes in the liability's credit risk in other comprehensive income will create or enlarge an accounting mismatch in profit or loss, the Bank and Group must assess whether they expect that the effects of changes in the liability's credit risk will be offset in the statement of profit or loss and other comprehensive income by a change in the fair value of another financial instrument measured at fair value through profit or loss. Such an expectation must be based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument.

2.11.6.3 Other financial liabilities

Other financial liabilities, including deposits 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 EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2.11.6.3.1 Borrowings

Interest-bearing loans are initially recognized at fair value, less any related transaction costs. After initial recognition, interest-bearing borrowings are stated at amortized cost, and any difference between receivables (less transaction costs) and redemption value is recognized in profit or loss for the duration of the borrowing period based on the effective interest rate.

2.11.6.3.2 Current accounts and deposits of banks and clients

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

2.11.6.4 Derecognition of financial liabilities

The Bank and Group derecognise financial liabilities when, and only when, the Bank and Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Bank and Group exchange with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank and Group account for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

2.12 Debt securities

Debt securities are classified as financial assets at FVTOCI (with the disclosure of gains or losses on income or loss on derecognition) at FVTPL or at amortized cost, depending on the business model and the SPPI test.

2.13 Receivables from banks

Placements with banks are classified as financial assets at amortized cost and measured accordingly.

2.14 Cash and cash equivalents

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

2.15 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 Bank and Group provide 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.

2.17 Equity instruments

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

2.18 Liabilities for contracts on financial guarantees, letters of credit and unused loans

Liabilities for financial guarantee contracts are initially measured at fair value and subsequently measured at greater than:

- amount of contractual obligations as determined in accordance with IAS 37: "Provisions, Contingent Liabilities and Contingent Assets", or
- the amount initially recognized and, where appropriate, reduced by cumulative amortization recognized in accordance with the income recognition policies established above.

Unused loans and letters of credit are liabilities that, during the term of a liability, the Bank and Group are obliged to provide a loan to a client under pre-determined conditions.

The nominal contractual value of financial guarantees, letters of credit and unused credit obligations, if the loan is agreed to be given to market conditions, is not shown in the statement of financial position (presented in the off-balance sheet).

2.19 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank and Group have a legal right to set off the amounts and they tend 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.

2.20 Derivative financial instruments

The Bank and Group use derivative financial instruments to hedge economically its exposure to foreign exchange risk arising from operating, financing and investing activities. The Bank and Group do 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 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 the statement of profit or loss and other comprehensive income 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:

Bank	31 December 2018	31 December 2017
Buildings	50 years	50 years
Computers	3.3 to 5 years	3.3 to 5 years
Leasehold improvement	Lease term	Lease term
Other equipment	6.6 to 14.2 years	6.6 to 14.2 years

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 statement of profit or loss and other comprehensive income as other income or other expense.

2.22 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:

Bank	31 December 2018	31 December 2017
Software	5 years	5 years
Other intangible assets	5 years	5 years

2.23 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.

2.24 Taxation

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in the statement of 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.

2.24.1 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.

2.24.2 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 Bank and Group expect, 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 Bank and Group reassess 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.

2.25 Impairment of non-financial assets

Non-financial assets (other than deferred tax assets) of the Bank and 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 the statement of profit or loss and other comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount.

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

The recoverable amount of individual assets or cash-generating units is the higher of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. The recoverable amount of assets that do not generate independent cash flows (e.g. corporate assets) is determined by assessing cash flows of the group to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, as if no impairment loss had been recognised.

2.26 Provisions

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Equity and reserves

2.27.1 Share capital

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

2.27.2 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.

2.27.3 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.

2.27.4 Retained earnings

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

2.27.5 Revaluation reserve for securities

Revaluation reserve for securities comprises changes in fair value of financial assets through OCI, net of deferred tax.

2.27.6 Dividends

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

2.28 Off-balance-sheet commitments and contingent liabilities

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

2.29 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.

2.30 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 allocated to the segment of Retail or Corporate and Investment Banking depending on where it belongs. 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.

2.31 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 2018 and 2017 there were no dilution effects.

2.32 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period 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 statement of profit or loss and other comprehensive income in the period in which they are incurred.

During 2018 and 2017, there were neither qualifying assets nor capitalized borrowing costs.

2.33 Assets acquired in lieu of uncollectible receivables

The Bank and Group assess 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 Bank and Group's intention is mainly to sell such assets, in which case they are classified as inventory, 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 Bank and 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 (Note 2.25).

3. ADOPTION OF NEW AND REVISED STANDARDS

3.1 Initial application of new amendments to the existing standards effective for the current reporting period

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

- 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),
- 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 IAS 40 "Investment Property" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Group's financial statements.

3.2 New standards and amendments to existing standards 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 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 3 "Business Combinations" – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- 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 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),

- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020),
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

The Bank and Group have elected not to adopt these new standards, amendments to existing standards and new interpretation in advance of their effective dates. The Bank and Group anticipate that the adoption of these standards, amendments to existing standards and new interpretations will have no material impact on the financial statements of the Bank and Group in the period of initial application.

3.3 IFRS 15: Revenue from Contracts with Customers and IFRS 16: Leases

- IFRS 15: Revenue from Contracts wit Customers – the standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that applies to revenue from contracts with customers with limited exceptions. Based on the conducted analysis no significant impact was detected by adopting IFRS 15 in current economic and financial volumes on the financial statements of the Bank and Group.
- IFRS 16: Leases (effective for annual periods beginning on or after 1 January 2019) – IFRS 16 establishes principles for recognition, measurement, presentation and disclosure of leases for both parties, i.e. the buyer ("lessee") and supplier ("lessor"). The Standard requires lessees to account for all leases under a single balance sheet model in a similar way to financing leases in accordance with IAS 17, with certain exceptions. The lessor's accounting remains largely unchanged. According to the estimate, the Bank and Group expect no significant impact of the application of IFRS 16 on the financial statements. The Bank and Group have reviewed the lease contracts and calculated the effects of the first application of the classification of contracts under IFRS 16. The total estimated effect of the right to use assets is KM 12,577 thousand or 0.2% of the total assets of the Bank and Group, and it results in increase of total assets and liabilities of the Group for the stated amount.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the accounting policies, which are described in Note 2, the Bank and Group are 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 Bank and Group as of 31 December 2018 and 2017 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 2.21 and 2.22 above, the Bank and Group review 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 Bank and Group assess indicators for impairment of loans and receivables, and receivables on financial lease.

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

Impairment losses are made mainly against the carrying value of loans to corporate and retail clients (summarised in Note 20), 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 30).

New impairment requirements under IFRS 9 are based on the "Expected Credit Loss model" and change the "incurred loss mdoel" under IAS 39.

The impairment requirements under IFRS 9, which the Bank fully applies, differ significantly from those in IAS 39:

- It is not necessary to determine the existence of objective deterioration that arises as a result of a past event after the initial recognition of a financial asset in order to recognize a credit loss and to allocate the cost of impairment provisions (expected credit losses (ECLs) and for performing financial assets).
- Expected credit losses (ECLs) are recalculated at each reporting date in order to reflect credit risk changes from initial recognition of financial assets.
- Forward-looking information and macroeconomic factors are used to determine the expected credit loss.

Under the new standard for recognizing the amount of provisions for a financial instrument, entities may follow a General Approach or a Simplified Approach.

Under the general approach each legal entity is obliged to calculate either the 12-month or lifetime ECL of a financial instrument depending on the significance of changing the credit risk of the financial instruments in relation to the initial recognition.

In Simplified Approach, legal entities are not required to track changes in credit risk. Provisions are always equal to the expected lifetime credit loss on each reporting date, immediately after recognition.

The Bank uses a simplified approach to the finance lease portfolio, and for the rest of the general approach.

Financial assets carried at amortized cost

The classification determines how the financial asset is treated in the financial statements and, in particular, how is measured continuously. Classification and measurement requirements are the core of accounting for financial assets.

With regard to the rules for the classification of financial instruments, IFRS 9 contains three major categories of measurement for financial assets:

- Amortized cost (AC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL).

How financial assets are classified and measured depends on two grades:

- Bank's Business Model (BM) for financial assets management; and
- Contractual characteristics of financial assets cash flow.

According to IFRS 9, the business model of the Bank refers to the Bank and Group managing its financial assets in order to generate cash flow. That is, the business model of the Bank and Group determines whether cash flows will result in the payment of contractual cash flows, or assets managed to collect contracted cash flows and the sale of financial assets.

Therefore, business models can be classified as:

- Hold
- Hold & Sell
- Other / residual

Financial assets carried at amortized cost

The assessment of the characteristics of cash flows aims to identify whether the contractual cash flows are "solely payment of principal and interest" (SPPI criterion).

If the SPPI criterion is met, the financial assets managed by the "Hold" Business Model will be measured at amortized cost, and funds managed under the Hold & Sell business model will be measured in the FVOCI. The financial assets by which the business model management "Other" will be measured as fair value through profit or loss, independent of the SPPI criteria.

The Bank and Group apply the "3-Stage" model, which is based on changes in credit risk of the financial instrument compared to credit risk at initial recognition, reflecting the deterioration of the credit quality of the financial instrument:

- **Stage 1** covers financial instruments that do not have a significant deterioration in credit quality since initial recognition or have low credit risk;
- **Stage 2** covers financial instruments that have a significant deterioration in credit quality since initial recognition for which there is no objective evidence of credit loss events;
- **Stage 3** covers financial assets for which there is objective evidence of credit loss on the reporting date. Finally, the transfer of the financial instrument in Stage 3 is necessary if, in addition to the increase in credit risk, there is also a trigger for credit loss.

Given the classification in different stages, the classification of credit exposure to performing and non-performing:

- **Stages 1 and 2** may only include performing financial assets,
- **Stage 3** may only include non-performing financial assets.

Classification of exposures/provisions for reporting to the FBA

The Bank is obligated to classify items of assets, exposed to credit risk, periodically or at least quarterly to the following groups in accordance with FBA regulations:

Categories:

- Category A - Good Assets
- Category B - Assets with special note
- Category C - Substandard assets
- Category D - Doubtful assets
- Category E - Loss

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

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

4.1 Key sources of estimation uncertainty (continued)

4.1.2 Impairment losses on loans and receivables (continued)

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

Classification of exposures/provisions for reporting to the FBA (continued)

The Bank also calculates provisions (RKG regulatory reserves) in accordance with FBA regulations, with impairment estimates in accordance with IFRS.

Defined percentages of RKG:

- Category A Good Assets: 2%
- Category B Assets with special note: 5 - 15%
- Category C Substandard Assets: 16 - 40%
- Category D Doubtful Assets: 41 - 60%
- Category E Loss: 100%

	Note	Bank 31 December 2018 KM '000	Bank 31 December 2017 KM '000
Allowances for impairment losses on credit risk exposure			
Allowances for impairment losses on loans and receivables from clients	20	318.105	287.245
Provisions for off-balance-sheet contingent liabilities	30	21.008	19.351
Provisions for obligatory reserve at the CBBH	16	1.112	25.501
Allowances for impairment losses on loans to and receivables from banks	17	438	124
Total		**340.663**	**332.221**

Non-performing portfolio – calculation in accordance with IFRS

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

	31 December 2018				31 December 2017			
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	146.804	99.097	24.880	270.781	161.156	94.344	28.424	283.924
Impairment rate for non-performing portfolio	91,34%	87,83%	84,20%	89,40%	90,13%	84,35%	80,84%	87,28%

Any additional increase in the impairment rate of 1 pp on the gross non-performing exposure, identified as of 31 December 2018, would lead to the recognition of an additional impairment loss of KM 2,708 thousand (31 December 2017: KM 2,839 thousand) for the Bank.

Non-performing portfolio – calculation in accordance with FBA regulations

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

Bank	31 December 2018 Corporate (including both state and public sector)	Retail	Financial lease	Total	31 December 2017 Corporate (including both state and public sector	Retail	Financial lease	Total
Gross exposure	141.299	73.525	21.951	236.775	154.337	69.855	24.089	248.282
Impairment rate for non-performing portfolio	89,25%	94,36%	80,07%	89,99%	87,02%	93,19%	76,18%	88,70%

Any additional increase in the impairment rate of 1 pp on the gross non-performing exposure identified as of 31 December 2018, would lead to additional impairment provisions of KM 2,367 thousand (31 December 2017: KM 2,482 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%. Special reserve for credit losses for the Bank at 31 December 2017, recognised for risk category B, amounted to KM 4,623 thousand, while gross exposure amounted to KM 50,627 thousand.

Stage 1 and 2

In addition to identified losses on non-performing loans, as described in previous paragraph, the Bank and Group also recognise impairment losses which are known to exist at the reporting date, but which have not yet been identified (Stages 1 and 2). Amounts, for which an impairment loss has been identified, are excluded from this calculation.

Stages 1 and 2 of the Bank as at 31 December 2018, amounted to KM 95,256 thousand (31 December 2017.: KM 81,249 thousand) or 2.8% (31 December 2017: 2.7%) of loans and receivables from clients and finance lease, and 1.4% (31 December 2017: 1.4%) 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)

Provisions calculated in accordance with FBA regulations are not recognized in Bank's books but constitute the basis for calculating capital adequacy.

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 Agency requires that the provisions for credit losses (RKGs) calculated in accordance with FBA rules be allocated or subtracted from equity when calculating capital adequacy, in the amount in which the RKG thus calculated is greater than the total impairment at IFRS level. Missing credit loss provisions as of 31 December 2018 amounted to KM 58,551 thousand, and they are reduced for KM 20,682 thousand of reserves excluded from core capital of the Bank.

4.1.3 Legal proceedings

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

As of 31 December 2018 the Bank and Group have provided KM 10,080 thousand, which Management estimates as sufficient for covering risk of potential liability from legal proceedings against the Bank and Group.

4.1.4 Fair value of financial instruments

As described in Note 38, the Management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments, other than loans, are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

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

5. SEGMENT REPORTING

The segments of the Bank and the Group include:

1. "Retail": individuals, small business and sole traders, including finance lease.
2. "Corporate and Investment Banking": large and medium corporate clients, state and public sector, financial markets (trading activities), including finance lease.
3. "Assets and Liabilities Management": asset and liability management.
4. "Central Unit": other assets and liabilities not assigned to other segments.
5. "Lease": Finance lease.

Lease segment was presented separately for 2017.

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 through OCI and derivatives, as well as different classification of particular positions.

Statement of profit or loss per segment

Bank Year ended 31 December 2018	Retail	Corporate and Investment Banking	Assets and Liabilities Management	Central Unit	Total by management reports	Adjustment before financial statements	Total
Net interest income	121.310	40.870	5.712	(3.008)	164.884	-	164.884
Net fee and commission income	55.309	15.958	(908)	-	70.359	-	70.359
Dividend income	-	-	-	224	224	-	224
Net gains from foreign exchange trading and translation of monetary assets and liabilities	9.414	4.651	(4)	1	14.062	3	14.065
Other income	153	472	894	1.046	2.565	604	3.169
Operating income	**186.186**	**61.951**	**5.694**	**(1.737)**	**252.094**	**607**	**252.701**
Depreciation and amortization	(3.849)	(624)	(7)	(5.223)	(9.703)	(671)	(10.374)
Operating expenses	(96.102)	(21.157)	(1.288)	3.395	(115.152)	1.290	(113.862)
Profit before impairment losses and taxation	**86.235**	**40.170**	**4.399**	**(3.565)**	**127.239**	**1.226**	**128.465**
Impairment losses and provisions, net	(12.351)	(4.939)	176	-	(17.114)	(1.224)	(18.338)
Profit before taxation	**73.884**	**35.231**	**4.575**	**(3.565)**	**110.125**	**4**	**110.127**
Income tax expense	(7.394)	(3.509)	(458)	(1.556)	(12.917)	-	(12.917)
NET PROFIT	**66.490**	**31.722**	**4.117**	**(5.121)**	**97.208**	**2**	**97.210**

Statement of profit or loss per segment (continued)

Bank Year ended 31 December 2017	Retail	Corporate and Investing Banking	Assets and Liabilities Management	Lease	Central Unit	Total by management reports	Adjustment before financial statements	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**

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

5. SEGMENT REPORTING (CONTINUED)

Statement of financial position per segment

Bank 31 December 2018	Retail (banking)	Corporate and Investment Banking	Assets and Liabilities Management	Central Unit	Total by management reports	Adjustment before financial statements	Total
Segment assets	1.981.770	1.398.305	2.011.761	558.431	5.950.267	1.947	5.952.214
Total assets	**1.981.770**	**1.398.305**	**2.011.761**	**558.431**	**5.950.267**	**1.947**	**5.952.214**
Segment liabilities	3.125.513	1.295.464	574.254	158.441	5.153.672	-	5.153.672
Current tax liability	-	-	-	1.044	1.044	(17)	1.027
Deferred tax liability	-	-	-	3.349	3.349	(1.919)	1.430
Total liabilities	**3.125.513**	**1.295.464**	**574.254**	**162.834**	**5.158.065**	**(1.936)**	**5.156.129**
Acquisition of property, equipment and intangible assets	-	-	-	15.887	-	-	-

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	-	-	-	-

6. INTEREST INCOME

Analysis by source

	Bank 2018	Bank 2017
Retail	118.578	120.553
Corporate	46.511	42.706
State and public sector	20.899	25.750
Banks and other financial institiutions	1.492	1.908
	187.480	**190.917**

Banks and other financial institutions include Central Bank of BiH.

Analysis by product

	Bank 2018	Bank 2017
Loans and receivables from clients at amortized cost	171.862	174.794
Debt securities (financial assets at FVOCI)	14.126	14.799
Loans to and receivables from banks at amortized cost	1.492	1.324
	187.480	**190.917**

Interest income on impaired loans and receivables amounted to KM 3,528 thousand. (2017: KM 4,604 thousand), of which effects of unwinding were recognized in interest income in the amount of KM 1,102 thousand (2017: KM 1,845 thousand).

7. INTEREST EXPENSE

Analysis by recipient

	Bank 2018	Bank 2017
Retail	15.495	20.836
Negative interest on placements to banks	3.423	2.015
Corporate	2.071	2.231
Banks and other financial institutions	1.477	2.778
State and public sector	130	779
	22.596	**28.639**

Analysis by product

	Bank 2018	Bank 2017
Current accounts and deposits from retail clients	15.495	20.836
Current accounts and deposits from banks	3.702	2.127
Current accounts and deposits from corporate, and state and public sector	2.225	3.012
Borrowings	969	2.664
Repo activities	205	-
	22.596	**28.639**

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

8. FEE AND COMMISSION INCOME

	Bank 2018	Bank 2017
Credit cards	23.250	23.543
Domestic payment transactions	20.556	19.476
Foreign payment transactions	15.839	12.033
Guarantees and letters of credit	5.077	4.906
Other	9.443	8.755
	74.165	**68.713**

9. FEE AND COMMISSION EXPENSES

	Bank 2018	Bank 2017
Domestic payment transactions	2.323	1.961
Foreign payment transactions	909	823
Other	574	653
	3.806	**3.437**

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

	Bank 2018	Bank 2017
Net foreign exchange spot trading gains	14.535	10.944
Net losses from FX forwards	(467)	(506)
Net foreign exchange loss from translation of monetary assets and liabilities	(3)	(2)
	14.065	**10.436**

11. OTHER INCOME

	Bank 2018	Bank 2017
Income from recording tangible assets	954	-
Net income from repossessed collaterals	455	517
Net gains on disposal of property and equipment	320	128
Income from IT services	186	191
Rent income	67	108
Income from expenses recharged to clients	58	76
Write-offs of other liabilities and reversal of accrued expenses	19	102
Income from claims settled by insurance companies	15	61
Income from cancellation of credit lines	-	583
Other	1.095	153
	3.169	**1.919**

12. OPERATING EXPENSES

	Bank 2018	Bank 2017
Personnel costs	57.654	55.833
Administration and marketing expenses	39.022	40.605
Savings deposit insurance expenses	9.493	8.562
Rental costs	5.806	5.969
State contributions (excluding personnel-related)	1.282	1.776
Other expenses	605	461
	113.862	**113.206**

Personnel costs of the Bank include KM 11,373 thousand of defined contributions paid into the state-owned pension plans (2017: KM 10,775 thousand).

13. IMPAIRMENT LOSSES AND PROVISIONS, NET

	Bank 2018	Bank 2017
Loans and receivables from clients at amortized cost (Note 20)	15.083	8.503
Off-balance-sheet exposure to credit risk (Note 30)	2.293	1.774
Provisions for legal proceedings (Note 30)	1.218	4.490
Impairment of property and equipment (Note 24)	332	-
Impairment of monetary funds (Note 15)	61	-
Loans and receivables from banks at amortized cost, including the obligatory reserve at the CBBH (Note 17)	(323)	-
Impairment of securities (Note 18)	(696)	-
Impairment of intangible assets (Note 25)	-	38
Other assets (Note 21)	370	635
	18.338	**15.440**

14. INCOME TAX EXPENSE

Total tax recognised in the statement of profit or loss and other comprehensive income may be presented as follows:

	Bank 2018	Bank 2017
Current income tax	12.784	12.020
Deferred income tax	133	-
Total tax in Statement of profit or loss	**12.917**	**12.020**
Deffered tax through other comprehensive income	22	(190)

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

14. INCOME TAX EXPENSE (CONTINUED)

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

	Bank 2018	Bank 2017
Profit before income tax	**110.127**	**101.551**
Tax calculated at rate of 10%	11.013	10.155
Effects of non-deductible expenses	1.808	2.047
Effects of non-deductible income	(22)	-
Effects of deductible depreciation	(222)	(216)
Effects of provisions and receivables	89	-
Capital gains	83	-
Additional income tax in subsidiary for the branch in RS	35	34
Current income tax	**12.784**	**12.020**
Average effective income tax rate	**11,6%**	**11,8%**

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

	Bank / Group and Bank Deferred tax assets	Bank / Group and Bank Deferred tax liabilities	Bank / Group and Bank Net deferred tax assets / (liabilities)
Balance at 1 January 2017	-	**1.129**	**1.129**
Change in fair value of financial assets at FVOCI	199	-	199
Changes in revaluation reserves at actuarial gain/loss	-	(9)	(9)
Net tax assets / (liabilities)	-	-	-
Other provisions for loans and receivables from clients through profit or loss	(199)	199	-
Balance as at 31 December 2017	-	**1.319**	**1.319**
Change in fair value of financial at FVOCI	(36)	-	(36)
Changes in revaluation reserves at actuarial gain/loss	-	14	14
Other provisions for loans and receivables from clients through profit or loss	-	(89)	(89)
Net deferred tax liability for depreciation	-	222	222
Net tax assets / (liabilities)	36	(36)	-
Balance as at 31 December 2018	-	**1.430**	**1.430**

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

	Bank 2018	Bank 2017
Deferred tax assets	-	-
Deferred tax liabilities		
Net deferred tax liability for financial assets at FVOCI	(153)	(189)
Net deferred tax assets in revaluation reserves at actuarial gain/loss	(7)	7
Net deferred tax liability for other provisions for loans and receivables from clients	(1.048)	(1.137)
Net deferred tax liability for depreciation	(222)	-
Net deferred tax liabilities	**(1.430)**	**(1.319)**

15. CASH AND CASH EQUIVALENTS

	Bank 31 December 2018	Bank 31 December 2017
Giro account with CBBH	349.939	613.431
Current accounts with other banks	223.588	173.526
Cash in hand	172.990	146.213
Items in the course of collection	51	44
	746.568	-
Less: Impairment allowance	(115)	-
	746.453	**933.214**

Movement in impairment allowance for cash and cash equivalents can be presented as follows:

	Bank 31 December 2018	Bank 31 December 2017
As at 1 January	**-**	**-**
Effect of IFRS 9 (Note 2.3.1)	54	-
Net expense in the statement of profit or loss (Note 13)	61	-
As at 31 December	**115**	**-**

16. OBLIGATORY RESERVE AT THE CENTRAL BANK OF BIH

	Bank 31 December 2018	Bank 31 December 2017
Obligatory reserve at CBBH	485.253	416.710
Less: Impairment allowance	(1.112)	-
	484.141	**416.710**

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

16. OBLIGATORY RESERVE AT THE CENTRAL BANK OF BIH (CONTINUED)

Movement in impairment allowance for obligatory reserve at the CBBiH can be presented as follows:

	Bank 31 December 2018	Bank 31 December 2017
As at 1 January	**-**	**-**
Effect of IFRS 9 (Note 2.3.1)	1.595	-
Net expense in the statement of profit or loss (Note 13)	(483)	-
As at 31 December	**1.112**	**-**

In 2018, the basis for calculation of the obligatory reserve of commercial banks comprised all deposits and borrowed funds, regardless of currency. In addition, the unified rate of obligatory reserve of 10% was determined, which is applied by CBBiH on the base for calculation of obligatory reserve.

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

17. LOANS TO AND RECEIVABLES FROM BANKS AT AMORTIZED COST

	Bank 31 December 2018	Bank 31 December 2017
Placements with other banks – gross	502.519	276.004
Loans to banks – gross	216.605	2
	719.124	***276.006***
Less: Impairment allowance	(438)	(124)
	718.686	**275.882**
Expected to be recovered:		
- no more than twelve months after the reporting period	719.124	269.302
- more than twelve months after the reporting period	-	6.704
Less: Impairment allowance	(438)	(124)
	718.686	**275.882**

As at 31 December 2018, loans and receivables from banksat amortized cost included KM 3,060 thousand pledged as collateral for the Bank's liabilities to Visa and MasterCard in respect of credit card operations (31 December 2017: KM 4,444 thousand).

As at 31 December 2018, within loans to and receivables from banks there were no placements and loans in 2018 (31 December 2017: KM 22,680 thousand) to related parties.

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

	Bank 31 December 2018	Bank 31 December 2017
Balance as at 1 January	**124**	**124**
Effect of IFRS 9 (Note 2.3.1)	137	-
Forex differences	17	-
Net expense in profit or loss (Note 13)	160	-
Balance as at 31 December	**438**	**124**

Loans to and receivables from banks at amortized cost, including the obligatory reserve at the CB

Gross exposure

Bank	31 December 2018				31 December 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	695.788	-	-	695.788	238.276
Medium risk	508.465	-	-	508.465	454.316
High risk	-	-	-	-	-
Non-performing					
Default	-	-	124	124	124
Total	**1.204.253**	**-**	**124**	**1.204.377**	**692.716**

Bank Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	**692.592**	**-**	**124**	**692.716**
New financing	718.589	-	-	718.589
Assets derecognised (excluding write offs)				
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	(208.213)	-	-	(208.213)
Amounts written off	-	-	-	-
Foreign exchange adjustments	1.237	-	-	1.237
Other changes	48	-	-	48
At 31 December 2018	**1.204.253**	**-**	**124**	**1.204.377**

Bank Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018	**1.733**	**-**	**124**	**1.857**
Assets derecognised (excluding write offs)				
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	
Write Downs/Write Backs (Note 13)	(323)	-	-	(323)
Amounts written off	-	-	-	-
Foreign exchange adjustments	16	-	-	16
At 31 December 2018	**1.426**	**-**	**124**	**1.550**

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

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Bank 31 December 2018	Bank 31 December 2017
Debt securities at FVOCI	491.747	409.517
Equity securities at FVOCI	199	199
	491.946	**409.716**

The movement in impairment allowance for financial assets at fair value through profit or loss is as follows:

	Bank 31 December 2018	Bank 31 December 2017
Balance as at 1 January	**-**	**-**
Effect of IFRS 9 (Note 2.3.1)	1.661	-
Net expense in statement of changes in equity (Note 13)	(695)	-
Balance as at 31 December	**996**	**-**

During 2018 and 2017 there were no due uncollected financial assets through other comprehensive income, nor impairment of financial assets at fair value through other comprehensive income

Debt securities at fair value through other comprehensive income

	Bank 31 December 2018	Bank 31 December 2017
Bonds of the Government of Federation of BiH	191.605	244.453
State Bonds of the Republic of Croatia	151.639	96.991
Bonds of the Government of Republika Srpska	83.907	68.073
State Bonds of the Republic of Poland	50.375	-
State Bonds of the Republic of Slovenia	14.221	-
	491.747	**409.517**

Equity securities at fair value through other comprehensive income

	Bank 31 December 2018	Bank 31 December 2017
Listed or quoted equity securities	199	199
	199	**199**

Debt instruments at FVOCI

Bank		31 December 2018			31 December 2017
Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Internal rating grade					
Performing					
Low risk	216.235	-	-	216.235	-
Medium risk	-	275.512	-	275.512	409.517
High risk	-	-	-	-	-
Non-performing					
Default	-	-	-	-	-
Total	**216.235**	**275.512**	**-**	**491.747**	**409.517**

Bank Movement of gross exposure	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	**96.991**	**312.526**	**-**	**409.517**
New financing	115.421	31.835	-	147.256
Assets derecognised (excluding write offs)				
Change in fair value	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Assets repaid	-	(67.445)	-	(67.445)
Amounts written off		-	-	
Foreign exchange adjustments	4.102	-	-	4.102
Other changes	(279)	(1.404)	-	(1.683)
At 31 December 2018	**216.235**	**275.512**	**-**	**491.747**

Bank Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018	**465**	**1.196**	**-**	**1.661**
Assets derecognised (excluding write offs)				
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	
Write Downs/Write Backs (Note 13)	(360)	(335)	-	(695)
Amounts written off	-	-	-	-
At 31 December 2018	**105**	**861**	**-**	**966**

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

	31 December 2018		31 December 2017	
Bank	Nominal value	Fair value	Nominal value	Fair value
Financial assets				
Forward foreign exchange contracts	71.778	608	4.472	18
Foreign exchange swap contracts	225.068	-	35.546	431
	296.846	**608**	**40.018**	**449**
Financial liabilities				
Forward foreign exchange contracts	12.151	514	1.004	14
Foreign exchange swap contracts	210	1	33.921	980
	12.361	**515**	**34.925**	**994**

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

20. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST

	Bank 31 December 2018	Bank 31 December 2017
Corporate (including state and public sector)		
- in domestic currency	1.617.090	1.450.455
- in foreign currency	24.677	28.199
	1.641.767	*1.478.654*
Retail		
- in domestic currency	1.952.021	1.789.086
- in foreign currency	359	362
	1.952.380	*1.789.448*
Finance lease receivables		
- in domestic currency	104.033	110.337
- in foreign currency	-	-
	104.033	*110.337*
Total loans and receivables before allowance	***3.698.180***	***3.378.439***
Less: Impairment allowance	(318.105)	(312.746)
Net loans and receivables	**3.380.075**	**3.065.693**
Expected to be recovered:		
- no more than twelve months after the reporting period	1.500.975	1.426.834
- more than twelve months after the reporting period	2.197.205	1.951.605
Less: Impairment allowance	(318.105)	(312.746)
	3.380.075	**3.065.693**

As at 31 December 2018, included in Bank's retail loans in domestic currency is KM 758,030 thousand of gross loans (31 December 2017: KM 764,489 thousand), and in corporate loans in domestic currency KM 815,487 thousand (31 December 2017: KM 689,542 thousand) which have a EUR countervalue. Repayments of principal and interest are determined with reference to the EUR countervalue and are paid in the KM equivalent translated at the rate applicable at the date of payment.

Bank	31 December 2018	31 December 2017
Loans and receivables from customers		
Corporate entites	1.520.162	1.327.054
State and public sector	121.605	151.599
Individuals	1.952.380	1.789.449
Finance lease	104.033	110.337
	3.698.180	***3.378.439***
Less: Impairment allowance	(318.105)	(312.746)
	3.380.075	**3.065.693**

a) Corporate entities – credit quality

Gross exposure

Bank		31 December 2018			31 December 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	1.069.043	179.942	-	1.248.985	1.156.999
High risk	101	124.272	-	124.373	8.900
Non-performing					
Default	-	-	146.804	146.804	161.156
Total	**1.069.144**	**304.214**	**146.804**	**1.520.162**	**1.327.055**

Movement of gross exposure

		Bank		
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	**899.709**	**266.189**	**161.157**	**1.327.055**
New financing	921.406	-	-	921.406
Assets derecognised (excluding write offs)	-	-	-	-
Transfers to Stage 1	4.539	(4.539)	-	-
Transfers to Stage 2	(191.754)	191.754	-	-
Transfers to Stage 3	(1.677)	(1.384)	3.061	-
Assets repaid	(562.656)	(147.706)	(11.427)	(721.789)
Amounts written off	-	-	(5.978)	(5.978)
Foreign exchange adjustments	-	-	-	-
Other changes	(423)	(100)	(9)	(532)
At 31 December 2018	**1.069.144**	**304.214**	**146.804**	**1.520.162**

Loans and receivables from clients		Bank		
Movement of impairment allowance	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018	**10.892**	**18.229**	**145.263**	**174.384**
Assets derecognised (excluding write offs)				
Transfers to Stage 1	40	(40)	-	-
Transfers to Stage 2	(249)	393	(144)	-
Transfers to Stage 3	(14)	(119)	133	-
Write Downs/Write Backs (Note 13)	1.926	4.620	(4.304)	2.242
Amounts written off	-	-	(5.978)	(5.978)
Foreign exchange adjustments	-	-	-	-
Business combination	-	-	-	-
Other changes	-	-	(883)	(883)
At 31 December 2018	**12.595**	**23.083**	**134.087**	**169.765**

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

20. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

b) State and public sector – credit quality

Bank	31 December 2018				31 December 2017
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	111.295	10.309	-	121.604	151.599
High risk	-	-	-	-	-
Non-performing					
Default	-	-	-	-	-
Total	**111.295**	**10.309**		**121.604**	**151.599**

Movement of gross exposure	Bank			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	**137.651**	**13.948**	**-**	**151.599**
New financing	10.311	-	-	10.311
Assets derecognised (excluding write offs)				
Transfers to Stage 1	1.932	(1.932)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	
Assets repaid	(38.599)	(1.707)	-	(40.306)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**111.295**	**10.309**	**-**	**121.604**

Movement of impairment allowance	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018	**244**	**2.086**	**-**	**2.330**
Assets derecognised (excluding write offs)				
Transfers to Stage 1	4	(4)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Write Downs/Write Backs (Note 13)	(18)	(287)	-	(305)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**230**	**1.795**	**-**	**2.025**

c) Retail – credit quality

Bank		31 December 2018			31 December 2017
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	1.616.483	133.798	-	1.750.281	1.625.730
High risk	1.237	101.764	-	103.001	69.374
Non-performing					
Default	-	-	99.097	99.097	94.344
Total	**1.617.720**	**235.562**	**99.097**	**1.952.379**	**1.789.448**

Movement of gross exposure		Bank		
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	**1.593.995**	**101.222**	**94.231**	**1.789.448**
New financing	786.217	-	-	786.217
Assets derecognised (excluding write offs)				
Transfers to Stage 1	12.252	(9.265)	(2.987)	-
Transfers to Stage 2	(185.935)	190.549	(4.614)	-
Transfers to Stage 3	(17.087)	(6.752)	23.839	-
Assets repaid	(571.321)	(40.276)	(10.504)	(622.101)
Amounts written off	-	-	(769)	(769)
Foreign exchange adjustments	-	-	-	-
Other changes	(401)	84	(99)	(416)
At 31 December 2018	**1.617.720**	**235.562**	**99.097**	**1.952.379**

Movement of impairment allowance		Bank		
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018	**12.969**	**16.973**	**79.591**	**109.533**
Assets derecognised (excluding write offs)				
Transfers to Stage 1	114	(88)	(26)	-
Transfers to Stage 2	561	1.452	(2.013)	-
Transfers to Stage 3	(149)	(1.890)	2.039	-
Write Downs/Write Backs (Note 13)	351	5.007	8.085	13.443
Amounts written off	-	-	(784)	(784)
Foreign exchange adjustments	-	-	-	-
Other changes	(2)	2	145	145
At 31 December 2018	**13.844**	**21.456**	**87.037**	**122.337**

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

20. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

d) Finance lease – corporate – credit quality

Gross exposure

	31 December 2018				31 December 2017
Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	-	33.866	-	33.866	54.902
High risk	-	42.771	-	42.771	22.890
Non-performing					
Default	-	-	23.786	23.786	26.888
Total	**-**	**76.637**	**23.786**	**100.423**	**104.680**

Movement of gross exposure	Bank			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2018	**8**	**77.784**	**26.888**	**104.680**
New financing	30.049	127	-	30.176
Assets derecognised (excluding write offs)				
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(30.049)	30.429	(380)	-
Transfers to Stage 3	-	(294)	294	-
Assets repaid	(8)	(31.409)	(3.016)	(34.433)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**-**	**76.637**	**23.786**	**100.423**

Movement of impairment allowance	Bank			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2018		**1.976**	**21.219**	**23.195**
Assets derecognised (excluding write offs)				
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	3	(3)	-
Transfers to Stage 3	-	(11)	11	-
Write Downs/Write Backs (Note 13)	-	1.009	(1.267)	(258)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**-**	**2.977**	**19.960**	**22.937**

e) Finance lease – retail – credit quality

Gross exposure

Bank	31 December 2018				31 December 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	-	2.437	-	2.437	4.001
High risk	-	79	-	79	121
Non-performing					
Default	-	-	1.094	1.094	1.535
Total	**-**	**2.516**	**1.094**	**3.610**	**5.657**

Movement of gross exposure	Bank			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	**-**	**4.122**	**1.535**	**5.657**
New financing	298	-	-	298
Assets derecognised (excluding write offs)				
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(298)	503	(205)	-
Transfers to Stage 3	-	(83)	83	-
Assets repaid	-	(2.026)	(319)	(2.345)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**-**	**2.516**	**1.094**	**3.610**

Movement of impairment allowance	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018	**-**	**76**	**1.004**	**1.080**
Assets derecognised (excluding write offs)				
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	7	(7)	-
Transfers to Stage 3	-	(10)	10	-
Write Downs/Write Backs (Note 13)	-	(20)	(19)	(39)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**-**	**53**	**988**	**1.041**

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

20. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

Movement in impairment allowance as at as at 31 December 2017 – comparative period

	2017.				
Bank	Corporate entites	State and public sector	Individuals and unincorporate business	Finance lease	Total
As at 1 January 2017	**198.094**	**3.500**	**104.754**	**-**	**306.348**
Charge for the year	15.524	-	22.895	8.722	47.141
Reversal of impairment losses	(18.802)	(649)	(8.243)	(710)	(28.404)
Collection of amounts previously impaired	(4.006)	-	(5.427)	(801)	(10.234)
Acquisition of a subsidiary	193	-	161	18.353	18.707
Amounts written off	(18.964)	-	(206)	-	(19.170)
Effect of foreign exchange difference	(3)	-	(10)	-	(13)
Other	(1.609)	-	43	(63)	-
At 31 December 2017	**170.427**	**2.851**	**113.967**	**25.501**	**312.746**

Loans and receivables from clients at amortized cost are analysed by industry in the table below:

	Bank 31 December 2018	Bank 31 December 2017
Corporate (including state and public sector)		
Industry:		
Food and drinks	79.433	101.275
Electricity, gas and water	70.726	43.129
Metal and engineering	67.667	44.983
Wood and paper	61.630	77.836
Chemicals	41.495	28.642
Textile and leather	16.343	16.793
Tobacco	7.519	649
Electrical and optical equipment	2.852	3.039
Other manufacturing	52.451	45.220
Total industry	***400.116***	***361.566***
Retail and wholesale trade	516.473	446.774
Health and social care	115.724	23.296
Central and local governments	115.537	128.793
Tourism	79.168	66.609
Real estate	72.486	86.474
Transport and communications	49.741	56.805
Construction	47.625	58.452
Agriculture, forestry and fisheries	22.366	16.879
Financial intermediaries	9.984	8.018
Education and other public services	7.255	6.108
Other	33.502	45.602
Total corporate	**1.069.861**	**943.810**
Retail		
Non-purpose loans	1.334.590	1.223.192
Housing loans	299.678	264.298
Other retail loans	195.774	187.991
Total retail	**1.830.042**	**1.675.481**
Total loans and receivables from clients	**3.300.019**	**2.980.857**

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

20. LOANS AND RECEIVABLES FROM CLIENTS AT AMORTIZED COST (CONTINUED)

Finance lease	Bank 31 December 2018	Bank 31 December 2017
Agriculture, forestry, hunting and fishing	32.943	39.047
Wholesale and retail trade	18.927	12.618
Transport and communications	10.441	12.079
Construction	5.312	2.562
Education and other public services	2.417	3.072
Production of food and drinks	2.044	2.741
Metal industry and machine production	1.453	1.182
Manufacturing	1.291	1.021
Financial intermediation	1.028	581
Production of textile and leather	549	470
Wood processing and paper production	345	756
Hotels and restaurants	314	503
Production of electrical and optical equipment	279	239
Real estate trade and investment	254	214
Healthcare and social care	198	207
Electricity, gas and water supply	77	65
Production of chemicals and chemical products	59	103
Central and local government and defense	-	1
Other	2.125	7.375
Total finance lease	**80.056**	**84.836**
Total loans and receivables from clients	**3.380.075**	**3.065.693**

21. OTHER ASSETS AND RECEIVABLES

	Bank 31 December 2018	Bank 31 December 2017
Receivables from debit and credit cards	34.987	39.383
Assets acquired in lieu of uncollectible receivables	12.525	16.425
Accrued fees	1.403	625
Other assets	15.259	16.922
	64.174	***73.355***
Less: Impairment allowance	(9.405)	(12.189)
	54.769	**61.166**

The movements in impairment allowance are summarized as follows:

	Bank 2018	Bank 2017
Balance as at 1 January	**12.189**	**5.534**
Effects of acquisition of subsidiary	-	4.305
Effect of IFRS 9 (Note 2.3.1)	(230)	-
Net expense in statement of profit or loss (Note 13)	370	635
Transfer to tangible assets	-	2.800
Other changes – transfer of provisions for fees	870	-
Write-offs	(3.915)	(1.081)
Other changes	120	-
Foreign exchange differences	1	(4)
Balance as at 31 December	**9.405**	**12.189**

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.

22. 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 KM 460 thousand (EUR 235 thousand). The value of share increased in 2018 on Group level to KM 855 thousand due to generated profit of the associate for the previous two periods.

	UniCredit Broker 31 December 2018	UniCredit Broker 31 December 2017
Total assets	1.094	925
Total liabilities	12	7
Net assets	903	645
Net profit for the year	179	273

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

23. 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.

	Bank 2018
COST	
Balance as at 1 January 2017	**4.453**
Transfer from/to other assets	(4.453)
Effects of acquisition of subsidiary	1.039
Balance as at 31 December 2017	**1.039**
Balance as at 31 December 2018	**1.039**
ACCUMULATED DEPRECIATION	
Balance as at 1 January 2017	**2.800**
Transfer from/to other assets (Note 21)	(2.800)
Depreciation charge for the year	8
Effects of acquisition of subsidiary	133
Balance as at 31 December 2017	**141**
Depreciation charge for the year	17
Balance as at 31 December 2018	**158**
NET CARRYING AMOUNT	
Balance as at 31 December 2018	**881**
Balance as at 31 December 2017	**898**

Information about the fair value hierarchy as at 31 December 2018 is as follows:

Level 1	Level 2	Level 3
-	-	881

24. PROPERTY AND EQUIPMENT

Banka	Land and buildings	Motor vehicles and equipment	Computers	Leasehold improve-ments	Assets in progress	Total
COST						
Balance as at 01 January 2017	**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 (Note 25)	-	-	-	-	107	107
Effects of acquisition of subsidiary	663	564	295	-	-	1.522
Other movements	-	-	-	228	60	288
Balance as at 31 December 2017	**53.532**	**30.610**	**41.229**	**23.622**	**6.609**	**155.602**
Additions	-	-	-	-	8.728	8.728
Write-offs	-	(1.450)	(2.393)	(52)	-	(3.895)
Disposals	-	(813)	-	-	-	(813)
Transfers (from) / to	1.762	1.629	2.309	1.131	(6.831)	-
Transfer to intangible assets (Note 25)	-	-	-	-	(7)	(7)
Other movements	-	(22)	15	-	577	570
Balance as at 31 December 2018	**55.294**	**29.954**	**41.160**	**24.701**	**9.076**	**160.185**
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2017	**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	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**
Depreciation charge for the year	1.048	1.869	2.170	1.155	-	6.242
Write-offs	-	(1.415)	(2.354)	(52)	-	(3.821)
Disposals	-	(658)	-	-	-	(658)
Impairment of tangible assets (Note 13)	332	-	-	-	-	332
Other changes	-	(21)	16	-	-	(5)
Balance as at 31 December 2018	**22.343**	**22.796**	**34.906**	**23.304**	**-**	**103.349**
NET BOOK VALUE						
31 December 2018	**32.951**	**7.158**	**6.254**	**1.397**	**9.076**	**56.836**
31 December 2017	**32.569**	**7.589**	**6.155**	**1.421**	**6.609**	**54.343**

The Management believes that the carrying amount of property and equipment does not materially differ from their fair values.

The carrying value of the Bank's non-depreciating land within land and buildings amounted to KM 600 thousand as at 31 December 2018. During 2018, the Bank did not capitalise any borrowing costs related to the acquisition of property and equipment. During 2018, Bank's property and equipment were not pledged as collateral.

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

25. INTANGIBLE ASSETS

Bank	Software	Other intangible assets	Assets in progress	Total
COST				
As at 01 January 2017	**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 property and equipment (Note 24)	-	-	(107)	(107)
Effects of acquisition of subsidiary	90	153	-	243
Other movements	391	(7)	(3)	381
As at 31 December 2017	**45,253**	**7,480**	**7,529**	**60,262**
Additions	-	-	7,159	7,159
Disposals	(1,154)	(5,109)	-	(6,263)
Transfers (from) / to	3,991	69	(4,060)	-
Transfer to property and equipment (Note 24)	-	-	7	7
Transfer to other assets	-	-	(7)	(7)
Other movements	18	(11)	-	7
As at 31 December 2018	**48,108**	**2,429**	**10,628**	**61,165**
ACCUMULATED DEPRECIATION				
As at 01 January 2017	**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 13)	-	-	38	38
As at 31 December 2017	**38,337**	**7,048**	**552**	**45,937**
Depreciation charge for the year	3.943	172	-	4.115
Disposals	(1.150)	(5.103)	-	(6.253)
Other movements	17	(11)	-	6
Impairment (Note 14)	-	-	-	-
As at 31 December 2018	**41.147**	**2.106**	**552**	**43.805**
NET BOOK VALUE				
31 December 2018	**6.961**	**323**	**10.076**	**17.360**
31 December 2017	**6.916**	**432**	**6.977**	**14.325**

The Bank's assets in progress as at 31 December 2018 and 2017 represent software that has not been activated yet.

During 2018 and 2017, the Bank did not capitalise any borrowing costs related to the acquisition of intangible assets. During 2018 and 2017, intangible assets were not pledged as collateral for the Bank's borrowings.

26. CURRENT ACCOUNTS AND DEPOSITS FROM BANKS AT AMORTIZED COST

	Bank 31 December 2018	Bank 31 December 2017
Demand deposits		
- in foreign currency	3.473	4.374
- in KM	20.735	17.000
Fixed-term deposits		
- in foreign currency	498.883	161.185
- in KM	16.007	4.502
	539.098	**187.061**

As at 31 December 2018, current accounts and deposits from banks include KM 517,177 thousand due to related parties (31 December 2017: KM 165,745 thousand).

27. CURRENT ACCOUNTS AND DEPOSITS FROM CLIENTS AT AMORTIZED COST

	Bank 31 December 2018	Bank 31 December 2017
Retail		
Current and savings accounts and term deposits - foreign currency	1.509.077	1.448.708
Current and savings accounts and term deposits - KM	1.292.850	1.135.862
	2.801.927	***2.584.570***
Corporate (including state and public sector)		
Demand deposits		
- in KM	1.231.298	1.097.641
- in foreign currency	266.607	261.939
Fixed-term deposits		
- in KM	87.901	82.744
- in foreign currency	45.530	44.100
	1.631.336	***1.486.424***
	4.433.263	**4.070.994**

As at 31 December 2018, the Bank's retail deposits in KM include KM 595 thousand (31 December 2017: KM 599 thousand) and corporate and state deposits in KM include KM 41,429 thousand (31 December 2017: KM 48,922 thousand) which have a EUR currency clause, with payments in KM equivalent translated at the rate applicable at the date of payment.

Current accounts and deposits from clients of the Bank also include KM 1,974 thousand from related parties (31 December 2017: KM 2,775 thousand).

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

28. BORROWINGS

	Bank 31 December 2018	Bank 31 December 2017
Foreign banks	35.155	64.605
	35.155	**64.605**
Maturity analysis:		
Within one year	12.709	29.270
In the second year	15.316	11.694
Third to fifth year	7.130	22.752
After five years	-	889
	35.155	**64.605**

As at 31 December 2018, Bank's interest-bearing borrowings include KM 16,065 thousand (31 December 2017: KM 34,930 thousand) related to borrowings from related parties.

29. OTHER LIABILITIES

	Bank 31 December 2018	Bank 31 December 2017
Liabilities for items in the course of settlement	60.534	63.602
Accrued expenses	31.363	23.187
Credit card payables	9.869	12.498
Deferred income	2.231	2.547
Lease users' down payments	645	413
Other liabilities	6.990	7.159
	111.632	**109.406**

30. PROVISIONS FOR LIABILITIES AND CHARGES

Bank	Provisions for contingencies and commitments	Provisions for legal proceedings	Long-term provisions for employees	Total
Balance at 1 January 2017	**17.581**	**4.832**	**2.412**	**24.825**
Net charge in profit or loss (Note 13)	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**
Net charge in profit or loss (Note 13)	2.293	1.218	693	4.204
Release due to use of provisions	-	(228)	(321)	(549)
Effect of IFRS 9 (Note 2.3.1)	(648)	-	-	(648)
Actuarial gain/loss for the period	-	-	(135)	(135)
Reclassification from other liabilities	-	10	-	10
Foreign currency differences	12	-	-	12
Balance as at 31 December 2018	**21.008**	**10.080**	**2.921**	**34.009**

31. SHARE CAPITAL

	Class A Ordinary shares	Class D Preference shares	Total
Number of shares	119.011	184	119.195
Nominal value (in KM)	1.000	1.000	1.000
Total	**119.011**	**184**	**119.195**

32. 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 2018	Bank 2018	Group 2017	Bank 2017
Net profit for the year attributable to ordinary shareholders	97.298	97.210	89.665	89.531
Weighted average number of ordinary shares during the period	118.935	118.935	118.935	118.935
Basic earnings per share (KM)	**818,08**	**817,34**	**753,89**	**752,77**

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

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

33. 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 2018	Bank 31 December 2017
Financial guarantees and Letters of credit	313.487	278.389
Other undrawn commitments	626.940	580.748
Total	**940.427**	**859.137**

a) Financial guarantees and Letters of credit

Bank		31 December 2018			31 December 2017
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	25.474	-	-	25.474	22.490
Medium risk	208.479	54.669	4	263.152	250.465
High risk	-	20.360	-	20.360	1.274
Non-performing					
Default	-	-	4.501	4.501	4.160
Total	**233.953**	**75.029**	**4.505**	**313.487**	**278.389**

Movement of gross exposure

		Bank		
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	**216.081**	**58.148**	**4.160**	**278.389**
New exposure	201.838	37.880	-	239.718
Exposure matured	(182.996)	(21.568)	(56)	(204.620)
Transfers to Stage 1	222	(222)	-	-
Transfers to Stage 2	(1.023)	1.023	-	-
Transfers to Stage 3	(170)	(231)	401	-
Changes due to modifications not resulting in derecognised	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**233.952**	**75.030**	**4.505**	**313.487**

Movement of provisions

	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018	**3.517**	**4.216**	**4.100**	**11.833**
Transfers to Stage 1	4	(4)	-	-
Transfers to Stage 2	(20)	20	-	-
Transfers to Stage 3	(16)	(27)	43	-
Write Downs/Write Backs	337	603	129	1.069
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**3.822**	**4.808**	**4.272**	**12.902**

b) Other undrawn commitments

	31 December 2018				31 December 2017
Gross exposure	Stage 1	Stage 2	Stage 3	Total	Total
Internal rating grade					
Performing					
Low risk	-	-	-	-	-
Medium risk	557.235	42.427	20	599.682	576.354
High risk	239	26.773	-	27.012	4.076
Non-performing					
Default	-	-	246	246	318
Total	**557.474**	**69.200**	**266**	**626.940**	**580.748**

Movement of gross exposure

	Bank			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	**556.982**	**23.452**	**314**	**580.748**
New exposure	318.191	55.362	66	373.619
Exposure matured	(312.630)	(14.710)	(86)	(327.426)
Transfers to Stage 1	1.100	(1.040)	(60)	-
Transfers to Stage 2	(6.052)	6.159	(107)	-
Transfers to Stage 3	(117)	(23)	140	-
Changes due to modifications not resulting in derecognised	-	(1)	-	(1)
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**557.474**	**69.199**	**267**	**626.940**

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

33. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

b) Other undrawn commitments (continued)

Movement of provisions

	Bank			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018	**4.869**	**1.856**	**145**	**6.870**
Transfers to Stage 1	9	(9)	-	-
Transfers to Stage 2	(39)	42	(3)	-
Transfers to Stage 3	(2)	(2)	4	-
Write Downs/Write Backs	(542)	1.713	53	1.224
Foreign exchange adjustments	-	-	-	-
Acquisition of subsidiary	-	-	-	-
Other changes	56	-	(44)	12
At 31 December 2018	**4.351**	**3.600**	**155**	**8.106**

Movement in provisions as at 31 December 2017 – comparative data

Comparative period – provisons	2017		
	Financial guarantees and letters of credit	Other undrawn commitments	Total
At 1 January 2017	**6.838**	**10.743**	**17.581**
Charge for the year	262	1.512	**1.774**
Provision used during the year	-	-	**-**
Foreign exchange adjustments	(19)	12	**(7)**
Merger of UCL	-	3	**3**
Total	**7.081**	**12.270**	**19.351**

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

	Group	Bank
	31 December 2017	31 December 2017
Assets under custody	371.284	498.450
Loans managed on behalf of third parties	35.946	39.545
	407.230	**537.995**

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

35. RELATED PARTY TRANSACTIONS

The Bank is a member of the UniCredit Group ("UCI Group"). The key shareholder of the Bank is Zagrebačka banka d.d. with a holding of 99.30% (2017: 99.30%). The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; Supervisory Board members, Management Board members and other key management personnel (together "key management personnel"); close family members of key management personnel; and entities controlled, or significantly influenced by key management personnel and their close family members.

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

An overview of related party transactions as of 31 December 2018 is presented in the table below:

	2018		2017	
Banka	**Income**	**Expenses**	**Income**	**Expenses**
UniCredit Bank Austria AG Vienna, Austria	177	392	224	1.606
UniCredit Bank a.d. Banja Luka, BiH	427	93	372	52
Zagrebačka banka d.d. Zagreb, Croatia	47	658	114	674
UniCredit Bank Slovenija d.d. Ljubljana, Slovenia	19	-	12	-
UniCredit Broker d.o.o. Sarajevo, BiH	-	-	3	-
UniCredit Global Information Services Milano, Italy	-	4.998	-	4.674
UniCredit S.p.A Milano, Italy	196	1.052	765	756
UniCredit Bank AG Munich, Germany	319	391	1	1.511
ZANE BH d.o.o. Sarajevo, BiH	1	100	1	157
I-Faber SPA Milano, Italy	-	18	-	44
UniCredit Bussines Integrated Solutions S.C.p.A. Milano, Italy	-	443	-	472
UniCredit Bank Czech Republic and Slovakia a.s. Prague, Czech Republic	-	180	-	226
UniCredit Bank Srbija a.d. Beograd, Serbia	-	62	-	12
UniCredit Leasing d.o.o. Sarajevo, BiH	-	-	65	-
UniCredit Leasing Slovakia A.S. Bratislava, Slovakia	-	13	-	-
Uctam BH d.o.o. Mostar, BiH	8	-	1	-
Total related parties	***1.194***	***8.400***	***1.558***	***10.184***
Management Board and other key management personnel, and parties related to the Management Board and other key management personnel	107	7.104	114	6.864
	1.301	**15.504**	**1.672**	**17.048**

There were no transactions with the members of the Supervisory Board during 2018 and 2017.

Income from UniCredit Group members in 2018 includes interest income in the amount of KM 321 thousand (2017: KM 870 thousand) and fee and commission income in the amount of KM 361 thousand (2017: KM 433 thousand). Income in 2018 also includes other income in the amount of KM 512 thousand (2017: KM 255 thousand).

Expenses towards UniCredit Group members in 2018 include interest expense in the amount of KM 999 thousand (2017: KM 1,778 thousand), fees in the amount of KM 610 thousand (2017: KM 659 thousand), other administrative expenses in the amount of KM 6,412 thousand (2017: KM 6,243 thousand) and other expenses in the amount of KM 378 thousand (2014: KM 1,504 thousand).

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

35. RELATED PARTY TRANSACTIONS (CONTINUED)

An overview of balances at 31 December 2018 and 31 December 2017 is presented below:

	31 December 2018		31 December 2017	
Bank	Exposure*	Liabilities	Exposure*	Liabilities
UniCredit Bank Austria AG Vienna, Austria	18.731	16.758	6.232	35.496
UniCredit Bank a.d. Banja Luka	15.697	15.974	18.053	3.006
Zagrebačka banka d.d. Zagreb, Croatia	9.762	1.290	14.253	5.596
UniCredit Global Information Services Milano, Italy	3.744	10.353	2.538	2.896
UniCredit S.p.A Milano, Italy	237.879	499.596	28.865	157.351
UniCredit Bank AG Munich, Germany	2.205	404	12.542	67
ZANE BH d.o.o. Sarajevo, BiH	-	1.655	-	1.635
UniCredit Broker d.o.o. Sarajevo, BiH	-	-	-	723
UniCredit Bank Slovenija d.d. Ljubljana, Slovenia	-	296	-	299
UniCredit Business Integrated Solutions S.C.p.A. Milano, Italy	-	78	-	52
I-Faber SPA Milano, Italy	-	-	-	44
UniCredit Bank Czech Republic and Slovakia, a.s. Prague, Czech republic	-	180	-	226
UniCredit Bank Srbija a.d. Belgrade, Serbia	-	37	-	7
Uctam BH d.o.o. Mostar, BiH	-	319	-	416
Total related parties	***288.018***	***546.940***	***82.483***	***207.814***
Management Board and other key management personnel, and parties related to Management Board and other key management personnel	2.958	8.836	2.374	9.390
	290.976	**555.776**	**84.857**	**217.204**

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

Regarding exposure toward the related parties, impairment losses as at 31 December 2018 amount to KM 236.6 thousand (31 December 2017 was nil).

Further, the Bank received guarantees from UniCredit Bank Austria AG at 31 December 2018 in the amount KM 13,682.5 thousand (31 December 2017: KM 11,924 thousand), while as at 31 December 2018 the Bank had no given guarantees (31 December 2017: KM 489 thousand).

Remuneration paid to Management Board and other key management personnel:

	Bank 2018	Bank 2017
Gross salaries	4.247	4.044
Bonuses	1.501	1.044
Other benefits	775	992
	6.523	**6.040**

50 employees were included in the Management Board and other key management personnel (2017: 41 employees), including personnel that spent only a part of 2018 in such positions.

36. 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 Bank and 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.

36.1 Credit risk

Credit risk is the risk that the Bank and Group will suffer a loss because its customers or other parties do not meet their contractual obligations. The Bank and Group are exposed to credit risk through credit and investment activities and in cases where it acts as an intermediary on behalf of clients or other third parties.

Credit risk is the risk of loss due to non-fulfillment of the borrower's financial obligation towards the Bank and Group. It represents the risk that an unexpected change in the credit quality of a client could trigger a change in the value of credit exposure toward it. This change in the value of credit exposure can be the consequence of:

- default by a client who is unable to meet the contractual obligations
- customer credit quality worsening.

The Bank and Group manage and control the credit risk by setting the limit on the amount of risk that is willing to accept, concentrating and monitoring exposures in accordance with these limits.

The Bank's primary exposure to credit risk arises from loans and receivables from customers and banks. The amount of credit exposure in this respect represents the carrying amount of the asset. Furthermore, the Bank and Group are exposed to credit risk in relation to off-balance-sheet liabilities arising from unused funds and guarantees issued.

The Bank and Group have established a credit quality control process to enable early recognition of possible changes in the creditworthiness of other counterparties, including regular collateral audit.

Credit risk management

Credit risk management integrates the organizational structure of the Bank and Group on the basis of accurately defined authorities and responsibilities among employees, the system of internal acts, internal controls, and methods of measurement, monitoring and credit risk management.

Credit risk is managed in accordance with the applicable programs and policies of the Bank and Group and the regulatory requirements of the Federal Banking Agency.

Credit exposure to portfolios and individual clients / groups is regularly reviewed taking into account the set limits.

Any proposed significant increase in credit exposure is considered by the Risk Management prior to its approval as well as during the credit exposure monitoring phase and is approved at the appropriate decision-making level.

The Credit Committee is regularly informed of any significant changes in the quantity and quality of the portfolio, including the proposed impairment losses. Credit risk is continuously monitored and reported, facilitating early recognition of impairment in the loan portfolio

The Bank and Group have established a credit quality control process to enable early recognition of possible changes in the creditworthiness of other counterparties, including regular collateral audit.

In order to manage the level of credit risk, the Bank and Group operate with good credit rating clients, and where appropriate, security instruments are taken.

Most credit risk exposures are secured by collateral in the form of cash, guarantees, mortgages and other forms of collateral.

36. RISK MANAGEMENT (CONTINUED)

36.1 Credit risk (continued)

Impairment and provisioning policies (applicable from 1 January 2018)

For this purpose, the Bank and Gorup apply a "3-Stage" model that is based on changes in credit risk of the financial instrument compared to credit risk at initial recognition, aiming to reflect the deterioration of the credit quality of the financial instrument:

- **Stage 1** covers financial instruments that do not have a significant deterioration in credit quality since initial recognition or have low credit risk;
- **Stage 2** covers financial instruments that have a significant deterioration in credit quality since initial recognition for which there is no objective evidence of credit loss events;
- **Stage 3** covers financial assets for which there is objective evidence of credit loss on the reporting date. Finally, the transfer of the financial instrument in Stage 3 is necessary if, in addition to the increase in credit risk, there is also a trigger for credit loss.

Given the classification in different stages, the classification of credit exposure to performing and non-performing:

- **Stages 1 and 2** may only include performing financial assets,
- **Stage 3** may only include non-performing financial assets.

Financial Instruments in Stage 1 result in Recognition of the 12-month ECL.

Financial instruments in Stage 2 result in the recognition of lifetime ECLs for the instrument. For financial instruments in Stage 3, the lifetime ECL will be recorded.

Definition of default status and recovery

The client is in the default status if the client is late with the payment of a material amount of more than 90 consecutive calendar days by the counter or when they are unlikely to pay one of their obligations in full (UTP event).

The Bank and Group have implemented a delay counter that takes into account the threshold of materiality. Substantial material liability is assumed when the receivables of the bank from corporate clients are more than KM 500 and 2.5% of the debtor's exposure, and from natural persons exceeds 1% of the debtor's exposure and 20 KM.

The recovery period is defined as the indicator of the borrower's ability and willingness to meet the contractual terms of recovery.

This period also aims to prevent the repetition of a default by a debtor shortly after the payment / agreement / entry into force of the deferment.

The 3-month recovery (reaging) period implies that no new event of default may occur during that period and the amount of due receivables may not exceed the defined threshold of materiality.

In the case of Fobereance, this period lasts at least 12 months.

PD assessment process

Probability of default (PD) is an estimate of the probability of default, i.e. the client's transition to the default status. It gives an estimate of the likelihood that a client will not be able to settle their obligations over a certain period of time.

The probability of default (PD) reflects the 12-month probability of default based on the long-term average of the one-year default rate.

There are two approaches to determining the PD for the purposes of calculating impairment.

For the low risk portfolio (Sovereign, Banks), Group Ratios are applied to PDs based on the GWR tool, and for the rest of the portfolio, the Bank's internal data is used, i.e. PDs created based on data on historical defaut rate of individual groups of exposures on the basis of days overdue and product types.

For the purpose of aggregated reporting, mapping to reporting low, medium, high, default was performed based on the average realized default rate based on which PiT (Point in time) adjustments are performed to calculate the IFRS 9 impairment.

EAD

EAD (Exposure at Default) represents the measure of exposure at the time of the default event. The EAD lifetime was obtained taking into account the expected changes in future periods, based on the repayment plan. For unused off-balance exposure, full use (CCF of 100%) was assumed.

LGD

LGD (Loss Given Default) represents the percentage of estimated loss, and thus the expected return rate, at the date of the occurrence of a default event.

To assess LGD, the Bank and Group segmented their corporate and retail portfolio into homogeneous portfolios based on key features that are relevant for estimating future cash flows. The data used is based on historically collected loss data and includes a wider set of transaction characteristics (e.g. product type).

LGD is calculated on the basis of cure rate and discounted collateral values after applying haircuts, and efficency factors (calculated on the basis of historical collateral charge information).

Adjustments to PD and LGD apply according to IFRS 9 requirements:

- Apply PIT adjustment instead of TTC
- Include FLI information
- Expand credit risk parameters in a multi-annual perspective

Grouping of financial assets measured on a collective and individual approach

Depending on the level of exposure toward a person or a group of related persons, clients are assigned one of the following portfolios:

- Individually significant exposure - for exposures above 150,000 KM;
- Small exposure portfolio - for exposures below 150,000 KM

Expected credit losses of exposures in the default status are individually calculated for "individually material exposures" in the default status liabilities.

Calculation of impairment for Stage 3 for non-individually significant exposures are based on portfolio estimates by building homogeneous client groups / transactions with similar risk characteristics taking into account default and in accordance with developed LGD models.

For all performing exposures, the Bank and Group calculate the ECL on a collective basis.

Significant increase of credit risk (SICR)

The principle of the ECL model under IFRS 9 is the reflection of the general pattern of changes in the credit quality of financial instruments from the beginning, for the timely recognition of expected credit losses. The amount of ECL recognized depends on the degree of deterioration of the credit from the initial recognition. The Standard introduces two measurement measures for ECL (12-month and lifetime ECL).

IFRS 9 transfer logic is reflected in the impairment tool for IFRS 9 and each contract is undoubtedly assigned to one of the 3 Stages according to the general rules as follows:

At the next measurement dates the financial instrument is assigned to:

- **Stage 1**, if the reporting date is not in the default status and: the credit risk has not increased significantly since initial recognition
- **Stage 2,** if the reporting date is not in the default status and the credit risk has significantly increased since initial recognition,
- **Stage 3,** if the reporting date is in the status of default.

The IFRS 9 guidelines are quite comprehensive in terms of the principle of a significant increase in credit risk (SICR).

Four groups of SICR criteria are defined:

- Quantitative criteria (related to PD changes),
- Qualitative Criteria,
- Back-stops,
- Manual overrides.

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

36. RISK MANAGEMENT (CONTINUED)

36.1 Credit risk (continued)

Significant increase of credit risk (SICR) (continued)

The quantitative approach for determining SICR is based on a quantile regression model that applies to a rated portfolio.

Qualitative criteria supplement the quantitative approach and will be taken into account if the basic criteria are:

- not included in the rating system and
- significant.

Under back-stops, the following criteria are considered:

- 30 days delay,
- Forbearance

Manual overrides are defined as the fourth and last component of the transfer logic. The manual override process is a non-mandatory component of the non-quantitative part of the transfer logic and may be required to overcome possible exceptions due to specific factors when all other trigger triggers fail to capture special events of significant loan deterioration.

The Bank uses qualitative criteria, back stops and manual overrides.

SICR catalogue of the Bank:

- Days overdue
- Forbore classification
- Restructuring classification
- Watch list
- Default status over the past 12 months
- Non investment grade for securities
- Manual override.

36.1.1 Maximum exposure to credit risk

The Bank and Group continuously apply 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 31 December 2018	Bank 31 December 2017
Statement of financial position		
Current accounts at CBBiH and other banks (Note 15)	573.463	787.001
Obligatory reserve at CBBiH (Note 16)	484.141	416.710
Loans to and receivables from banks (Note 17)	718.686	275.882
Debt securities at FVOCI (Note 19)	491.747	409.517
Financial assets at fair value through profit or loss (Note 20)	608	449
Loans and receivables from clients (Note 20)	3.380.075	3.065.693
Other assets exposed to credit risk (part of Note 21)	51.016	58.064
Total credit risk exposure relating to assets	***5.699.736***	***5.013.316***
Off-balance-sheet items (Note 33)		
Unused loan facilities	626.941	580.748
Guarantees	292.064	259.902
Letters of credit	21.422	18.487
Total off-balance sheet credit risk exposure	***940.427***	***859.137***
	6.640.163	**5.872.453**

The above table represents the maximum credit risk exposure of the Group as at 31 December 2018 and 2017, 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.

50.9% of the Bank's total maximum exposure to credit risk is derived from loans and receivables from clients (31 December 2017: 50.8%), while 10.8% refers to loans and receivables from banks (31 December 2017: 4.7%), and investments in financial assets at FVOCI 7.4% (31 December 2017: 6.0%). The Management is confident in its ability to continue to control and sustain acceptable exposure to credit risk.

36.1.2 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 31 December 2018	Bank 31 December 2017
Current account with CBBiH (Note 15)	349.939	613.431
Obligatory reserve at CBBiH (Note 15)	484.141	416.710
Bonds of the Government of Federation of Bosnia and Herzegovina (Note 18)	191.605	244.453
Bonds of the Government of Republika Srpska	83.907	68.073
Current tax liability	(1.027)	(1.202)
State and public sector	119.579	149.269
Deferred tax liability (Note 14)	(1.430)	(1.319)
	1.226.714	**1.489.415**

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

36. RISK MANAGEMENT (CONTINUED)

36.1. Credit risk (continued)

36.1.2 Concentration of assets and liabilities toward state sector (continued)

The Bank and the Group had no off-balance sheet sovereign risk exposure at 31 December 2018 and 31 December 2017.

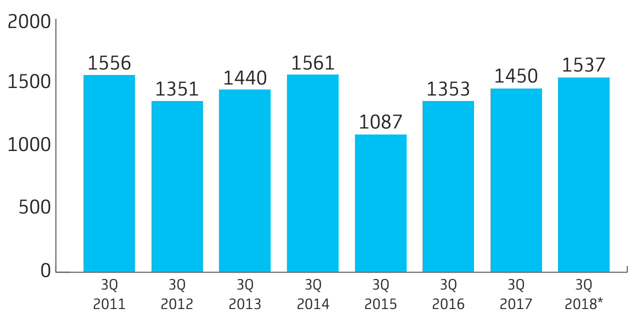
In addition, liabilities to state institutions are as follows:

	Bank 31 December 2018	Bank 31 December 2017
Short-term deposits	(59.410)	27.453
Off-balance-sheet exposure	5	5

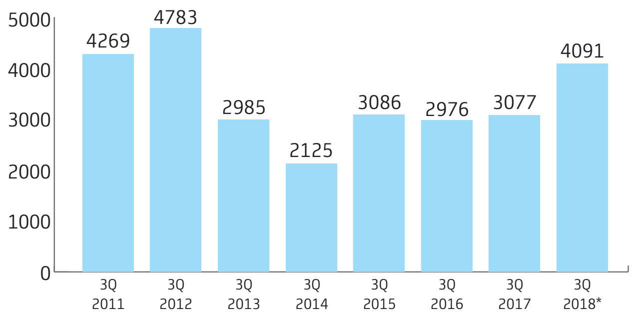
36.1.3 Real estate market trends (unaudited)

According to latest information from the Agency for Statistics of Bosnia and Herzegovina in the first nine months of 2018, the number of completed dwellings was 1,537, which is 6.0% more than in the same period of 2017 (1,450). Unfinished apartments at the end of the third quarter of 2018 was 4.091, which is 33.0% more compared to the same period last year (3,077).

Number of completed dwellings in BiH



Number of uncompleted dwellings in BiH



* Data as at 31 December 2018 have not been published.

The average price of sold new dwellings in the third quarter of 2018 amounts to KM 1,519. Compared to the average price of sold new dwellings in 2017, the average price is 4.1% lower, and compared to the third quarter of 2017 it is 6.7% lower. The number of sold new dwellings in the third quarter of 2018 compared to the third quarter of 2017 is 9.9% higher. The increase in demand for newly built housing properties is partly driven by wider offering at the market of new apartments and apartments with more favourable prices in less attractive city locations.

In June 2018, the portal "Public Insight into the Real Estate Price Register of the Federation of Bosnia and Herzegovina" was launched. The objective of establishing the Real Estate Price Register as an official real estate market register in the Federation of BiH is to increase the transparency of the real estate market and to inform the public about the prices of the marketed real estate.

In Bosnia and Herzegovina there is insufficient continuously tracked and accurate statistics that can provide precise information on developments in real estate prices. Based on available indicators, prices of properties on the BiH real estate market have not changed significantly during 2018.

36.1.4 Restructuring Department portfolio

Clients of the Restructuring Department are the ones where 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.

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 2018, restructured corporate portfolio amounted to KM 104,064 thousand, with the portfolio coverage by provisions of 46.1%, while restructured retail portfolio amounted to KM 2,979 thousand, with the portfolio coverage by provisions of 40.4%.

In 2018, restructured corporate portfolio records a decrease in volume of 14.8% compared to the corporate portfolio at the end of 2017. 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 8.3% compared to the retail portfolio at the end of 2017. Portfolio decrease is a result of pre-segmentation of clients from Restructuring portfolio with the regular portfolio collection.

Bank	Forborne (Restructured exposures)						
SECTOR 2018	Total gross loans to customers ("UBZ")	Modified exposure ("MI")	Refinanced exposures ("RI")	%(MI + RI)/ UBZ	Total ECL allowance ("UV")	Total ECL allowance for restructured exposures ("UV R")	%UV R / UV
Households	1.955.989	740	914	0,1%	123.378	650	0,5%
Non-financial companies	1.609.328	47.901	35.120	5,2%	190.367	27.158	14,3%
Other financial companies	11.256	-	-	0,0%	2.335	-	0,0%
Total	**3.576.573**	**48.641**	**36.034**	**1,0%**	**316.080**	**27.808**	**8,8%**

Banka	Restructured exposures (risk group)					
	Stage 1		*Stage 2*		*Stage 3*	
SECTOR 2018	*restructured exposure - gross (stage 1)*	*ECL allowance for restructured exposure (stage 1)*	*restructured exposure - gross (stage 2)*	*ECL allowance for restructured exposure (stage 2)*	*restructured exposure - gross (stage 3)*	*ECL allowance for restructured exposure (stage 3)*
Households	-	-	958	58	696	592
Non-financial companies	-	-	52.821	3.437	30.200	23.721
Other financial companies	-	-	-	-	-	-
Total	**-**	**-**	**53.779**	**3.495**	**30.896**	**24.313**

36.1.5 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.

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

36. RISK MANAGEMENT (CONTINUED)

36.1 Credit risk (continued)

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

a) Total exposure

		Fair value of received collateral and other instruments of credit risk security									
Bank 31 December 2018	**Maximum credit risk exposure**	**Deposits**	**Equity securities**	**Received guarantees**	**Housing mortgages**	**Insurance policies**	**Other**	**On-balance offsetting**	**Surplus of collateral over maximum exposure amount (-)**	**Total collateral and other instruments of credit risk security**	**Net exposure (on-balance)**
Financial assets											
Cash and cash equivalents and obligatory reserve at the CBBIH	1.231.821	-	-	-	-	-	-	-	-	-	1.230.594
Loans and receivables from banks	719.124	-	-	-	-	-	-	-	-	-	718.686
Loans and receivables from clients											
- Trading companies and similar organizations	1.620.584	63.666	-	115.150	566.169	-	-	-	(63.736)	681.249	1.427.882
- State	121.604	-	-	-	-	-	-	-	-	-	119.579
- Individuals and entrepreneurs (citizens)	1.955.989	10.224	-		267.435	-	-	-	(605)	277.054	1.832.611
Debt securities at amortized cost	-	-	-	-	-	-	-	-	-	-	-
Total financial assets at amortized cost	**5.649.122**	**73.890**	**-**	**115.150**	**833.604**	**-**	**-**	**-**	**(64.341)**	**958.303**	**5.329.352**
Derivative financial assets	608	-	-	-	-	-	-	-	-	-	608
Financial assets held for trading	-	-									
Financial assets at FVTPL	-	-	-	-	-	-	-	-	-	-	-
Total financial assets at FVTPL	**608**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**608**
Debt securities at FVOCI	491.946	-	-	-	-	-	-	-	-	-	491.946
Total debt securities at FVOCI	**491.946**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**491.946**
Guarantees and letters of credit	313.487	14.712	-	6.468	10.455	-	-	-	(4.884)	26.751	300.585
Other classic risk off-balance sheet items	626.940	2.320	-	24.022	62.641	-	-	-	(13.921)	75.062	618.834
	940.427	**17.032**	**-**	**30.490**	**73.096**	**-**	**-**	**-**	**(18.805)**	**101.813**	**919.419**
	7.082.103	**90.922**	**-**	**145.640**	**906.700**	**-**	**-**	**-**	**(83.146)**	**1.060.116**	**6.741.325**

b) Received collateral and other instruments of credit security exposure for assets classified in Stage 3

Bank 31 December 2018	Maximum credit risk exposure	Fair value of received collateral and other instruments of credit risk security: Deposits	Equity securities	Received guarantees	Housing mortgages	Insurance policies	Other	On-balance offsetting	Surplus of collateral over maximum exposure amount (-)	Total collateral and other instruments of credit risk security	Net exposure (on-balance)
Financial assets											
Cash and cash equivalents and obligatory reserve at the CBBIH											
Loans and receivables from banks	124										
Loans and receivables from clients											
- Trading companies and similar organizations	170.590	96	-	62	24.870	-	-	-	(2.415)	22.613	16.543
- State	-	-	-	-	-	-	-	-	-	-	-
- Individuals and entrepreneurs (citizens)	100.191	45			6.128				(93)	6.080	12.166
Debt securities at amortized cost	-	-	-	-	-	-	-	-	-	-	-
Total financial assets at amortized cost	**270.905**	**141**		**62**	**30.998**				**(2.508)**	**28.693**	**28.709**
Derivative financial assets	-	-	-	-	-	-	-	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-	-	-	-	
Financial assets at FVTPL	-	-	-	-	-	-	-	-	-	-	-
Total financial assets at FVTPL	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities at FVOCI	-	-	-	-	-	-	-	-	-	-	-
Total debt securities at FVOCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Guarantees and letters of credit	4.505	-	-	-	200	-	-	-	-	200	-
Other classic risk off-balance sheet items	266	-	-	-	-	-	-	-		-	-
	4.771	**-**	**-**	**-**	**200**	**-**	**--**	**-**	**-**	**200**	**-**
	275.676	**141**	**-**	**62**	**31.198**	**-**	**-**	**-**	**(2.508)**	**28.893**	**29.054**

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

36. RISK MANAGEMENT (CONTINUED)

36.1 Credit risk (continued)

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

Coverage on loans and financial lease	Bank 31 December 2017
Loans – retail	**1.789.448**
Uncovered	1.552.575
Covered	236.866
Deposits	11.189
Mortgage on housing objects	225.677
Loans – corporate	**1.478.654**
Uncovered	822.568
Covered	656.085
Deposits	55.093
State guarantees	19.181
Mortgage on housing objects	573.897
Other	7.914
Finance lease	**110.337**
Uncovered	110.337
Covered	-
Mortgage on housing objects	-
Other	-

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

Impairment allowance coverage of the non-performing loan portfolio in 2018 is 89.40% for the Bank (31 December 2017: 87.28%).

Total impairment allowances for loans to and receivables from clients and finance lease of the Bank are KM 318,105 thousand (31 December 2017: KM 312,746 thousand), of which KM 244,101 thousand (31 December 2017: KM 247,804 thousand) relates to impairment allowances for loans for which individual impairment had been identified, and the rest of the value of KM 76,033 thousand (31 December 2017: KM 64,942 thousand) relates to impairment allowances on portfolio basis.

	Bank 31 December 2017	Bank 31 December 2017
Retail loans		
Loans that are neither past due nor impaired	1.789.769	1.633.215
Past due loans that are not impaired	63.513	61.889
Impaired loans	99.097	94.344
Gross	**1.952.379**	**1.789.448**
Less: Impairment allowance	(122.337)	(113.967)
Net	**1.830.042**	**1.675.481**
Corporate, including state and public sector		
Loans that are neither past due nor impaired	1.492.202	1.308.598
Past due loans that are not impaired	2.759	8.900
Impaired loans	146.804	161.156
Gross	**1.641.765**	**1.478.654**
Less: Impairment allowance	(171.790)	(173.278)
Net	**1.469.975**	**1.305.376**
Finance lease		
Financial lease receivables that are not past due	77.437	80.121
Past due receivables on financial lease that are not impaired (Note 20)	1.716	1.792
Non-performing receivables on financial leasing (impaired receivables on financial leasing)	24.880	28.424
Gross	**104.033**	**110.337**
Less: Impairment allowance	(23.977)	(25.501)
Net	**80.056**	**84.836**

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
	Cash and consumer loans	Credit cards and over-drafts	Housing loans	Sole traders	Total	Large	Medium	Small	Total	Total
Bank 31 December 2018										
Standard monitoring	1.100.373	149.383	249.875	-	1.499.631	684.726	419.415	66.261	1.170.402	38.323
Special monitoring	211.966	29.055	49.117	-	290.138	205.065	62.991	53.744	321.800	39.102
	1.312.339	**178.438**	**298.992**	**-**	**1.789.769**	**889.791**	**482.406**	**120.005**	**1.492.202**	**77.425**
Bank 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**	**80.131**

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

36. RISK MANAGEMENT (CONTINUED)

36.1 Credit risk (continued)

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

b) Past due loans that are not impaired

	Retail					Corporate, including state and public sector				Financial lease
Bank	Cash and consumer loans	Credit cards and overdrafts	Housing loans	Sole traders	Total	Large	Medium	Small	Total	Total
31 December 2018										
Past due up to 30 days	40.597	15.057	2.574	-	58.228	-	156	2.551	2.707	943
Past due 31 to 60 days	3.204	726	255	-	4.185	-	2	50	52	765
Past due 61 to 90 days	853	247	-	-	1.100	-	-	-	-	8
Past due over 90 days	-	-	-	-	-	-	-	-	-	-
	44.654	**16.030**	**2.829**	**-**	**63.513**	**-**	**158**	**2.601**	**2.759**	**1.716**
Estimated value of collateral	**-**	**-**	**224**	**-**	**224**	**-**	**50**	**409**	**459**	**-**
31 December 2017										
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**	**-**

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 2018 amounts to KM 270,781 thousand (31 December 2017: KM 283,924), while on net level before cash flows from received collateral instruments they amount to KM 28,709 thousand (31 December 2017: KM 36,154 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
	Cash and consumer loans	Credit cards and overdrafts	Housing loans	Sole traders	Total	Large	Medium	Small	Total	Total
31 December 2018										
Non-performing loans	8.729	1.224	2.022	-	**11.975**	9.425	1.722	1.569	**12.716**	**3.932**
Estimated value of collateral	**853**	**-**	**1.994**	**-**	**2.847**	**6.033**	**2.239**	**2.438**	**-**	**10.710**

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

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.

36.2 Liquidity risk

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

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

The Bank and Group have 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.

36.2.1 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 at fair value through other comprehensive income 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.

36. RISK MANAGEMENT (CONTINUED)

36.2 Liquidity risk (continued)

36.2.1 Structural liquidity risk (continued)

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 CBBiH.
- 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.

Bank 31 December 2018 (in KM 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	**-**	**1.249**	**787**	**(144)**	**(149)**	**193**	**(1.291)**	**(642)**
Assets	**6.545**	**1.473**	**1.307**	**215**	**750**	**1.042**	**1.358**	**401**
Statement of financial position	***6.218***	***1.473***	***1.009***	***195***	***740***	***1.042***	***1.358***	***401***
Loans to and receivables from clients	*3.089*	*43*	*168*	*191*	*570*	*932*	*1.154*	*31*
Retail	1.474	5	30	54	215	453	695	22
Corporate	1.615	38	138	137	355	479	459	9
Mortgage loans to clients	*285*	-	*2*	*4*	*19*	*50*	*134*	*76*
Retail	285	-	*2*	*4*	*19*	*50*	*134*	*76*
Securities	*489*	*196*	*139*	-	*40*	*60*	*54*	-
Financial assets at FVOCI	489	196	139	-	*40*	*60*	*54*	-
Loans and receivables from banks	*1.769*	*1.053*	*700*	-	-	-	*16*	-
Current accounts	218	218	-	-	-	-	-	-
Deposits	716	-	700	-	-	-	16	-
Obligatory reserve at CBBiH	835	835	-	-	-	-	-	-
Other assets	*586*	*181*	-	-	*111*	-	-	*294*
Cash	181	181	-	-	-	-	-	-
Impaired loans	218	-	-	-	-	-	-	218
Investments in associates	1	-	-	-	-	-	-	1
Other assets	186	-	-	-	111	-	-	75
Off-balance sheet								
Derivatives	*327*	-	*298*	*20*	*10*	-	-	-
Unused credit facilities	-	-	-	-	-	-	-	-
Liabilities	**6.545**	**224**	**520**	**359**	**899**	**849**	**2.649**	**1.043**
Statement of financial position	***6.215***	***224***	***222***	***339***	***899***	***849***	***2.649***	***1.043***
Demand deposits	*3.533*	*182*	*198*	*137*	*292*	*400*	*2.324*	-
Retail	1.985	21	31	25	57	90	1.761	-
Corporate	1.548	161	167	112	235	310	563	-
Time deposits	*879*	*17*	*24*	*36*	*169*	*327*	*306*	-
Retail	605	14	18	25	106	234	208	-
Corporate	274	3	6	11	63	93	98	-
Liabilities to banks	*575*	*25*	-	*166*	*243*	*122*	*19*	-
Borrowings	37	2	-	-	8	24	3	-
Current accounts and deposits	538	23	-	166	235	98	16	-
Other liabilities and equity	*1.228*	-	-	-	*185*	-	-	*1.043*
Equity	696	-	-	-	-	-	-	696
Other liabilities	185	-	-	-	185	-	-	-
Provisions	347	-	-	-	-	-	-	347
Issued debt securities	.	-	-	-	-	-	-	-
Off-balance sheet								
Derivatives	*327*	-	*298*	*20*	*10*	-	-	-

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

36. RISK MANAGEMENT (CONTINUED)

36.2 Liquidity risk (continued)

36.2.1 Structural liquidity risk (continued)

Bank 31 December 2017 (in KM 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 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 at FVOCi	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 CBBiH	1.030	1.030	-	-	-	-	-	-
Other assets	*585*	*162*	-	-	*117*	-	-	*306*
Cash	162	162	-	-	-	-	-	-
Impaired loans	236	-	-	-	-	-	-	236
Investments in 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*	-	-	-

36.2.2 Future cash flows from financial instruments

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

Maturity for non-derivative financial assets

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Bank 31 December 2018							
Non-interest bearing	-	175.870	-	-	-	-	175.870
Variable interest rate instruments	5,73%	1.082.398	47.570	215.804	791.659	550.071	2.687.502
Fixed interest rate instruments	3,94%	1.043.376	294.148	519.334	1.084.519	340.998	3.282.375
		2.301.644	**341.718**	**735.138**	**1.876.178**	**891.069**	**6.145.747**
Bank 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**

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 Bank and Group can be required to pay. The table includes both interest and principal cash flows.

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 2018							
Non-interest bearing	-	2.376	4.899	10.153	9.760	1.674	28.862
Variable interest rate instruments	0,19%	1.734.999	41.764	150.768	196.044	17.968	2.141.544
Fixed interest rate instruments	1,78%	804.527	221.344	513.082	542.524	6.092	2.087.570
		2.541.903	**268.007**	**674.003**	**748.328**	**25.734**	**4.257.976**
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**

The Bank expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets and assets at fair value through other comprehensive income.

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

36. RISK MANAGEMENT (CONTINUED)

36.3 Market risk

Market risk is defined as the effect that general and specific movements and market variable changes in the market have on the statement of profit or loss and other comprehensive income and statement of financial position of the Bank and Group.

Basic risk factors include:

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

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

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

Market risk measurement techniques:

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

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

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

36.3.1 Value at Risk

The Bank and Group use 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 2018 and 2017 is as follows:

Bank	Minimum 2018	Average 2018	Maximum 2018	End of 2018
Interest risk	(237)	(371)	(744)	(277)
Currency risk	-	(1)	(21)	(1)
Securities price risk	(737)	(1.045)	(1.281)	(878)
Total VaR	**(779)**	**(998)**	**(1.274)**	**(946)**

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)**

36.3.2 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 KM 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.

36.4 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 and Group direct 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 KM, unless otherwise stated)

36. RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

Bank As of 31 December 2018	KM	EUR	USD	Other currencies	Total
Assets					
Cash and cash equivalents	487.761	176.574	13.832	68.286	746.453
Obligatory reserve at CBBH	484.141	-	-	-	484.141
Loans and receivables from banks	15.571	662.371	22.696	18.048	718.686
Financial assets at FVOCI	149.066	257.548	85.332	-	491.946
Financial assets at fair value through profit or loss	-	608	-	-	608
Loans and receivables from clients	1.961.775	1.418.300	-	-	3.380.075
Other assets and receivables	41.535	709	52	77	42.373
Investments in associates	460	-	-	-	460
	3.140.309	**2.516.110**	**121.912**	**86.411**	**5.864.742**
Liabilities					
Current accounts and deposits in banks	36.735	502.344	-	-	539.079
Current accounts and deposits from clients	2.570.025	1.656.336	121.749	85.153	4.433.263
Received deposits-down payments of lease users	-	-	-	-	-
Financial liabilities at fair value through profit or loss	-	515	-	-	515
Borrowings and subordinated debt	-	35.155	-	-	35.155
Other liabilities	91.777	14.718	399	261	107.155
Provisions for liabilities and expenses	13.001	-	-	-	13.001
	2.711.538	**2.209.068**	**122.148**	**85.414**	**5.128.168**
Net position	**428.771**	**307.042**	**(236)**	**997**	**736.574**

Bank As of 31 December 2017	KM	EUR	USD	Other currencies	Total
Assets					
Cash and cash equivalents	734.644	125.306	11.797	61.467	933.214
Obligatory reserve at CBBH	416.710	-	-		416.710
Loans and receivables from banks	18.004	167.056	76.210	14.612	275.882
Financial assets at FVOCI	204.937	172.989	31.790	-	409.716
Financial assets at fair value through profit or loss	-	449	-	-	449
Loans and receivables from clients	1.664.284	1.316.573	-	-	2.980.857
Finance lease receivables		84.836			84.836
Other assets and receivables	47.112	682	48	91	47.933
Investments in associates	460	-	-	-	460
Total assets	**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 charges	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**

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

36. RISK MANAGEMENT (CONTINUED)

36.4 Foreign currency risk (continued)

36.4.1 Foreign currency sensitivity analysis

The Bank and Group are mainly exposed to EUR and USD. Since currency board 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 (KM) is pegged to EUR). Received deposits – down payments of lease users.

The following table details the sensitivity to a 10% increase or decrease in KM 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 KM strengthens 10% against USD. For a 10% weakening of KM against USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Impact	
Bank	**31 December 2018**	**31 December 2017**
Profit/Loss	(18)	(86)

36.5 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).

36.5.1 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:

Bank 31 December 2018	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years	Total
KM	1	(11)	(20)	(139)	-	(170)
EUR	2	(43)	54	134	11	159
USD	-	(3)	(4)	(6)	-	(12)
Total	**3**	**57**	**78**	**279**	**11**	**341**

Values in 2018 are presented as absolute values.

BPV sensitivity analysis for the Bank per currency:

Bank 31 December 2017	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years	Total
KM	1	(8)	(6)	(77)	-	(90)
EUR	(8)	(27)	59	159	9	192
USD	-	1	(3)	-	-	(3)
Total	**9**	**36**	**69**	**236**	**9**	**285**

Values in 2017 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).

36.5.2 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 31 December 2018 %	Bank 31 December 2017 %
Cash and cash equivalents	-0,24	-0,23
Obligatory reserve at CBBiH	0,00	0,00
Financial assets at FVOCI	3,16	3,36
Loans and receivables from banks	-0,13	-0,06
Loans and receivables from clients	4,71	5,41
Current accounts and deposits from banks	0,02	0,24
Current accounts and deposits from clients	0,48	0,74
Interest-bearing borrowings	2,02	2,37

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

Operating risk management is inbuilt throughout the entire organisational structure of the Bank, through regular, strategic, supervisory, and audit management. In this way the Bank and group have 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 and Group intend to decrease the possibility of operating risk events that would have negative implications for the Bank's and Group's operations, i.e. to decrease them when they occur. In that sense, the Bank and Group 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 and Group.

36. RISK MANAGEMENT (CONTINUED)

36.6 Operating risk (continued)

The Bank and Group use 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 and Group make 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 and Group'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.

36.7 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 and Group are 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 and Group recognise the importance of preventing and mitigating actions in reputational risk management. According to the standards of UniCredit Group, and own knowledge based on extensive experience and continuous improvements in the area, in its daily operating activities, the Bank and Group are 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 Group, and continuous rising of awareness on importance of reputational risk is one of the pillars of the risk management.

37. CAPITAL MANAGEMENT

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

During 2018, as a transitional period, the Bank followed and reported capital adequacy according to Basel I and Basel III methodology.

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 2018, the Bank has been in compliance with all regulatory capital requirements and according to the local regulations in line with Basel I methodology had a capital adequacy ratio of 15.3% as at 31 December 2018, and 18.1% in line with Basel III methodology.

The regulatory capital of the Bank consists of core and supplementary capital.

The core capital of the Bank (fully equal to ordinary core equity) consists of paid shares, own treasury shares, share premium, retained unallocated profit and other reserves formed from profit after taxation on the basis of the decision of the Bank's General Assembly, net revaluation reserves based on changes in fair value of assets (accumulated comprehensive income), net of the amount of treasury shares, intangible assets and deferred tax assets.

Supplementary capital consists of general credit risk allowances, calculated as 1.25% of the risk-weighted exposure amount, minus the missing provisions for credit losses under regulatory requirements. Missing credit loss provisions are calculated in accordance with FBA regulations. Bank calculates provisions for credit losses by FBA methodology for each contract. A positive difference is shown as missing credit loss provisions. As at 31 December 2018, the missing credit loss provisions amounted to KM 58,511 thousand, and they are reduced for KM 20,682 thousand of reserves excluded from the core capital of the bank.

The minimum capital requirements are as follows:

- regular core capital rate 6.75%
- core capital rate 9%
- regulatory capital rate 12%

In addition to the statutory minimum adequacy rate, the Bank is also required to provide a protection layer for capital preservation that is to be maintained in the form of regular core capital in the amount of 2.5% of the total exposure amount.

The total weighted risk used to calculate capital adequacy includes:

- the risk of weighted assets and credit equivalents,
- position, currency, commodity risk and
- operational risk.

The capital adequacy ratio under Basel III methodology for 2018 was significantly above the prescribed limit of 12%. The composition of capital and capital ratios as at 31 December 2018 (*capital adequacy ratio for 2017 under Basel I methodology was 16.4%) is given in the table below.

Basel III	Bank 31 December 2018
Regulatory capital	**661,871**
Core capital	*660.104*
Regular core capital	*660.104*
Issued share capital – Ordinary shares	119.011
Share premium	48.317
Accumulated comprehensive income	2.403
Statutory, regulatory and other reserves	508.508
Deductions from regular core capital	
intangible assets	*(17.360)*
own shares	*(215)*
deferred tax assets	*(100)*
significant investment in capital of financial sector entities	*(460)*
Total regular core capital	**660.104**
Additional core capital	-
Core capital	**660.104**
Supplementary capital	**1.767**
Issued own capital – Priority shares	184
Own shares	(14)
General credit risk allowances	39.466
Missing credit loss provisions	(37.869)
Total regulatory capital	**661.871**
Risk weighted assets (unaudited)	**3.660.993**
Capital adequacy ratio	**18,1%**

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

37. CAPITAL MANAGEMENT (CONTINUED)

Basel I	Bank 31 December 2017
Core capital	
Ordinary shares	119.011
Treasury shares	(81)
Share premium	48.317
Reserve and retained earnings	463.870
Intangible assets	(14.325)
Deffered tax assets	-
Negative revaluation reserves due to effects of fair value changes of assets	(211)
Total share capital	**616.581**
Supplementary capital	
ORKG under FBA rules	49.305
Positive revaluation reserves due to effects of fair value changes of assets	2.101
Preference shares	184
Subordinated debt	-
Total additional capital	**51.590**
Deductions from capital	
Adjustment for shortfall in regulatory reserves per regulatory requirement	(21.909)
Total deductions from capital	**(21.909)**
Net capital	**646.262**
Risk weighted assets (unaudited)	
Credit-risk – weighted assets	3.682.931
Other weighted assets	261.479
Total risk weighted assets (unaudited)	**3.944.410**
Capital adequacy ratio	**16,4%**

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

The Bank's financial leverage ratio is the ratio of the amount of the core capital to the total risk exposure of the Bank as at the reporting date, expressed as a percentage, and as at 31 December 2018 it is significantly above the stated minimum, amounting to 10.08%.

The table below presents financial leverage rate as at 31 December 2018 (*financial leverage for 2017 under Basel I methodology was 10.0%).

Exposure value	
Financial derivates: present cost of exchange	608
Financial derivates: present cost of exchange	3.493
Off-balance sheet items (with credit conversion factor)	263.273
Other assets	5.969.771
Amount of deductible assets' items	(17.921)
Capital	
Core capital	660.104
Financial leverage rate	**10,60%**

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

38. FAIR VALUE MEASUREMENT

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

38.1 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 2018	Fair values Level 1	Level 2	Level 3
Financial assets at FVOCI (see Note 19)			
Listed equity securities in Bosnia and Herzegovina	659	-	-
Unlisted debt securities in Bosnia and Herzegovina:			
Bonds of the Government of Federation of BiH	-	191.605	-
Bonds of the Government of Republika Srpska	-	83.907	-
Bonds of the Government of Republic of Croatia	-	153.644	-
State Bonds of the Republic of Poland	48.477	-	-
State Bonds of the Republic of Slovenia	14.114	-	-
Foreign currency forward contracts (see Note 19)			
Assets	-	438	170
Liabilities	-	120	395
Bank **31 December 2017**	**Fair values** **Level 1**	**Level 2**	**Level 3**
Financial assets at FVOCI (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	-

Valuation techniques and key inputs

Financial assets at fair value through other comprehensive income

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 mark to market 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 2018 and 2017.

38.2 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 31 December 2018		Bank 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
Loans and receivables from clients	3.380.075	3.354.902	3.065.693	3.276.446
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from clients	4.433.263	4.285.834	4.070.994	4.072.227
- Borrowings	35.155	33.986	64.605	64.625

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

38. FAIR VALUE MEASUREMENT (CONTINUED)

38.2 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 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- Loans and receivables from clients	-	486.158	2.868.744	**3.354.902**
	-	**486.158**	**2.868.744**	**3.354.902**
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from clients	-	-	4.285.834	**4.285.834**
- Borrowings	-	-	4.285.834	**33.986**
	-	**-**	**4.319.820**	**4.319.820**

The Bank provides finance lease of equipment and vehicles.

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	3.169.319	**3.276.446**
	-	**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**

Assumptions used for estimate and measurement of fair value of particular financial instruments for 2018 are based on requirements of IFRS 13, by applying the methodology developed on UniCredit Group level.

The fair values of the financial assets and financial liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties and the concept of risk neutral “Probability of Default” approach based on market parameters, introduced for determining fair value by restricting dependence on internal parameters. The parameters included in the calculation are market premium and correlation of assets return and the market.

For the purpose of classification of instruments in fair value hierarchy (Level 2 or Level 3), a value limit/materiality of the difference between the fair value of risk-free and full fair value was established. If the determined difference is equal or greater than 5% instrument is classified as Level 3. Accordingly, if the total fair value is not significantly different from the risk-free fair value (less than 5%), 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.

38.3 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.

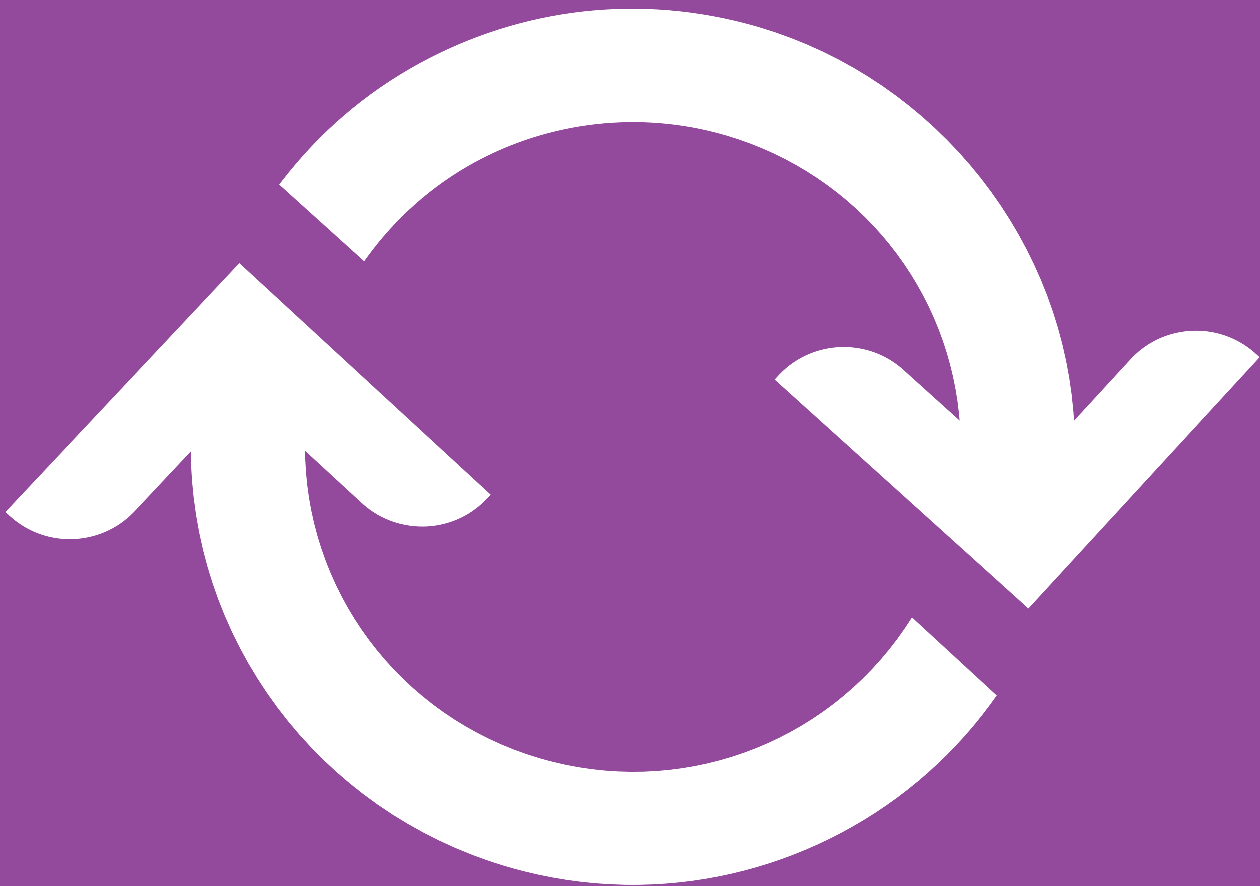
(all amounts are expressed in thousands of KM, unless otherwise stated)

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on the pages 34 do 129 were approved by the Management Board on 14 February 2019 for the submission to the Supervisory Board:

President of the Board Dalibor Ćubela	UniCredit Bank dioničko društvo	Member of the Board for Finance Management Viliam Pätoprstý

Transform operating model.



We are leveraging on digitalisation to transform our operating model. We are ahead of schedule, with an improved cost reduction. The optimisation of the cost base will remain important to ensure our Group's efficiency and effectiveness.

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 December 2018) and Profit and Loss (statement on the overall result for the period from 1 January to 31 December 2018) 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).

BALANCE SHEET

Statement of financial position as at 31 December 2018 — 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**	**6.225.640.744**	**330.439.765**	**5.895.200.979**	**5.180.365.374**
1. Cash and cash equivalents, gold and receivables from business (003 to 007)	0 0 2	807.825.270	7.159.165	800.666.105	991.373.302
a) Cash and cash equivalents in domestic currency	0 0 3	488.336.768	461.866	487.874.902	730.586.084
b) Other receivables in domestic currency	0 0 4	59.275.864	5.909.849	53.366.015	57.328.213
c) Cash and cash equivalents in foreign currency	0 0 5	258.978.464	285.861	258.692.603	202.627.789
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	1.197.633	501.589	696.044	794.675
2. Deposits and loans in local and foreign currency (009 + 010)	0 0 8	485.253.511	0	485.253.511	416.709.952
a) Deposits and loans in domestic currency	0 0 9	485.253.511	0	485.253.511	416.709.952
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	6.686.211	5.715.091	971.120	979.127
a) Fee and interest receivables, receivables based on sale and other receivables in local currency	0 1 2	6.484.084	5.518.317	965.767	976.301
b) Fee and interest receivables,receivables based on sale and other receivables in foreign currency	0 1 3	202.127	196.774	5.353	2.826
4. Loans and deposits (015 to 017)	0 1 4	3.537.485.385	96.705.559	3.440.779.826	2.714.495.550
a) Loans and deposits in local currency	0 1 5	1.728.594.230	49.706.342	1.678.887.888	1.423.391.305
b) Loans and deposits with hedge local currency	0 1 6	1.101.650.051	43.615.645	1.058.034.406	1.031.257.914
c) Loans and deposits in foreign currency	0 1 7	707.241.104	3.383.572	703.857.532	259.846.331
5. Securities (019 to 021)	0 1 8	485.338.217	433	485.337.784	406.487.632
a) Securities in local currency	0 1 9	148.637.911	433	148.637.478	204.680.894

ITEM	Code for AOP	Current year			Previous year (initial balance)
		Gross	Impairment value	Net (3-4)	
1	2	3	4	5	6
b) Securities with hedge local currency	0 2 0	105.985.016	0	105.985.016	106.433.326
c) Securities in foreign currency	0 2 1	230.715.290	0	230.715.290	95.373.412
6. Other placements and prepayments (023 to 029)	0 2 2	889.407.946	218.064.926	671.343.020	638.322.507
a) Other placements in local currency	0 2 3	1.765.646	1.755.837	9.809	16.340
b) Other placements with hedge local currency	0 2 4	59.474.216	8.544.776	50.929.440	55.135.058
c) Due placements and current maturities of long-term placements in local currency	0 2 5	787.284.610	194.029.500	593.255.110	557.977.022
d) Prepayments in local currency	0 2 6	13.017.500	402.607	12.614.893	13.245.117
e) Other placements in foreign currency	0 2 7	9.451.494	6.622.251	2.829.243	3.060.013
f) Due placements and current maturities of long-term placements in foreign currency	0 2 8	11.599.372	6.709.900	4.889.472	5.568.687
g) Prepayments in foreign currency	0 2 9	6.815.108	55	6.815.053	3.320.270
7. Inventories	0 3 0	13.644.204	2.794.591	10.849.613	11.997.304
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**	**222.384.554**	**147.307.170**	**75.077.384**	**69.566.269**
1. Tangible assets and investment in property (037 to 040)	0 3 6	161.220.418	103.503.027	57.717.391	55.241.308
a) Tangible assets owned by the bank	0 3 7	127.448.738	80.198.277	47.250.461	47.214.814
b) Investment in property	0 3 8	24.698.801	23.304.750	1.394.051	1.420.392
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	9.072.879	0	9.072.879	6.606.102
2. Intangible assets (042 to 046)	0 4 1	61.164.136	43.804.143	17.359.993	14.324.961
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	50.535.019	43.804.143	6.730.876	6.796.225
e) Advances and assets acquired but not brought into use	0 4 6	10.629.117	0	10.629.117	7.528.736
C. DEFFERED TAX ASSETS	**0 4 7**	**100.602**	**0**	**100.602**	**20.217**
D. OPERATING ASSETS (001+035+047)	**0 4 8**	**6.448.125.900**	**477.746.935**	**5.970.378.965**	**5.249.951.860**
E. OFF BALANCE SHEET ASSETS	**0 4 9**	**1.282.019.071**	**0**	**1.282.019.071**	**1.004.220.148**
F. TOTAL ASSETS (048+049)	**0 5 0**	**7.730.144.971**	**477.746.935**	**7.252.398.036**	**6.254.172.008**

BALANCE SHEET

Statement of financial position as at 31 December 2018

in BAM

ITEM	Code for AOP	Current year	Previous year (initial balance)
1	2	3	4
A. LIABILITIES (102+106+109+113)	**1 0 1**	**5.174.292.098**	**4.483.791.129**
1. Deposits and borrowings (103 to 105)	1 0 2	4.982.368.288	4.277.067.972
a) Deposits and interest-bearing borrowings in domestic currency	1 0 3	2.604.140.000	2.285.284.316
b) Hedging deposits and borrowings	1 0 4	42.008.193	49.505.468
c) Deposits and interest-bearing borrowings in foreign currency	1 0 5	2.336.220.095	1.942.278.188
2. Interests and fees (107+108)	1 0 6	8.000	17.011
a) Interests and fees in domestic currency	1 0 7	8.000	17.011
b) Interests and fees in foreign currency	1 0 8	0	0
3. Securities (110 to 112)	1 0 9	0	0
a) Securities in domestic currency	1 1 0	0	0
b) Hedging securities in 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	191.915.810	206.706.146
a) Salaries and fees	1 1 4	2.643.580	2.412.352
b) Other liabilities in domestic currency, excluding liabilities for tax and contributions	1 1 5	89.639.287	82.760.606
c) Tax and contributions, excluding current and deffered income tax	1 1 6	1.841.525	1.986.645
d) Current tax liability	1 1 7	12.784.309	12.020.447
e) Deffered tax liability	1 1 8	1.530.452	1.339.591
f) Provisions	1 1 9	34.008.954	31.114.994
g) Accruals in domestic currency	1 2 0	11.007.818	11.828.179
h) Commission operations, AFS assets, discontinued operation assets, subordinated debt liabilities and current liabilities	1 2 1	291.501	385.467
i) Other liabilities in foreign currency	1 2 2	15.419.901	19.794.411
j) Accruals in foreign currency	1 2 3	9.859.750	13.578.106
k) Commission operations, due and subordinated liabilities and current maturities in goreign currency	1 2 4	12.888.733	29.485.348
B. EQUITY (126+132+138+142-148)	**1 2 5**	**796.086.867**	**766.160.731**
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

ITEM	Code for AOP	Current year	Previous year (initial balance)
1	2	3	4
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	529.189.791	484.699.755
a) Reserves from profit	1 3 3	508.853.539	464.018.066
b) Other provisions	1 3 4	0	0
c) Provision for losses	1 3 5	20.336.252	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	2.402.999	1.636.303
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	2.338.941	1.707.586
c) Other revaluation resererves	1 4 1	64.058	-71.283
4. Profit (143 to 147)	1 4 2	97.210.494	112.541.090
a) Profit for the year	1 4 3	97.210.480	89.530.601
b) Unallocated profit from prior years	1 4 4	14	23.010.489
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**	**5.970.378.965**	**5.249.951.860**
D. OFF BALANCE SHEET LIABILITIES	**1 5 2**	**1.282.019.071**	**1.004.220.148**
E. TOTAL LIABILITIES (151+152)	**1 5 3**	**7.252.398.036**	**6.254.172.008**

The financial statements presented in the form prescribed by the Regulations on the content and form of financial statements for banks and financial institutions (continued)

BALANCE SHEET

Statement of financial result as at 31 December 2018 — in BAM

ITEM	Code for AOP	VALUE Current year	Prior year
1	2	3	4
A. OPERATING INCOME AND EXPENSES 1. Interest income	**2 0 1**	**188.567.989**	**191.132.472**
2. Interest expense	2 0 2	22.428.228	28.472.340
Net interest income (201-202)	2 0 3	166.139.761	162.660.132
Net interest expense (202-201)	2 0 4	0	0
3. Fee and commissions income	2 0 5	104.673.705	93.071.157
4. Fee and commissions expense	2 0 6	21.472.857	17.653.986
Net fee and commission income (205-206)	2 0 7	83.200.848	75.417.171
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	249.340.609	238.077.303
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	122.066.756	121.278.239
a) Expenses of gross salaries and contribution expense	2 2 7	49.760.815	48.607.279
b) Expenses of fees for temporary and occasional work contracts	2 2 8	205.054	52.725
c) Other personnel expenses	2 2 9	3.568.792	3.399.376
d) Material expenses	2 3 0	4.061.175	4.352.104
e) Production services expenses	2 3 1	27.621.169	28.121.411

ITEM	Code for AOP	VALUE Current year	Prior year
1	2	3	4
f) Depreciation expenses	2 3 2	10.374.363	9.817.641
g) Expenses from leasing activities	2 3 3	0	0
h) Non-material expenses (excluding taxes and contributions)	2 3 4	24.415.322	24.886.502
i) Tax and contributions expenses	2 3 5	2.060.066	2.041.201
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	122.066.756	121.278.239
C) GAIN AND LOSS ON PROVISIONS 1. Bad debts recovered (240 to 243)	**2 3 9**	**264.349.232**	**192.909.026**
a) Income from recovered provisions for placements	2 4 0	214.464.396	157.504.645
b) Income from recovered provisions for off-balance sheet items	2 4 1	48.330.459	35.185.905
c) Income from recovered provision for liabilities	2 4 2	1.554.377	218.476
d) Income from other provisions recovered	2 4 3	0	0
2. Provision charges (245 to 248)	2 4 4	283.538.976	208.968.846
a) Provisions charges for placements	2 4 5	229.309.405	166.945.392
b) Provision charges for off-balance sheet items	2 4 6	50.623.471	36.960.336
c) Charges based on provisions for liabilities	2 4 7	2.772.606	4.708.070
d) Other provision charges	2 4 8	833.494	355.048
PROVISIONS INCOME (239-244)	2 4 9	0	0
PROVISION CHARGES (244-239)	2 5 0	19.189.744	16.059.820
D. OTHER INCOME AND EXPENSES 1. Other income (252 to 258)	**2 5 1**	**3.040.955**	**4.572.843**
a) Income from bad debts previously written off	2 5 2	114.575	109.111
b) Losses from sales of fixed assets, and intangible investments	2 5 3	774.638	3.007.325
c) Income from reduction in liabilities	2 5 4	0	0
d) Income from dividends and shares	2 5 5	223.720	106.249
e) Surplus	2 5 6	41.425	31.627
f) Other income	2 5 7	1.886.597	1.318.531
g) Gains grom discounted operations	2 5 8	0	0
2. Other expense (260 to 266)	2 5 9	1.395.781	3.981.454
a) Expense from bad debts written off	2 6 0	0	0
b) Losses from depreciation and fixed assets write off, and intangible assets	2 6 1	0	2.361.731
c) Losses from disposals and write-offs of fixed and intangible assets	2 6 2	231.359	113.905
d) Shortfalls	2 6 3	4.814	116.773
e) Inventorywrite-offs	2 6 4	0	0
f) Other expenses	2 6 5	1.159.608	1.389.045
g) Expenses from discontinued operations	2 6 6	0	0

ITEM	Code for AOP	VALUE Current year	Prior year
1	2	3	4
GAIN FROM OTHER INCOME AND EXPENSES (251-259)	2 6 7	1.645.174	591.389
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	109.729.283	101.330.633
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**	**161.734.668**	**171.671.862**
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	161.734.668	171.671.862
2. Expenses from change in value of assets and liabilities (278 to 282)	2 7 7	161.336.546	171.451.449
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	483.689	57.215
e) Expenses from unfavorable foreign exchange differences	2 8 2	160.852.857	171.394.234
PROFIT ARISING FROM THE CHANGE IN VALUE OF ASSETS AND LIABILITIES (271-277)	2 8 3	398.122	220.413
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	110.127.405	101.551.046
LOSS BEFORE TAX (270+284-269-283)	2 8 6	0	0
F. CURRENT AND DEFFERED INCOME TAX 1. Income tax	**2 8 7**	**12.784.307**	**12.020.445**
2. Profit from increase of deffered tax assets and decrease of deffered tax liabilities	2 8 8	0	0
3. Loss from decrease of deffered tax assets and increase of deffered tax liabilities	2 8 9	132.618	0
PROFIT AFTER TAX (285+288-287-289) or (288-286-287-289)	2 9 0	97.210.480	89.530.601
LOSS AFTER TAX (286+287+289-288) or (287+289-285-288)	2 9 1		0

ITEM	Code for AOP	VALUE	
		Current year	Prior year
1	2	3	4
G. OTHER PROFIT AND LOSSES FOR THE PERIOD 1. Capital gains (293 to 298)	**2 9 2**	**135.341**	**1.899.141**
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	0	1.988.155
c) Income from transferring financial reports of foreign operations	2 9 5	0	0
d) Actuarial income from defined income scheme	2 9 6	135.341	-89.014
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	1.051.920	0
a) Losses from change in fair value of securities available for sale	3 0 0	1.051.920	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	-916.579	1.899.141
H. INCOME TAX RELATING TO OTHER TOTAL RESULT FOR THE PERIOD	**3 0 6**	**22.141**	**-189.914**
OTHER TOTAL RESULT FOR THE PERIOD (305±306)	3 0 7	-894.438	1.709.227
TOTAL NET PROFIT FOR THE YEAR (290±307)	3 0 8	96.316.042	91.239.828
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	817	753
Diluted earings per share	3 1 3	817	753
Average number of employees based on hours worked	3 1 4	1.257	1.250
Average number of employees based on periods end	3 1 5	1.253	1.235

CONSOLIDATED BALANCE SHEET

Statement of financial result as at 31 December 2018

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**	**6.225.728.472**	**330.439.765**	**5.895.288.707**	**5.180.672.170**
1. Cash and cash equivalents,gold and receivables from business (003 to 007)	0 0 2	807.825.270	7.159.165	800.666.105	991.373.302
a) Cash and cash equivalents in domestic currency	0 0 3	488.336.768	461.866	487.874.902	730.586.084
b) Other receivables in domestic currency	0 0 4	59.275.864	5.909.849	53.366.015	57.328.213
c) Cash and cash equivalents in foreign currency	0 0 5	258.978.464	285.861	258.692.603	202.627.789
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	1.197.633	501.589	696.044	794.675
2. Deposits and loans in local and foreign currency (009 + 010)	0 0 8	485.253.511	0	485.253.511	416.709.952
a) Deposits and loans in domestic currency	0 0 9	485.253.511	0	485.253.511	416.709.952
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	6.686.211	5.715.091	971.120	979.127
a) Fee and interest receivables,receivables based on sale and other receivables in local currency	0 1 2	6.484.084	5.518.317	965.767	976.301
b) Fee and interest receivables,receivables based on sale and other receivables in foreign currency	0 1 3	202.127	196.774	5.353	2.826
4. Loans and deposits (015 to 017)	0 1 4	3.537.485.385	96.705.559	3.440.779.826	2.714.495.550
a) Loans and deposits in local currency	0 1 5	1.728.594.230	49.706.342	1.678.887.888	1.423.391.305
b) Loans and deposits with hedge local currency currency	0 1 6	1.101.650.051	43.615.645	1.058.034.406	1.031.257.914
c) Loans and deposits in foreign currency	0 1 7	707.241.104	3.383.572	703.857.532	259.846.331
5. Securities (019 to 021)	0 1 8	485.425.945	433	485.425.512	406.794.428
a) Securities in local currency	0 1 9	148.725.639	433	148.725.206	204.987.690
b) Securities with hedge local currency	0 2 0	105.985.016	0	105.985.016	106.433.326
c) Securities in foreign currency	0 2 1	230.715.290	0	230.715.290	95.373.412
6. Other placements and prepayments (023 to 029)	0 2 2	889.407.946	218.064.926	671.343.020	638.322.507
a) Other placements in local currency	0 2 3	1.765.646	1.755.837	9.809	16.340

ITEM	Code for AOP	Current year			Previous year (initial balance)
		Gross	Impairment value	Net (3-4)	
1	2	3	4	5	6
b) Other placements with hedge local currency	0 2 4	59.474.216	8.544.776	50.929.440	55.135.058
c) Due placements and current maturities of long-term placements in local currency	0 2 5	787.284.610	194.029.500	593.255.110	557.977.022
d) Prepayments in local currency	0 2 6	13.017.500	402.607	12.614.893	13.245.117
e) Other placements in foreign currency	0 2 7	9.451.494	6.622.251	2.829.243	3.060.013
f) Due placements and current maturities of long-term placements in foreign currency	0 2 8	11.599.372	6.709.900	4.889.472	5.568.687
g) Prepayments in foreign currency	0 2 9	6.815.108	55	6.815.053	3.320.270
7. Inventories	0 3 0	13.644.204	2.794.591	10.849.613	11.997.304
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**	**222.384.554**	**147.307.170**	**75.077.384**	**69.566.269**
1. Tangible assets and investment in property (037 to 040)	0 3 6	161.220.418	103.503.027	57.717.391	55.241.308
a) Tangible assets owned by the bank	0 3 7	127.448.738	80.198.277	47.250.461	47.214.814
b) Investment in property	0 3 8	24.698.801	23.304.750	1.394.051	1.420.392
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	9.072.879	0	9.072.879	6.606.102
2. Intangible assets (042 to 046)	0 4 1	61.164.136	43.804.143	17.359.993	14.324.961
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	50.535.019	43.804.143	6.730.876	6.796.225
e) Advances and assets acquired but not brought into use	0 4 6	10.629.117	0	10.629.117	7.528.736
C. DEFFERED TAX ASSETS	**0 4 7**	**100.602**	**0**	**100.602**	**20.217**
D. OPERATING ASSETS (001+035+047)	**0 4 8**	**6.448.213.628**	**477.746.935**	**5.970.466.693**	**5.250.258.656**
E. OFF BALANCE SHEET ASSETS	**0 4 9**	**1.282.019.071**	**0**	**1.282.019.071**	**1.004.220.148**
F. TOTAL ASSETS (048+049)	**0 5 0**	**7.730.232.699**	**477.746.935**	**7.252.485.764**	**6.254.478.804**

CONSOLIDATED BALANCE SHEET

Statement of financial result as at 31 December 2018 in BAM

ITEM	Code for AOP	Current year	Previous year (initial balance)
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b) Hedging deposits and borrowings	1 0 4	42.008.193	49.505.468
c) Deposits and interest-bearing borrowings in foreign currency	1 0 5	2.336.220.095	1.942.278.188
2. Interests and fees (107+108)	1 0 6	8.000	17.011
a) Interests and fees in domestic currency	1 0 7	8.000	17.011
b) Interests and fees in foreign currency	1 0 8	0	0
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	191.915.810	206.706.146
a) Salaries and fees	1 1 4	2.643.580	2.412.352
b) Other liabilities in domestic currency, excluding liabilities for tax and contributions	1 1 5	89.639.287	82.760.606
c) Tax and contributions ,excluding current and deffered income tax	1 1 6	1.841.525	1.986.645
d) Current tax liability	1 1 7	12.784.309	12.020.447
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f) Provisions	1 1 9	34.008.954	31.114.994
g) Accruals in domestic currency	1 2 0	11.007.818	11.828.179
h) Commission operations,AFS assets,discontinued operation assets,subordinated debt liabilities and current liabilities	1 2 1	291.501	385.467
i) Other liabilities in foreign currency	1 2 2	15.419.901	19.794.411
j) Accruals in foreign currency	1 2 3	9.859.750	13.578.106
k) Commission operations, due and subordinated liabilities and current maturities in goreign currency	1 2 4	12.888.733	29.485.348
B. EQUITY (126+132+138+142-148)	**1 2 5**	**796.174.595**	**766.467.527**
1. Issued share capital (127+128+129-130-131)	1 2 6	167.283.583	167.283.583

ITEM	Code for AOP	Current year	Previous year (initial balance)
1	2	3	4
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	529.189.791	484.699.755
a) Reserves from profit	1 3 3	508.853.539	464.018.066
b) Other provisions	1 3 4	0	0
c) Provision for losses	1 3 5	20.336.252	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	2.402.999	1.636.303
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	2.338.941	1.707.586
c) Other revaluation resererves	1 4 1	64.058	-71.283
4. Profit (143 to 147)	1 4 2	97.298.222	112.847.886
a) Profit for the year	1 4 3	97.298.208	89.664.238
b) Unallocated profit from prior years	1 4 4	14	23.183.648
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**	**5.970.466.693**	**5.250.258.656**
D. OFF BALANCE SHEET LIABILITIES	**1 5 2**	**1.282.019.071**	**1.004.220.148**
E. TOTAL LIABILITIES (151+152)	**1 5 3**	**7.252.485.764**	**6.254.478.804**

CONSOLIDATED PROFIT AND LOSS

as at 31 December 2018

in BAM

ITEM	Code for AOP	VALUE Current year	Prior year
1	2	3	4
A. OPERATING INCOME AND EXPENSES 1. Interest income	**2 0 1**	**188.567.989**	**191.132.472**
2. Interest expense	2 0 2	22.428.228	28.472.340
Net interest income (201-202)	2 0 3	166.139.761	162.660.132
Net interest expense (202-201)	2 0 4	0	0
3. Fee and commissions income	2 0 5	104.673.705	93.071.157
4. Fee and commissions expense	2 0 6	21.472.857	17.653.986
Net fee and commission income (205-206)	2 0 7	83.200.848	75.417.171
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	249.340.609	238.077.303
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	122.066.756	121.278.239
a) Expenses of gross salaries and contribution expense	2 2 7	49.760.815	48.607.279
b) Expenses of fees for temporary and occasional work contracts	2 2 8	205.054	52.725
c) Other personnel expenses	2 2 9	3.568.792	3.399.376
d) Material expenses	2 3 0	4.061.175	4.352.104
e) Production services expenses	2 3 1	27.621.169	28.121.411
f) Depreciation expenses	2 3 2	10.374.363	9.817.641
g) Expenses from leasing activities	2 3 3	0	0

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h) Non-material expenses (excluding taxes and contributions)	2 3 4	24.415.322	24.886.502
i) Tax and contributions expenses	2 3 5	2.060.066	2.041.201
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	122.066.756	121.278.239
C) GAIN AND LOSS ON PROVISIONS 1. Bad debts recovered (240 to 243)	**2 3 9**	**264.349.232**	**192.909.026**
a) Income from recovered provisions for placements	2 4 0	214.464.396	157.504.645
b) Income from recovered provisions for off-balance sheet items	2 4 1	48.330.459	35.185.905
c) Income from recovered provision for liabilities	2 4 2	1.554.377	218.476
d) Income from other provisions recovered	2 4 3	0	0
2. Provision charges (245 to 248)	2 4 4	283.538.976	208.968.846
a) Provisions charges for placements	2 4 5	229.309.405	166.945.392
b) Provision charges for off-balance sheet items	2 4 6	50.623.471	36.960.336
c) Charges based on provisions for liabilities	2 4 7	2.772.606	4.708.070
d) Other provision charges	2 4 8	833.494	355.048
PROVISIONS INCOME (239-244)	2 4 9	0	0
PROVISION CHARGES (244-239)	2 5 0	19.189.744	16.059.820
D. OTHER INCOME AND EXPENSES 1. Other income (252 to 258)	**2 5 1**	**3.128.683**	**4.706.480**
a) Income from bad debts previously written off	2 5 2	114.575	109.111
b) Losses from sales of fixed assets, and intangible investments	2 5 3	774.638	3.007.325
c) Income from reduction in liabilities	2 5 4	0	0
d) Income from dividends and shares	2 5 5	311.448	239.886
e) Surplus	2 5 6	41.425	31.627
f) Other income	2 5 7	1.886.597	1.318.531
g) Gains grom discounted operations	2 5 8	0	0
2. Other expense (260 to 266)	2 5 9	1.395.781	3.981.454
a) Expense from bad debts written off	2 6 0	0	0
b) Losses from depreciation and fixed assets write off, and intangible assets	2 6 1	0	2.361.731
c) Losses from disposals and write-offs of fixed and intangible assets	2 6 2	231.359	113.905
d) Shortfalls	2 6 3	4.814	116.773
e) Inventorywrite-offs	2 6 4	0	0
f) Other expenses	2 6 5	1.159.608	1.389.045
g) Expenses from discontinued operations	2 6 6	0	0
GAIN FROM OTHER INCOME AND EXPENSES (251-259)	2 6 7	1.732.902	725.026
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	109.817.011	101.464.270

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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**	**161.734.668**	**171.671.862**
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	161.734.668	171.671.862
2. Expenses from change in value of assets and liabilities (278 to 282)	2 7 7	161.336.546	171.451.449
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	483.689	57.215
e) Expenses from unfavorable foreign exchange differences	2 8 2	160.852.857	171.394.234
PROFIT ARISING FROM THE CHANGE IN VALUE OF ASSETS AND LIABILITIES (271-277)	2 8 3	398.122	220.413
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	110.215.133	101.684.683
LOSS BEFORE TAX (270+284-269-283)	2 8 6	0	0
F. CURRENT AND DEFFERED INCOME TAX 1. Income tax	**2 8 7**	**12.784.307**	**12.020.445**
2. Profit from increase of deffered tax assets and decrease of deffered tax liabilities	2 8 8	0	0
3. Loss from decrease of deffered tax assets and increase of deffered tax liabilities	2 8 9	132.618	0
PROFIT AFTER TAX (285+288-287-289) or (288-286-287-289)	2 9 0	97.298.208	89.664.238
LOSS AFTER TAX (286+287+289-288) or (287+289-285-288)	2 9 1		
G. OTHER PROFIT AND LOSSES FOR THE PERIOD 1. Capital gains (293 to 298)	**2 9 2**	**135.341**	**1.899.141**
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	0	1.988.155
c) Income from transferring financial reports of foreign operations	2 9 5	0	0

ITEM	Code for AOP	VALUE	
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d) Actuarial income from defined income scheme	2 9 6	135.341	-89.014
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	1.051.920	0
a) Losses from change in fair value of securities available for sale	3 0 0	1.051.920	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	-916.579	1.899.141
H. INCOME TAX RELATING TO OTHER TOTAL RESULT FOR THE PERIOD	**3 0 6**	**22.141**	**-189.914**
OTHER TOTAL RESULT FOR THE PERIOD (305±306)	3 0 7	-894.438	1.709.227
TOTAL NET PROFIT FOR THE YEAR (290±307)	3 0 8	96.403.770	91.373.465
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	818	754
Diluted earings per share	3 1 3	818	754
Average number of employees based on hours worked	3 1 4	1.257	1.250
Average number of employees based on periods end	3 1 5	1.253	1.235

Address and phone numbers

Headquarters

Address	Kardinala Stepinca b.b. Mostar
Phone	00387 (0) 36 312 112
Fax	00387 (0) 36 356 227
SWITCHBOARD	00387 (0) 36 312 112 00387 (0) 36 312 116
RETAIL	00387 (0) 36 312 112
CORPORATE	00387 (0) 36 312 112
RISK MANAGEMENT	00387 (0) 33 491 708
FINANCE	00387 (0) 36 312 112
GBS	00387 (0) 36 312 112

Maximise commercial bank value.

We continue to maximise commercial bank value by successfully focusing on our clients, delivering a positive experience through our multichannel strategy and best-in-class products and services. The fully plugged in CIB leverages on the Group's strong commercial banking relationships to support the real economy.

Business network of UniCredit Bank d.d. as at 31 December 2018

Branch/Address	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 ; 036/333-902
Branch Čapljina	Gojka Šuška bb	Čapljina	88300	036/810 - 712 ; 036/810-710
Branch Stolac	Hrvatskih branitelja bb	Stolac	88360	036/858 - 444 ; 036/853-306
Branch Neum	Dr. Franje Tuđmana bb	Neum	88390	036/880 - 149 ; 036/880-149
Branch Čitluk	Kralja Tvrtka 1	Čitluk	88260	036/640 - 439 ; 036/640-435
Branch Konjic	Trg Državnosti Alije Izetbegovića bb	Konjic	88400	036/712-430 ; 036/712-432
BUSINESS CENTER ZAPADNA HERCEGOVINA				
Branch Grude	Dr. 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 ; 039/835-933;
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 ; 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
Branch Rama	Kralja Tomislava bb	Rama	88440	036/770-919 ; 036/771-990
Branch Bugojno	Zlatnih ljiljana 16	Bugojno	70230	030/259 - 577 ; 030/259-576
Branch Kiseljak	Josipa Bana Jelačića bb	Kiseljak	71250	030/877 - 122 ; 030/877-122
BUSINESS CENTER ZENICA				
Branch Žepče	Stjepana Tomaševića bb	Žepče	72230	032/887-903 ; 032/887-903
Branch 1 Visoko	Branilaca 20a	Visoko	71300	032/730 - 057 ; 032/730-061
Branch Zenica	Školska bb	Zenica	72000	032/449 - 340 ; 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 ; 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 ; 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

Branch/Address	Address	City	Zip Code	Phone
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 ; 037/688-543
REGIJA 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 i 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 - 955 ; 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	033/491-748; 033/253-378 ; 033/253-372
Branch 7 Sarajevo	Trg međunarodnog prijateljstva 14	Sarajevo	71000	033/253 - 973 i 033/253-974 ; 033/253-974
Branch 17 Sarajevo	Džemala Bijedića b.b. (PC Capital Tower)	Sarajevo (OTOKA)	71000	033/560 - 790 ; 033/560-795
Branch 18 Sarajevo	Zmaja od Bosne 74	Sarajevo	71000	033/251 - 955 ; 033/251- 955
Branch 19 Sarajevo	Mustafe Kamerića 5	Sarajevo (Dobrinja)	71000	033/491 - 636 ; 033/491-600
Branch Vogošća	Igmanska 60	Vogošća	71320	033/491 997 ; 033/491-931
Branch Ilidža	Mala Aleja 10	Ilidža	71210	033/252 - 280 ; 033/491-754
Branch Hadžići	Hadželi 153	Hadžići	71240	
BUSINESS CENTER TUZLA				
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 ; 035/306-472
Branch 3 Tuzla	Aleja Alije Izetbegovića 10	Tuzla	75000	035/302 - 470 ; 035/302-470
Branch Gradačac	Ulica šehida 1	Gradačac	76250	035/822 - 500 ; 035/822-500
Branch Lukavac	Kulina Bana 2	Lukavac	75300	035/551 - 331 ; 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 ; 035/743-143
Branch Kalesija	Trg šehida bb	Kalesija	75260	035/610-111 ; 035/610-110
BUSINESS CENTER POSAVINA				
Branch Orašje	Treća ulica 47	Orašje	76270	031/716 - 713 ; 031/716-713
Branch Odžak	Titova 17	Odžak	76290	031/762 - 437 ; 031/762-437
Branch Brčko	Trg mladih 1	Brčko	76120	049/233 - 760 ; 049/233-760
BUSINESS CENTER BANJA LUKA				
Branch Banja Luka	I Krajiškog korpusa br.39	Banja Luka	78000	051/348 - 063 ; 051/348-063
Branch Prijedor	Zanatska bb	Prijedor	79101	052/240-764 ; 052/240-764
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

Banking that matters. UniCredit

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