Addiko Bank

Annual Report 2017

Addiko Bank a.d. Banja Luka
Bosnia and Herzegovina

Key data

based on the individual financial statements drawn up in accordance with IFRS within the meaning of the Law on Accounting and Auditing of the Republic of Srpska

BAM thousand

	2017	2016
Selected items of the Profit or loss statement	**1.1.-31.12.**	**1.1.-31.12.**
Net interest income	21,862	17,846
Net fee and commission income	12,167	9,667
Other operating income	5,367	7,416
Operating expenses	(35,284)	(51,106)
Operating result	**4,112**	**(16,177)**
Impairment of assets or reversal on loans and receivables	356	7,153
Result after tax	**4,475**	**(9,015)**
Selected items of the Statement of financial position	**31.12.**	**31.12.**
Loans and advances to customers	522,019	474,083
Deposits of customers	459,381	365,114
Equity	151,546	147,051
Total assets	709,308	715,806
Risk-weighted exposure	580,224	527,076
Key ratios (annualized)	**1.1.-31.12.**	**1.1.-31.12.**
Cost/income ratio	85.4%	94.9%
Net interest margin	3.5%	3.5%
Bank-specific figures	**31.12.**	**31.12.**
Core Tier 1 ratio	13.6%	15.1%
Capital Adequaci Ratio	14.6%	16.1%
Employees and locations	**31.12.**	**31.12.**
Employees at closing date	390	424
Number of locations	34	35

Disclaimer:
Certain statements contained in this report may be statements of future expectations and other forward-looking statements that are based on management's current view and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.
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The tables in this report may contain rounding differences. Any data is presented on the Addiko Bank ad Banja Luka level (referred to as Addiko Bank throughout the document) unless stated otherwise.

Letter from the CEO

The past year was the first year in which we have fully operated under the Addiko brand. Although there have been many things that have been accomplished, I want to highlight the most important one and that we returned to profitability. After many years of losses, the restructured Bank with new owners and new management ended the year 2017 with a profit in the amount of BAM 4.5 million. We are proud this turnaround achievement has taken place within a year only, with a very difficult starting point and a challenging market and that we can invest this profit in further strenghtening of our local business.

Clients repeatedly tell us how much we have changed over a past year. We were committed to transformation of our products and processes, the implementation of the new strategy, and the numerous activities aiming to meet needs of clients. Profitable operations, increased volume of bussiness and client surveys indicate that we are heading in the right direction. All this strengthens our committment to grow and evolve even more.

The principles of straightforward banking were the starting point for our business and its transformation in 2017. We simplified all processes with aim to improve our service quality. We also simplified our product offer and operating model to serve the vision of straighforwardness, aiming at every step to be a simple, direct bank. Also, at the begining of the year we joined digital transformation on the market, pioneering the introduction of Viber as a business platform for financial transactions. Addiko was the first in the region and among the first in the world to offer our clients the possibility of using the Viber Platform for performing financial transactions. This was the beginning of a digital story that we continued throughout the year, innovating existing products and providing better and more efficient services. We have also grown lending both in the Retail and in the Corporate segment by more than 18 % of loans, focusing on building long-term and strong relationships with our clients. On the costumer deposit side, growth was 25.8%, which is allowing us to be self-funded. Given the strong capital and deposit base we are well prepared for further sustainable growth.

We have received financial support from our owners through a capital increase which enabled us to grow our operations and modernize our network. During last year our ATM network has undergone a full modernization process.

Apart from regular bussiness, we have been actively working on reducing our CHF loan portfolio, our legacy from the past. We aimed at finding mutually acceptable and reasonable solutions to the few remaning clients and despite all challenges we have managed to reduce number of outstanding clients. We are comitted to bring this topic to the end soon by continuing to find an acceptable joint solution with our clients.

We strive to be a responsible member of local communities in which we operate. With this aspiration, we have supported local communities with various activities, mainly focusing on children and culture, such as donations for school cabinets, books and other equipment, but also our employees have volunteered for charitable work. We have additionally sponsored different cultural institutions and events in Republika Srpska.

In this challenging transformational year for Addiko, our employees have given unselfish and extraordinary contribution, coping with speed of change and repeatedly finding new ways to do things differently and better for our clients. This commitment and dedication to the company, is an incredible value that makes us an extraordinary team I am proud of. I would like to thank all of them for their trust they put in the Management Board and their contribution in the exciting year 2017.

Finally, I would like to thank our clients, owners and regulators for trust and support during this transformational journey. 2017 was full of challenges. I have no doubt that the year 2018 will be similar in quantity of change and challenges, but I trust that this team will serve and meet expectation of all our partners with equal commitment and spirit.

Best regards,

Mario Ivanković

Addiko Bank

Management Board of Addiko Bank a.d.

Boštjan Pečenko,
Member of the
Management Board

Žaklina Dimitrijević,
Member of the Management Board

Mario Ivanković,
President of the
Management Board

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Management Report

1. Overview of Addiko Bank

Addiko Bank ad Banja Luka, member of Addiko Group, an international financial group headquartered in Vienna, Austria, which operates through six banks with its core business in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro with over 1 million clients. The Group's strategy is primarily focused on markets in the SEE region delivering core products and services relevant to the customers, while also providing online deposit services in Austria and Germany. The holding company AI Lake (Luxembourg) S.à r.l. is the direct parent company of Addiko Bank AG and is indirectly owned by funds advised by Advent International, a global private equity investor and the European Bank for Reconstruction and Development (EBRD).

Addiko Group has operated in the region under the Addiko brand since 11 July 2016 following a successful rebranding of the Group. In Bosnia and Herzegovina, the Addiko brand is present from 31 October 2016.

2. General economic conditions 2017

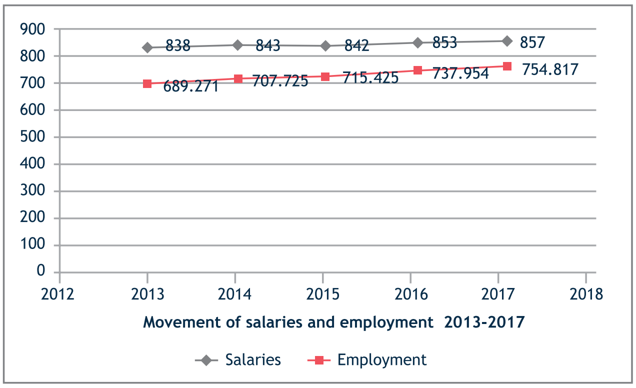
Even though the official data will not be available before the mid of the year, according to all available estimates, it is assumed that the GDP of Bosnia and Herzegovina grew by 3.0% in 2017.

Economic growth was realised notwithstanding the lack of large infrastructural projects and frozen IMF funds, and was lead primarily by the increased private consumption and foreign demand. On the other hand, the public consumption stagnated.

Private consumption had a robust growth rate, supported by rising employment and increased salaries (by 2.3% each), as well as by stable inflow of remittances and stronger tourism. This development was reflected in the credit growth in total of about 7.0% (Retail credit growth -6.6%). Increased private consumption is clearly reflected in increased import of consumption goods and trade turnover, which had a high real growth rate of 5.1%.

Bosnia and Herzegovina economy was supported by external demand, especially considering that the Eurozone and EU had the largest economic growth in last ten years. The main trading partners in CEFTA experienced a growth as well. Consequently, the pace in production sector was kept on a positive track. Industrial production grew by 3.1%, supported by the growth in processing industry of 5.3%.

As a result, exports increased by 17.4% in 2017, with particularly strong increase of export to the CEFTA countries, mostly Croatia and Serbia (increase higher than 30.0%), whereas imports did not increase at such a quick rate (increase of 12.3%), so that the import-export cover rate reached 61.0%. Exports increased mainly in mineral fuels and oils, petroleum and petroleum derivates, coloured metals, electricity (growth of 43.6% due to higher stock-exchange prices, regardless of lower exported quantity), furniture, clothes and footwear. Real import and export growth rates were, however, somewhat lower due to increased manufacturing prices. This was especially evident with particular types of products, such as coloured metals and other metals, electricity etc.



The level of private and public investments was not very impressive in Bosnia and Herzegovina in 2017, reflected in poor indicators in construction sector and not very impressive increase of capital products import.

The construction sector closed the year negatively after the 1.5% drop for January-September 2017 period, reflecting the effects of delayed realisation of large infrastructural projects, blocked due to political disputes until the end of the year, when the key changes to the Law on Excise Taxes were passed in the State Parliament.

While the private consumption was the main generator of the total consumption growth, the public consumption probably stagnated due to fiscal consolidation and increased external debt liabilities (about 35.0%) and had a neutral effect on economic growth in 2017.

As opposed to public investments, the level of direct foreign investments grew strongly at the rate of 60.6% in nine months up to BAM 700 million, with the expected year's end amount of BAM 950 million. Because of the trade balance stabilization, the payment balance improved by its decrease below 4.5% of the GDP, which led to the deficit improvement.

The consumer price index turned to the positive side in 2017, mainly supported by stabilised fuel prices. Inflation grew gradually in the course of the year towards 1.3% yoy, driven by lower base effects and stronger domestic demand, but also by increased food prices as a result of a drought year and manifold increase of tobacco and tobacco products prices due to alignment of the excise taxes policy.

3. Significant events in 2017

3.1. Financial performance in brief

In 2017, Addiko Bank ad Banja Luka is reporting a profit after tax of BAM 4.5 million at year-end 2017 (2016: BAM -9 million), fullfilling its main goal to return to profitability.

In line with expectations, key revenue drivers continued to perform in 2017, mainly driven by further growth of the loan portfolio with a healthy composition and continuous improvements in the customer deposits structure and pricing. With the focus on changing the loan portfolio mix towards unsecured lending population and small and medium corporates, ABBL further increased the share of higher margin products in its target areas Consumer Finance and Corporate/SME in 2017.

The improved operating profit of BAM 4.1 million (2016: BAM -16.2 million) is a result of the significant progress in the restructuring of Addiko Bank and the implemented new strategy, affecting both revenues and cost.

Net interest income improved by 22.5% to BAM 21.9 million (2016: BAM 17.8 million) with an improved net interest margin at 3.52%. Net fee and commission income improved by 25.8% to BAM 12.2 million (2016: BAM 9.7 million) as a consequence of product and customer focus as well as increased sales performance.

This positive performance was driven by:

New disbursement performance (+29.4% compared to 2016) that exceeded loan book amortization resulting in a stable growth of the loan book in Addiko Bank ad Banja Luka.

The shift of the business mix towards the segment Consumer Finance can be seen in the positive development of the cash loan portfolio, showing an increase in volume of 2.3% from BAM 370.5 million in 2016 to BAM 378.8 million in 2017. In reality, this increase was much higher, but the 18 % increase was overcompensated by NPL write offs of CHF loans. In addition, the Corporate/SME loan portfolio increased from BAM 143 million in 2016 to BAM 191 million in 2017, showing an improvement of 34%. This effect is offset by the reduction in some portfolio segments which are no longer strategic targets.

Successful customer deposit gathering reached a total of BAM 459 million (+25.8% since 2016) resulting in a solid funding base and liquidity position.

Total operating expenses were further reduced by BAM 15.8 million (-69.0% since 2016), reflecting the implemented restructuring program, the new Target Operating Model and further cost improvement initiatives.

The reduction of NPLs remained above expectations, driven by a strong focus on workout and collections, leading to a decline in non-performing-loans to BAM 121 million at year-end 2017 (2016: BAM 163.8 million), while their coverage by provisions increased from 76.0% (2016) to 84.5% (2017).

3.2. Addiko brand anniversary

In October 2017, the Addiko brand under which the Group operates had its first anniversary. The launch of the Addiko brand marked the start of the business turnaround for the Bank and its clear focus on strategic business segments, on raising the efficiency of operations and reaffirming the Bank as a strong, stable and system relevant institution on local market.

3.3. Customer centricity driving the business

With Addiko dedicated to deliver its straightforward banking brand promise and providing its customers with high quality service, several key initiatives have been introduced with the goal of further improving client experiences at every touchpoint. The Sales Force Effectiveness (SFE) program, launched in the Retail segment is focusing on three products (cash loans, primary current accounts and account packages) and has had an immediate positive impact on branch performances and sales. By introducing new unique services like Addiko Chat Banking, packages for Retail and SME and by raising the efficiency the Bank also improved the seamless customer-bank relationship fostering at the same time customer loyalty.

The End-to-End (E2E) Corporate/SME loan improvement project has also delivered tangible impact with a significantly faster loan approval process, while new account packages, review of fee structures and advanced client advisory services contributed to the delivery of the straightforward banking promise and a new disbursements growth of impressive 45.0% yoy.

The results of the customer-centric approach and growing customer satisfaction are acknowledged with Addiko becoming the first ever bank to receive a recognition for the Best business move, for its activities regarding loan administration process and documentation reduction.

3.4. Leading innovation with improved digital capabilities

One of the big challenges for today's banking industry is the rapid pace of change driven by technology and regulatory requirements. This is why digitalization of Retail and Corporate customer experience is one of Addiko's focus points, with the Bank continuously investing into its digital capabilities.

Addiko Bank continues to digitally transform as it develops new digital platforms ensuring greater customer satisfaction and is committed to making banking more convenient for its customers by focusing on essentials, delivering efficiency and communicating simply. Accordingly, 'Addiko Chat Banking' a unique Viber-based payments service was launched and Addiko became the first commercial bank in Bosnia and Herzegovina, but also in South and East Europe region and one of the first in the world, which provides payment services using Viber, one of the globally most popular communication platforms and brands.

Mobile and Internet banking platforms were revamped with additional developments also made on the online current account opening front, ensuring fast, convenient, modern and straightforward banking service.

The digital SME strategy will be launched in 2018.

3.5. Solving the issue of loans with clause in Swiss francs

CHF loans, the legacy from past (CHF loans were disbursed from 2006 until 2008), which was one of the top priorities in 2016, had significant place in our activities during 2017. Although formaly the project was closed, we have continued with solving this situation by voluntary, responsible, understandable and fair offers to clients.

The Bank's offer included a reduction of the outstanding loan by 30.0% with the loan conversion at the current exchange rate and a fixed interest rate of 5.99% for the new loan. The proposed solution has also an additional social responsibility component, as it entails an additional benefit for the clients with the lowest monthly income in the form of reduction of the outstanding loan amount by up to 50.0%. In addition, clients of the Bank, whose loans have fallen due or have been cancelled or are pending in legal proceedings due to foreclosure started by the Bank are also entitled to have their outstanding debts reduced. The clients also have the possibility to reduce a part of the receivables along with the closing and liquidation of loan.

This model was very successful in solving the problem, arising from the increase of the CHF currency against the BAM, which has caused clients' debts to increase in local currency. The clients have recognized that the solution is a fair, which was confirmed by the high percentage of realized solutions.

3.6. Organizational structure supports growth

The year 2017 was the first full year where Addiko's turnaround was visible not only with increasing business volumes in key business areas but also with a strong increase in its operating profit, raised levels of productivity and improved efficiency across the organization, ensuring that Addiko Bank is well positioned to develop its business further in a competitive market environment.

The implemented initiatives support the growth-based business model and corporate strategic goals based on sustainable revenue growth, efficient end-to-end processes and prudent standardized risk management, all of which together embody the Group's 'Six Countries – One Winning Team' approach.

Essential to the accomplishment of the goals is the implementation of the Target Operating Model (TOM) that streamlines processes and enables quality steering, better cost management, improves the overall efficiency across the organization, ultimately ensuring a higher level of service quality within the Bank, and towards the clients.

4. Financial development of the Bank

4.1. Analysis of profit or loss statement

	1.1-31.12.2017	1.1-31.12.2016	changing
Interest income	29,835	25,087	4,748
Interest expenses	(7,973)	(7,241)	732
Net interest income	21,862	17,846	4,016
Fee and commission income	14,073	11,606	2,467
Fee and commission expenses	(1,906)	(1,939)	33
Net fee and commission income	**12,167**	**9,667**	2,500
Net foreign exchange (losses)/gains	(95)	414	(509)
Net trading losses	(136)	(155)	19
Other operating income	5,367	7,416	(2,049)
Personnel expenses	(13,856)	(14,614)	758
Amortization	(2,176)	(2,578)	402
Expenses per CHF incentives	(668)	(16,637)	15,969
Other operating expenses	(18,353)	(17,536)	817
PROFIT/(LOSS) BEFORE IMPAIRMENT LOSSES AND PROVISIONS	**4,112**	**(16,177)**	20,289
Provisions for potential losses, commitments and write-offs	2,215	8,975	6,760
Provisions for other risks and contingent liabilities	(633)	343	(976)
Impairment losses on property, equipment and intangible assets	(1,213)	(1,565)	352
Losses on fair value adjustment of investment property	(13)	-	(13)
Impairment losses on equity investments	-	(600)	600
PROFIT/(LOSS) BEFORE TAXES	**4,468**	**(9,024)**	13,492
Income tax expense	**7**	**9**	(2)
NET PROFIT/(LOSS) FOR THE YEAR	**4,475**	**(9,015)**	13,490

The year 2017 is marked by a significant improvement of the net interest income which increased to BAM 21.9 million (2016: BAM 17.8 million). This positive development is supported by the strong growth in high margin consumer loans as well as lower interest rates for customer deposits as a consequence of our strategic repositioning within all markets. Compared to the prior-year period, the underlying net interest margin increased up to 352bps, reflecting the Bank's dedicated focus on risk-adjusted pricing and optimizing the liability structure. Net fee and commission income amounted to BAM 12.2 million (2016: BAM 9.7 million), with the development mainly due to higher income from card business and payment transactions. The positive impact is supported by the initiatives to increase net commission income launched at the end of 2016.

In total, operating income amounts to BAM 39.4 million (2016: BAM 34.9 million) while operating expenses sum up to BAM 35.3 million (2016: BAM -51.1 million). This resulted in an operating result in the amount of BAM 4.1 million compared to BAM -16.2 million in 2016.

Risk provisions reduced from BAM -9.6 million in 2016 to BAM 1.1 million in 2017. This positive impact caused by the release of risk provisions due to strong collection and recovery activities.

The net profit after tax for the year 2017 of BAM 4.5 million is a significant improvememt to the loss of BAM -9 million in 2016.

4.2. Analysis of consolidated statement of financial position

	31.12.2017	31.12.2016	change
ASSETS			
Cash and balances held with the Central bank	121,863	107,130	14,733
Balances held with other banks	19,410	21,665	(2,255)
Loans and receivables due from customers	522,019	474,083	47,936
Derivative financial assets	-	66	(66)
Financial assets available for sale	2,258	68,421	(66,163)
Equity investments in subsidiaries	-	-	0
Property and equipment	27,609	30,246	(2,637)
Intangible assets	4,438	3,483	955
Investment property	2,388	2,554	(166)
Receivables for prepaid income taxes	1,212	1,206	6
Other financial assets	1,891	2,263	(372)
Assets held for sale	545	-	545
Other assets	5,675	4,689	986
Total assets	**709,308**	**715,806**	(6,498)

Total assets of Addiko Bank ad Banja Luka decreased by BAM -6.5 million (or 0.9%) from BAM 715.8 million to BAM 709.3 million. This reduction is mostly due to decreasing of Available-for-sale financial assets in the ammount of -66.2 million. Cash and cash balances at central banks increased to 121.9 million BAM (2016: BAM 107.3 million).

The trading and investment securities held in the category financial assets available for sale decreased by BAM -66.2 million compared to the previous year. Overall net receivables (gross receivables less credit risk provisions) increased from BAM 474.1 million (2016) to BAM 522.0 million.

Tangible assets decreased by BAM -2.6 million from BAM 30.2 million in 2016 to BAM 27,6 million. This decline is mainly due to the decision to focus on the banking business and consequently initiate the sale of non-core assets, which triggered the reclassification of certain assets to the position Non-current assets and disposal groups classified as held for sale.

Intangible assets increased to BAM 4.4 million (2016: BAM 3.5 million) due to the introduction of new e-banking applications.

Tax assets remained on the same level as in 2016 and amount to BAM 1.2 million.

Other assets increased to BAM 5.7 million compared to BAM 4.7 million at the end of 2016.

	31.12.2017	31.12.2016	change
Equity and liabilities			
LIABILITIES			
Deposits due to banks and financial institutions	50,047	141,979	(91,932)
Deposits due to customers	459,381	365,114	94,267
Borrowings	28,300	35,788	(7,488)
Liabilities per derivative financial instruments	-	87	87
Other financial liabilities	8,166	8,747	(581)
Other liabilities	4,542	3,156	1,386
Other provisions	6,737	13,288	(6,551)
Deferred tax liabilities	589	596	(7)
Total liabilities	**557,762**	**568,755**	(10,993)
EQUITY			
Issued (share) capital	153,094	153,094	
Regulatory reserves for credit losses	61,826	61,826	
Revaluation reserves	2,189	2,232	(43)
Accumulated losses	(65,563)	(70,101)	4,538
Total equity	**151,546**	**147,051**	4,495
Total liabilities and equity	**709,308**	**715,806**	(6,498)

On the liabilities' side, deposits increased by BAM 94.3 million to BAM 459.4 million in 2017 (2016: BAM 365.1 million). This development is mainly driven by the increase in deposits from customers. Liabilities from banks decreased by BAM 92 million to BAM 50 million (2016: BAM 142 million).

Provisions decreased from BAM 13.3 million at year end 2016 to BAM 6.7 million in 2017. Included are provisions for passive legal cases, which should further decrease as settlements are also planned for 2018 as well as provisions for the ongoing restructuring.

5. Analysis of non-financial key performance indicators

5.1. Market and operations development

The year 2017 was marked by an overall positive financial performance, recording a positive result and BAM 4.5 million profit after tax, delivering on the straightforward banking promise and successfully transforming into a profitable bank.

The outlined developments reflect Addiko Bank's dedication to: growing its market share in core Retail and SME segments, digital transformation, high-quality asset portfolio management, prudent risk management and ensuring greater customer experience while at the same time driving customer loyalty and new business.

By raising its productivity and efficiency across the organization, supported by effective cost management the operational cost base has already been reduced significantly. Addiko Bank will continue to simplify, automate and outsource non-core activities, maximizing the performance of its new, distributed Target Operating Model, putting itself in a favorable position to develop the business further in 2018 and in years to come.

The focus in 2018 will be on serving the real economy, growing the client base, increasing volumes, utilizing cross-selling potential, achieving operating excellence on all levels and generating long-term sustainable and profitable business.

5.2. Human Resources management

The Human Resources (HR) strategy underpins the cultural transformation and Addiko Bank's strategy by building strong organizational foundations within the new Target Operating Model where central steering functions and group shared services are located decentralised across SEE countries. At the same time by defining clear roles, developing simplified processes and leveraging shared capabilities, Addiko Bank is building a platform for developing top talent and attracting specialists and high performers to support future growth.

The performance and talent management frameworks are key processes used to identify, develop, reward and recognize high performance and talented employees. The two processes along with the 'Values and Behaviors' are enablers of Addiko Bank's journey to build a great place to work, becoming an employer of choice, attracting talents and offering opportunities for employees to develop their careers.

In 2017, there were many areas of focus in Human Resources, with new training programs piloted in order to establish the base for development programs that will be available and that will support development of specific capabilities. Standardization of HR processes continued in the areas of recruitment, onboarding and personnel cost reporting. The 'Values and Behaviors' were developed with the help, and to benefit of employees and were launched as part of the upcoming Performance Cycle. The Nine Leadership Skills were also developed and introduced, focusing upon behaviors and skills that are required for team leaders.

Several efficiency and rightsizing programs came to a close in 2017. At yearend 2017 Addiko Bank ad Banja Luka had 390 employees. In the upcoming period the focus will be on integrating 'Values and Behaviors' into daily activities, accelerating the cultural transformation and ensuring process effectiveness in the Target Operating Model. This will require effective talent, leadership and development metrics in place to ensure development of employees' skills and realization of their potential.

6. Internal Control System for accounting procedures

Addiko Bank has an Internal Control System (ICS) for accounting procedures, in which suitable structures and processes are defined and implemented throughout the organization. The management in each organizational unit is responsible for implementing group-wide policies and procedures. Compliance with policies is monitored as part of the audits performed by internal audit. The ICS, as part of the Addiko Bank's risk management system, has the following general objectives:

- Safeguarding the business and risk strategies as well as Addiko policies
- Effective and efficient use of all the resources in order to achieve the targeted commercial success
- Ensuring reliable financial reporting
- Supporting compliance with all relevant laws, rules and regulations

The Internal Control System itself is not a static system but is continuously adapted to the changing environment. The implementation of the Internal Control System is fundamentally based on the integrity and ethical behavior of the employees. The Management Board and the management team actively and consciously embrace their role of leading by example.

7. Branches

At year end 2017 Addiko Bank ad Banja Luka operated a total of 34 branches (2016: 35).

8. Outlook

The yearly economic growth in BiH could in the years 2018, 2019 and 2020 improve above the level of 3.0% of the last year.

A higher GDP growth may be expected with a support of rising private consumption, favourable external factors and on the wings of larger public investments.

Removal of the key obstacle – changes to the Law on Excise Taxes - unlocked the needed investments in highway construction, the effects of which will be visible as early as in 2018 and even more in 2019 and 2020. With some investments in the energy sector, as for example, beginning of construction of thermo-block 7 in Tuzla and possibly some other projects in progress, this could be an engine for growth in the observed period.

The economic growth is expected to reach 3.2% in 2018 with prospects of accelerating growth of 3.5% in the following two years.

This movement was forecast by the World Bank Outlook from January 2018. However, the economic growth estimates of the BiH Directorate for Economic Planning are more optimistic – 3.4% for 2018, 3.8% for 2019 and 3.9% for 2020.

However, political risks are to be taken into account when projecting the economic growth in BiH, not only the ones for the general elections in 2018, but also the subsequent ones, because the potential political standstills after the elections may easily delay implementation of the needed reforms.

The drivers of economic growth in 2017 are expected to support the growth in 2018 as well. Household consumption is expected to increase with the increased salaries, high remittances from abroad and touristic boom. However, the export growth might slow down compared to 2017, whereas import is expected to increase, as a result of increased consumption and as a side-effect of large investments.

Prices are expected to increase as well, so that consequently, inflation might continue developing to the level of ca. 2.0%.

The expected continuation of the IMF arrangement might exert positive effects, whereas the level of private investments is expected to be moderate with private foreign investments at the same level as in 2017.

The efforts put by companies in compensating for the low labour force price, considering the ever-increasing problem of labour force outflow might have an impact on private investments. Still, further positive trends are expected at the labour market in 2018, including increased employment and reduced unemployment rate.

Domestic demand is expected to be the main driver of growth in 2019 and 2020, along with a smaller influence of foreign trade and strengthened investments, as a result of incentives from the private and public sector.

The EU country candidate status (expected in 2019) may make the more favourable EU funds more accessible, as well as the funds of international financial institution, which will certainly be an additional boost for the country's economy.

Addiko delivered significantly improved results in 2017 having contributed to achieve the turn-aoround. The overall objective for the coming years is the delivery of straightforward banking on all touch points and achieving long term sustainable profitability.

ADDIKO BANK A.D. BANJA LUKA

Separate and Consolidated Financial Statements Year Ended December 31, 2017 and Independent Auditors' Report

Independent Auditor's Report

To the Supervisory Board and Shareholders of Addiko bank a.d. Banja Luka

We have audited the accompanying separate financial statements of Addiko bank a.d., Banja Luka (the "Bank") and consolidated financial statements of Addiko Bank a.d. Banja Luka Group (the "Group") (enclosed on pages 2 to 82), which comprise the separate and consolidated statement of financial position as of December 31, 2017 and the related separate and consolidated statement of profit and loss, separate and consolidated statement of other comprehensive income, separate and consolidated statement of changes in equity and separate and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Separate and Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these separate and consolidated financial statements in accordance with the accounting regulations of the Republic of Srpska and regulation of the Banking Agency of the Republic of Srpska governing financial reporting of banks and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and that of the Group as of December 31, 2017, and their financial performance and cash flows for the year then ended in accordance with the accounting regulations of the Republic of Srpska and regulation of the Banking Agency of the Republic of Srpska governing financial reporting of banks.

Banja Luka,
March 20, 2018

DELOITTE D.O.O. 1 BANJA LUKA

Mirko Ilić
Certified Auditor

(Thousands of BAM)

	Note	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
Interest income	7	29,845	25,375	29,835	25,087
Interest expenses	7	(7,978)	(7,352)	(7,973)	(7,241)
Net interest income		21,867	18,023	21,862	17,846
Fee and commission income	8	14,076	11,636	14,073	11,606
Fee and commission expenses	8	(1,914)	(1,945)	(1,906)	(1,939)
Net fee and commission income		**12,162**	**9,691**	**12,167**	**9,667**
Net foreign exchange gains/(losses)		(95)	414	(95)	414
Net trading losses		(136)	(155)	(136)	(155)
Other operating income	9	5,419	7,435	5,367	7,416
Staff costs	10	(14,004)	(15,257)	(13,856)	(14,614)
Depreciation/amortization charge	21,22	(2,195)	(2,654)	(2,176)	(2,578)
Expenses per CHF incentives	11	(668)	(16,637)	(668)	(16,637)
Other operating expenses	12	(18,386)	(17,922)	(18,353)	(17,536)
PROFIT/(LOSS) BEFORE IMPAIRMENT LOSSES AND PROVISIONS		**3,964**	**(17,062)**	**4,112**	**(16,177)**
Provisions for potential losses, commitments and write-offs	13	1,769	7,390	2,215	8,975
Provisions for other risks and contingent liabilities	14	(633)	343	(633)	343
Impairment losses on property, equipment and intangible assets	21,22	(1,213)	(1,565)	(1,213)	(1,565)
Losses on fair value adjustment of investment property	23	(13)	-	(13)	-
Impairment losses on equity investments	20	-	-	-	(600)
PROFIT/(LOSS) BEFORE TAXES		**3,874**	**(10,894)**	**4,468**	**(9,024)**
Income tax expense	15	**7**	**9**	**7**	**9**
NET PROFIT/(LOSS) FOR THE YEAR		**3,881**	**(10,885)**	**4,475**	**(9,015)**
Attributable to: the Bank's shareholders		**3,881**	**(10,885)**	**4,475**	**(9,015)**
Earnings per share (in BAM)	32	**0.025**	**(0.075)**	**0.029**	**(0.062)**

Notes on pages 21 to 95 form an integral part of these financial statements.

(Thousands of BAM)

	GROUP		BANK	
	2017	2016	2017	2016
NET PROFIT/(LOSS) FOR THE YEAR	**3,881**	**(10,885)**	**4,475**	**(9,015)**
Other comprehensive income				
Items that may subsequently be reclassified to the profit or loss:				
Net gains on the fair value adjustment of securities available for sale	2	43	2	43
Income tax on items of other comprehensive income that may be reclassified to profit or loss	-	2	-	2
Items that cannot subsequently be reclassified to the statement of profit or loss:				
Losses on revaluation of property and equipment	(1)	(757)	(1)	(757)
Gains on changes in actuarial assumptions	18	9	18	9
Income tax on items of other comprehensive income that cannot be reclassified to profit or loss	1	76	1	76
Net other comprehensive income	**20**	**(627)**	**20**	**(627)**
TOTAL POSITIVE/(NEGATIVE) COMPREHENSIVE INCOME	**3,901**	**(11,512)**	**4,495**	**(9,642)**
Of which:				
Attributable to the majority shareholders	3,876	(10,865)	4,469	(9,003)
Attributable to the non-controlling interests	5	(20)	6	(12)

Notes on pages 21 to 95 form an integral part of these financial statements.

These financial statements were approved for issuance by Management of Addiko Bank a.d., Banja Luka on February 13, 2018.

Signed on behalf of the Bank by:

ADDIKO BANK AD BANJA LUKA

Mario Ivanković
Chairman of the Management Board

Žaklina Dimitrijević
Member of the Management Board

(Thousands of BAM)

		GROUP		BANK	
	Note	2017	2016	2017	2016
ASSETS					
Cash and balances held with the Central bank	16	121,863	107,130	121,863	107,130
Balances held with other banks	17	19,410	21,668	19,410	21,665
Loans and receivables due from customers	18	522,019	474,449	522,019	474,083
Derivative financial assets	19b)	-	66	-	66
Financial assets available for sale	19a)	2,258	68,421	2,258	68,421
Equity investments in subsidiaries	20	-	-	-	-
Property and equipment	21	27,609	30,342	27,609	30,246
Intangible assets	22	4,438	3,484	4,438	3,483
Investment property	23	2,388	2,554	2,388	2,554
Receivables for prepaid income taxes		1,212	1,206	1,212	1,206
Other financial assets	24	1,891	2,263	1,891	2,263
Assets held for sale		545	-	545	-
Other assets	25	5,675	4,745	5,675	4,689
Total assets		**709,308**	**716,328**	**709,308**	**715,806**
LIABILITIES					
Deposits due to banks and financial institutions	26	50,047	141,672	50,047	141,979
Deposits due to customers	27	459,381	365,114	459,381	365,114
Borrowings	28	28,300	35,788	28,300	35,788
Liabilities per derivative financial instruments	19b)	-	87	-	87
Other financial liabilities	29	8,166	8,757	8,166	8,747
Other liabilities	30	4,542	3,166	4,542	3,156
Other provisions	33,35	6,737	13,459	6,737	13,288
Deferred tax liabilities	15c)	589	596	589	596
Total liabilities		**557,762**	**568,639**	**557,762**	**568,755**
EQUITY					
Issued (share) capital	31	153,094	153,094	153,094	153,094
Regulatory reserves for credit losses	31	61,826	61,826	61,826	61,826
Revaluation reserves		2,189	2,232	2,189	2,232
Accumulated losses		(65,563)	(69,463)	(65,563)	(70,101)
Total equity		**151,546**	**147,689**	**151,546**	**147,051**
Total liabilities and equity		**709,308**	**716,328**	**709,308**	**715,806**

Notes on pages 21 to 95 form an integral part of these financial statements.

(Thousands of BAM)

GROUP	Share capital	Legal reserves	Regulatory reserves for credit losses	Other reserves from profit	Revaluation reserves	Accumulated losses	Total
Balance as at 31 December 2015	**141,359**	**-**	**61,826**	**-**	**2,942**	**(58,661)**	**147,466**
Net loss for 2016	-	-	-	-	-	(10,885)	**(10,885)**
Other comprehensive income							
Items that may be reclassified to the income statement:							
Net gains on the fair value adjustment of securities available for sale	-	-	-	-	43	-	**43**
Net effect of changes in the deferred taxes	-	-	-	-	2	-	**2**
Items that can not be reclassified to the profit or loss							
Revaluation of property and investment property	-	-	-	-	(849)	92	**(757)**
Gains on changes in actuarial assumptions	-	-	-	-	9	-	**9**
Net effect of changes in the deferred taxes	-	-	-	-	85	(9)	**76**
Total other comprehensive income	**-**	**-**	**-**	**-**	***(710)***	***83***	***(627)***
Total comprehensive income	**-**	**-**	**-**	**-**	**(710)**	**(10,802)**	**(11,512)**
Transactions with owners							
Share issue (Note 32)	**11,735**	**-**	**-**	**-**	**-**	**-**	**11,735**
Total transactions with owners	**11,735**	**-**	**-**	**-**	**-**	**-**	**11,735**
Balance as at 31 December 2016	**153,094**	**-**	**61,826**	**-**	**2,232**	**(69,463)**	**147,689**

GROUP	Share capital	Legal reserves	Regulatory reserves for credit losses	Other reserves from profit	Revaluation reserves	Accumulated losses	Total
Balance as at 31 December 2016	**153,094**	**-**	**61,826**	**-**	**2,232**	**(69,463)**	**147,689**
Loss of control (Note 20)	-	-	-	-	-	(44)	**(44)**
Net profit for 2017	-	-	-	-	-	3,881	**3,881**
Other comprehensive income							
Items that may be reclassified to the income statement:							
Net gains on the fair value adjustment of securities available for sale	-	-	-	-	2	-	**2**
Net effect of changes in the deferred taxes	-	-	-	-	-	-	**-**
Items that can not be reclassified to the profit or loss							
Revaluation of property and investment property	-	-	-	-	(70)	69	**(1)**
Gains on changes in actuarial assumptions	-	-	-	-	18	-	**18**
Net effect of changes in the deferred taxes	-	-	-	-	7	(6)	**1**
Total other comprehensive income	**-**	**-**	**-**	**-**	**(43)**	**63**	**20**
Total comprehensive income	**-**	**-**	**-**	**-**	**(43)**	**3,900**	**3,857**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 31 December 2017	**153,094**	**-**	**61,826**	**-**	**2,189**	**(65,563)**	**151,546**

Notes on pages 21 to 95 form an integral part of these financial statements.

(Thousands of BAM)

BANK	Share capital	Legal reserves	Regulatory reserves for credit losses	Other reserves from profit	Revaluation reserves	Accumulated losses	Total
Balance as at 31 December 2015	**141,359**	**-**	**61,826**	**-**	**2,942**	**(61,169)**	**144,958**
Net loss for 2016	-	-	-	-	-	(9,015)	**(9,015)**
Other comprehensive income							
Items that may be reclassified to the income statement:							
Net gains on the fair value adjustment of securities available for sale	-	-	-	-	43	-	**43**
Net effect of changes in the deferred taxes	-	-	-	-	2	-	**2**
Items that can not be reclassified to the profit or loss							
Revaluation of property and investment property	-	-	-	-	(849)	92	**(757)**
Gains on changes in actuarial assumptions	-	-	-	-	9	-	**9**
Net effect of changes in the deferred taxes	-	-	-	-	85	(9)	**76**
Total other comprehensive income	**-**	**-**	**-**	**-**	**(710)**	**83**	**(627)**
Total comprehensive income	**-**	**-**	**-**	**-**	**(710)**	**(8,932)**	**(9,642)**
Transactions with owners							
Share issue (Note 32)	**11,735**	**-**	**-**	**-**	**-**	**-**	**11,735**
Total transactions with owners	**11,735**	**-**	**-**	**-**	**-**	**-**	**11,735**
Balance as at 31 December 2016	**153,094**	**-**	**61,826**	**-**	**2,232**	**(70,101)**	**147,051**

BANK	Share capital	Legal reserves	Regulatory reserves for credit losses	Other reserves from profit	Revaluation reserves	Accumulated losses	Total
Balance as at 31 December 2016	**153,094**	**-**	**61,826**	**-**	**2,232**	**(70,101)**	**147,051**
Net profit for 2017	-	-	-	-	-	4,475	**4,475**
Other comprehensive income							
Items that may be reclassified to the income statement:							
Net gains on the fair value adjustment of securities available for sale	-	-	-	-	2	-	**2**
Net effect of changes in the deferred taxes	-	-	-	-	-	-	**-**
Items that can not be reclassified to the profit or loss							
Revaluation of property and investment property	-	-	-	-	(70)	69	**(1)**
Gains on changes in actuarial assumptions	-	-	-	-	18	-	**18**
Net effect of changes in the deferred taxes	-	-	-	-	7	(6)	**1**
Total other comprehensive income	**-**	**-**	**-**	**-**	**(43)**	**63**	**20**
Total comprehensive income	**-**	**-**	**-**	**-**	**(43)**	**4,538**	**4,495**
Transactions with owners							
Loss absorption	-	-	-	-	-	-	**-**
Share issue	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 31 December 2017	**153,094**	**-**	**61,826**	**-**	**2,189**	**(65,563)**	**151,546**

Notes on pages 21 to 95 form an integral part of these financial statements.

(Thousands of BAM)

		GROUP		BANK	
	Note	2017	2016	2017	2016
Cash flows from operating activities					
Interest, fees and commissions received		43,929	35,353	43,929	35,119
Interest paid		(8,581)	(8,475)	(8,581)	(8,475)
Collection of loans previously written off		3,204	4,438	3,204	4,438
Cash paid to employees and suppliers		(30,483)	(30,018)	(30,483)	(29,119)
Off-balance sheet contractual payments			-		-
Receipts and payments on extraordinary items		(8,742)	4,124	(8,742)	4,132
Payment of loans extended to customers		(42,762)	(32,738)	(42,762)	(34,158)
Deposits with banks with original maturities of over 3 months		-	1,956	-	1,956
Customer deposits		1,952	(71,613)	1,952	(72,143)
Income taxes paid		(6)	(27)	(6)	(27)
Net cash used in operating activities		**(41,489)**	**(97,000)**	**(41,489)**	**(98,277)**
Cash flows from investing activities					
Interest received		3,574	787	3,574	787
Dividend received		48	8	48	8
Investments in securities available for sale		63,097	(29,213)	63,097	(29,213)
Purchases of intangible assets		(1,573)	(1,060)	(1,573)	(1,060)
Purchases of tangible assets		(34)	(740)	(34)	(1,010)
Loss of control		(3)	-	-	-
Acquisition of equity investment in subsidiaries		-	-	-	(600)
Net cash generated by/(used in) investing activities		**65,109**	**(30,218)**	**65,112**	**(31,088)**
Cash flows from financing activities					
Share issue proceeds		-	11,735	-	11,735
Interest paid on borrowings		(1,396)	(1,098)	(1,396)	(990)
Increase in borrowings		-	6,072	-	343
Repayment of borrowings		(7,474)	(18,596)	(7,474)	(10,819)
Net cash (used in)/generated by financing activities		**(8,870)**	**(1,887)**	**(8,870)**	**269**
Net increase/(decrease) in cash and cash equivalents		**14,750**	**(129,105)**	**14,753**	**(129,096)**
Cash and cash equivalents at beginning of year		**128,805**	**257,626**	**128,802**	**257,614**
Foreign exchange (losses)/gains		(2,268)	284	(2,268)	284
Cash and cash equivalents at end of year		**141,287**	**128,805**	**141,287**	**128,802**
Cash and cash equivalents comprise the following statement of financial position items:					
Cash and balances with the Central Bank	16	121,863	107,130	121,863	107,130
Balances held with other banks	17	19,410	21,668	19,410	21,665
Interest accrued and provisions		14	7	14	7
		141,287	**128,805**	**141,287**	**128,802**

Notes on pages 21 to 95 form an integral part of these financial statements.

(Thousands of BAM)

1. GENERAL INFORMATION

Addiko Bank a.d. Banja Luka (the "Bank") is a legal successor of Kristal Banka a.d., Banja Luka which was initially registered as a separate legal entity as at September 30, 1992, and subsequently transformed into a shareholders' company as at May 16, 1997. Prior to its establishment as an independent bank, the Bank operated as a main branch of Jugobanka Jubanka d.d., Sarajevo, a related party of Jugobanka d.d., Beograd.

Under Decision of the district Commercial court of Banja Luka (no. 057-0-Reg-16-002147) dated October 28, 2016, the Bank changed its name to the current legal name. The Bank's owner is Addiko Bank AG, a member of Addiko Group, holding a 99.86% equity interest therein. More details on ownership structure of the Bank are provided in Note 31.

The Bank is licensed in the Republic of Srpska to perform banking operations related to payment transfers, credit and deposit activities in the country and abroad, and in accordance with the Republic of Srpska banking legislation, it is obligated to operate based on the principles of liquidity, solvency and profitability.

The Bank's registered Head Office is located at no. 13, Aleja Svetog Save St., Banja Luka, Republic of Srpska. As of December 31, 2017 besides the Head Office located in Banja Luka, the Bank had 34 branch offices situated throughout Bosnia and Herzegovina (BH) (December 31, 2016: the Head Office located in Banja Luka and 35 branch offices).

Up to September 7, 2017 the Bank was the sole owner of Hypo Alpe Adria Leasing d.o.o. Banja Luka (the "Consolidated Subsidiary"), when the liquidation procedure was instigated over Hypo Alpe-Adria-Leasing d.o.o. Banja Luka, which comprised the Group along with the Bank. Upon initiation of the liquidation procedure, the bank lost control over Hypo Alpe-Adria-Leasing d.o.o. Banja Luka.

As of December 31, 2017, the Bank had 390 employees (December 31, 2016: 424 employees).

Management of the Bank	
Executive Director from September 16, 2016 onward	Mario Ivanković
Member from September 16, 2016 onward	Boštjan Pečenko
Member from October 24, 2017 onward	Žaklina Dimitrijević
Supervisory Board of the Bank	
Chairman from December 30, 2015 onward	Hans-Hermann Anton Lotter
Deputy Chairman from December 30, 2015 to March 7, 2017	Markus Bodo Krause
Member from May 27, 2014 to March 7, 2017.	Manfred Kohlweg
Member from December 30, 2015 to March 7, 2017	Marko Popovič
Member from May 27, 2014 to March 7, 2017	Rupert Schindler
Member from March 7, 2017 to October 25, 2017	Christian Kubitschek
Member from March 7, 2017 to October 25, 2017	Jann Kaufmann
Deputy Chairman from March 7, 2017 onward	Biljana Rabitsch
Member from March 7, 2017 onward	Razvan Munteanu
Member from October 25, 2017 onward	Meliha Povlakić
Member from October 25, 2017 onward	Damir Karamehmedović
Audit Committee of the Bank	
President from May 29, 2015 onward	Đorđe Lazović
Member from May 29, 2015 onward	Siniša Radonjić
Member from May 29, 2015 onward	Ivan Trifunović
Member from May 29, 2015 onward	Marlene Schellander-Pinter
Member from December 12, 2016	Claudia Mayrhofer

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD

2.1. Statement of Compliance

The accompanying financial statements comprise the annual separate financial statements of Addiko Bank a.d. Banja Luka (the "Bank") and consolidated financial statements of Addiko Bank a.d. Banja Luka Group (the "Group"), which, in addition to the Bank's financial statements, include the financial statements of the company Hypo Alpe Adria Leasing d.o.o. Banja Luka, fully owned by the Bank up to September 7, 2017, when the liquidation procedure was instigated, whereby the bank lost control over its subsidiary. The financial statements have been prepared in accordance with the International Financial Reporting Standards within the meaning of the Law on Accounting and Auditing of the Republic of Srpska and regulations of the Banking Agency of the Republic of Srpska governing the financial reporting of banks and finance lessors.

2.2. Basis of Measurement and Preparation of the Separate and Consolidated Financial Statements

The accompanying financial statements of the Bank and the Group have been prepared on the historical cost basis, except for building properties and equipment, investment property, intangible assets and certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below,

Historical cost is generally based on the fair value of consideration paid in exchange for goods and services

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Upon estimating the fair value of assets or liabilities, the Bank takes into account characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date.

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

2.3. Functional and Presentation Currency

Amounts in the accompanying financial statements are stated in thousands of convertible marks ("BAM"), BAM being the functional and official presentation currency in the Republic of Srpska and Bosnia and Herzegovina.

The Central Bank of Bosnia and Herzegovina (the "Central Bank") implements the policy on FX rate in line with the principle of the Currency Board, according to which BAM is fix pegged to EUR at the rate of BAM 1 = EUR 0.51129, which was used for 2017 and 2016.

The exchange rates used for translation at December 31, 2017 amounted to EUR 1 = BAM 1.9558, CHF 1 = BAM 1.6714 and USD 1 = BAM 1.6308 (December 31, 2016: EUR 1 = BAM 1.9558, CHF 1 = BAM 1.8212 and USD 1 = BAM 1.8555),

2.4. Application and Impact of the New and Revised International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS")

The accompanying financial statements have been prepared in accordance with the International Accounting ("IAS") and International Financial Reporting Standards ("IFRS"), effective since January 1, 2009 and accounting regulations of the Republic of Srpska based on those standards as well as regulations of the Banking Agency of the Republic of Srpska governing financial reporting of banks and finance lessors.

Namely, in accordance with the provisions of the newly adopted Law on Accounting and Auditing of the Republic of Srpska (Official Gazette of RS no. 94/15), all legal entities situated on the territory of the Republic of Srpska are under an obligation to fully apply IAS, IFRS and the International Financial Reporting Standard for Small and Medium-Sized Entities ("IFRS for SMEs"), International Public Sector Accounting Standards ("IPSAS"), International Valuation Standards ("IVS"), International Standards for the Professional Practice of Internal Auditing, Conceptual Framework for Financial Reporting, Code of Ethics for Professional Accountants and the pronouncements, interpretations and guidelines of the International Accounting Standards Board ("IASB") and all pronouncements, interpretations and guidelines of the International Federation of Accountants ("IFAC").

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD (Continued)

2.4. Application and Impact of the New and Revised International Financial Reporting Standards (“IFRS”) and International Accounting Standards (“IAS”) (Continued)

In addition, in accordance with the previously effective Law on Accounting and Auditing of the Republic of Srpska (Official Gazette of RS nos. 36/09 and 52/11), on July 15, 2010, the Management Board of the Association of Accountants and Auditors of the Republic of Srpska (“AAARS”) enacted the “Decision on the Commencement of the Mandatory Application of IAS/IFRS Issues (published until January 1, 2009)” based on the “Decision on the Authorizations for Translation and Issuance” of the competent Accounting and Auditing Commission of Bosnia and Herzegovina dated March 10, 2006 (Official Gazette of BH no. 81/06), granting such authorizations to AAARS.

The aforementioned issue of IAS/IFRS was approved by the International Accounting Standards Committee Foundation as the official translation into the Serbian language for Bosnia and Herzegovina (Republic of Srpska), Serbia and Montenegro. Pursuant to the aforementioned Decision, IAS/IFRS published until January 1, 2009 are mandatorily applied to the financial statements prepared and presented in the Republic of Srpska for the accounting periods commencing on or after January 1, 2010. However, the amendments to the standards and interpretations in effect, as well as newly adopted standards and interpretations issued after January 1, 2009, have not been issued and officially adopted in the Republic of Srpska.

In accordance with the newly adopted Law on Accounting and Auditing of the Republic of Srpska (Official Gazette of RS no. 94/15), on October 4, 2017 the the Management Board of AAARS enacted “Decision on Determining and Issuing the Conceptual Framework for Financial Reporting and Basix Texts of the Internationa Accounting Standards (“IAS“) and Interntational Financial Reporting Standards (“IFRS“)“.

Under the aforesaid Decision, translations of the Standards and interpretations issued by the the International Accounting Standards Board (“IASB”) up to December 31, 2014 are defined and published on AAARS website, which will be effective in the Republic of Srpska and applicable to the financial statements prepared as of December 31, 2018.

With this Decision effective date, the previous “Decision on the Commencement of the Mandatory Application of IAS/IFRS Issues (published until January 1, 2009)” from July 2010 shall cease to apply.

New Standards and Amendments to the Existing Standards in Issue for reporting period

At the date of authorization of these financial statements the following amendmends to the existing Standards were effective :

- Amendments to IAS 7 “Statement of Cash Flows” – Disclosure Initiative (effective for annual periods beginning on or after January 1, 2017);
- Amendments to IAS 12 “Income Taxes” - Recognition of Deferred Tax Assets for Unrealized Losses (effective for annual periods beginning on or after January 1, 2017);
- Amendments to IFRS 12 due to “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after January 1, 2017);

Moreover, as the regulator of the Republic of Srpska banking market, the Banking Agency of the Republic of Srpska, in its memo to the Banks Association of Bosnia and Herzegovina no. 05-500-1572-3/17 dated October 16, 2017, ordered adoption of:

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2018);
- IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after January 1, 2018); and
- IFRS 16 “Leases” (effective for annual periods beginning on or after January 1, 2019).

The Bank’s management analyzes the amendments to the standards and interpretations in effect as well as the newly adopted Standards and interpretations issued after January 1, 2009, and, once the Standards and interpretations relevant for the Bank have been determined, intends to implement those in preparation of the financial statements, if they are not in conflict with any of the regulations of Republic of Srpska and Bosnia and Herzegovina, after they have been officially translated and published in the Republic of Srpska.

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD (Continued)

2.4. Application and Impact of the New and Revised International Financial Reporting Standards (“IFRS”) and International Accounting Standards (“IAS”) (Continued)

The new Standards and amendments to the existing Standards issued but not yet effective in the Republic of Srpska are disclosed below:

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

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

- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after January 1, 2021);
- Amendments to IFRS 2 “Share-based Payment” - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 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 January 1, 2018 or when IFRS 9 “Financial Instruments” is applied first time);
- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 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 19 “Employee Benefits” - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after January 1, 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 January 1, 2019);
- Amendments to IAS 40 “Investment Property” - Transfers of Investment Property (effective for annual periods beginning on or after January 1, 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 January 1, 2018);
- Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2019);
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after January 1, 2018); and
- IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after January 1, 2019).

The Bank’s management has elected not to adopt these new Standards, amendments to existing Standards and new interpretations in advance of their effective dates. The management anticipates 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 in the period of initial application.

First time adoption of IFRS 9

In July 2014, the International Accounting Standards Board (IASB) published the final version of IFRS 9 Financial Instruments, which is mandatory for reporting periods beginning on or after 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Classification and measurement of Financial Assets and Financial Liabilities

IFRS 9 establishes three principal classification categories for financial assets: measurement at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing categories according to IAS 39 – held-to-maturity, loans and receivables and available-for-sale - are no longer existing.

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD (Continued)

2.4. Application and Impact of the New and Revised International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") (Continued)

First time adoption of IFRS 9 (Continued)

On initial recognition, a financial asset is classified into one of the categories, the basis of this classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

Business model assessment

In 2017 the Bank made an assessment of business models for all segments and set up documentation including the policies and objectives for each relevant portfolio as this best reflects the way the business is managed and information is provided to management. The information that was taken into account includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of assets
- how the performance of the portfolio is evaluated and reported to the management
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. Information about sales activity is considered as part of an overall assessment on how the Bank´s stated objective for managing the financial assets is achieved and how cash flows are realized.

Contractual cash flow characteristics

For the assessment whether contractual cash flows are solely payments of principal and interest, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as 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 (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest ("SPPI"), Bank considered the contractual terms of the instrument and analyzed the existing portfolio based on a checklist for SPPI criteria. This include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition, considering the following: contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the Bank´s claim to cash flows from specified assets and features that modify consideration for the time value of money.

Based on the entity's business model and the contractual cash flow characteristics IFRS 9 defines the following principal classification categories:

- a financial asset is measured at amortized cost only if the object of the entity's business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding ("SPPI criteria").
- a financial asset is measured at fair value through other comprehensive income (FVOCI) if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows and for sale and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature).
- financial assets that do not meet these criteria are measured at fair value through profit or loss (FVTPL). Furthermore, embedded derivatives will no longer be separated from the financial host asset. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD (Continued)

2.4. Application and Impact of the New and Revised International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") (Continued)

First time adoption of IFRS 9 (Continued)

For equity investments that are not held for trading, entities can make an irrevocable election at initial recognition to classify the instruments at FVOCI, with all subsequent changes in fair value being recognized in other comprehensive income (OCI). This election is available for each separate investment.

According to IFRS 9, embedded derivatives will no longer be separated from the financial host asset. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

The classification and measurement requirements for financial liabilities are only slightly changed compared to IAS 39. Changes to the fair value of liabilities resulting from changes in own credit risk of the liability are recognized in other comprehensive income, the remaining amount of the change in the fair value will be presented in profit or loss.

Impairment

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. The ECL is basically defined as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive (considering probabilities of default and expected recoveries). This will require considerable judgment over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognized on equity investments.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD (Continued)

2.4. Application and Impact of the New and Revised International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") (Continued)

First time adoption of IFRS 9 (Continued)

Definition of default

Under IFRS 9, the Bank will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

This definition is largely consistent with the definition that will be used for regulatory purposes (see Note 6). In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience where available, expert credit assessment and forward-looking information.

The Bank will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing the one-year probability of default (PD) as at the reporting date; with the one-year PD that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. Modifying the contractual terms of a financial instrument may also affect this assessment.

Credit risk grades - The Bank will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default (PD) and applying experienced credit judgement. The Bank will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower. Credit risk grades are targeted such that the risk of default occurring increases as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3. Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of PD - Credit risk grades will be a primary input into the determination of the term structure of PD for exposures. The Bank will collect performance and default information about its credit risk exposures analyzed by jurisdiction, by type of product and borrower and by credit risk grading, whenever meaningful. For some portfolios, information purchased from external credit reference agencies may also be used as well. The Bank will employ statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators are likely to include GDP growth, unemployment rate and others. The Bank's approach to incorporating forward-looking information into this assessment is discussed below.

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD (Continued)

2.4. Application and Impact of the New and Revised International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") (Continued)

First time adoption of IFRS 9 (Continued)

The Bank has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Bank's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

The Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, based on the Bank's 's quantitative modelling, the one year PD is determined to have increased in absolute range between 4% to 5%, depending on the portfolio, since initial recognition.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank aims to monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models, regulatory values as well as expert judgment. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors, wherever meaningful. Where it is available, market/external data may also be used as well. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. While PDs are based on statistical models, the risk parameters (LGD, CCF) are leveraging on regulatory values and/or expert assessment.

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD (Continued)

2.4. Application and Impact of the New and Revised International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") (Continued)

First time adoption of IFRS 9 (Continued)

Forward-looking information

Under IFRS 9, the Bank will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank will formulate a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios. This process will involve developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case will represent a most-likely outcome and be aligned with information used by the Bank for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes. The Bank will also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk. These key drivers include within other factors also unemployment rates and GDP forecasts. Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analyzing historical data.

Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Bank will recalculate the gross carrying amount of the financial asset by discounting the modified contractual cash flows at the original effective interest rate and recognize any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Bank does not recognize any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition. The Bank expects an immaterial impact from adopting these new requirements.

Hedge Accounting

IFRS 9 also contains a new general hedge accounting model. This model aligns hedge accounting more closely with operational risk management and allows hedging strategies that are used for the purposes of risk management. The effectiveness test as a requirement for the use of hedge accounting was revised: instead of the quantitative criterion (bandwidth of 80% to 125%), qualitative and quantitative criteria for a forward-looking effectiveness assessment were introduced. Furthermore, voluntary terminations of hedge relationships are no longer allowed in general, but only if certain requirements are met. Rules for rebalancing were introduced for hedging relationships in which the hedged risk and the risk covered by hedging instruments are not identical. These rules state that the hedge ratio can be adjusted in the event of correlation changes without having to terminate the hedge relationship.

Impacts on capital planning

The Bank's lead regulator (BARS) has issued guidelines on transition requirements for the implementation of IFRS 9 where Bank is allowed to use earlier formed Regulatory reserves for credit losses. Bank will recognize full impact on the day of adoption. As a consequence the Bank's assessment indicates that the impact on capital resources of the implementation of IFRS 9 will have no impact to reduction in CET1 but will have reduction of total capital of approximately 5.007 thousand BAM, as at 1 January 2018.

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD (Continued)

2.4. Application and Impact of the New and Revised International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") (Continued)

First time adoption of IFRS 9 (Continued)

Impacts from initial application

The new standard will affect the classification and measurement of financial instruments held as at 1 January 2018 as follows:

- based on assessments undertaken to date, the major part of the loan portfolio classified as loans and advances according to IAS 39 will still be measured at amortized costs according to IFRS 9;
- financial assets held for trading will furthermore be measured at FVTPL;
- Bank classified debt securities as available-for-sale according to IAS 39. Within the new classification of IFRS 9 these debt securities will be measured at FVTOCI as those assets are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- for the equity instruments that are classified as available for sale under IAS 39, Bank will exercise the option to irrevocable designate them at initial recognition at FVTOCI;

No further significant changes regarding classification arose based on the business model criterion.

Regarding classification and measurement of financial liabilities no major impacts on the financial statements of the Bank occurred based on new regulations of IFRS 9.

IFRS 9.7.2.15 offers the accounting policy choice to restate prior periods or to recognize any impacts from initial application of IFRS 9 in the opening equity as of 1 January 2018. Bank does not restate comparative figures and presents the one-off effect as reduction of earlier formed Regulatory reserves for credit losses amounting to 5.007 thousand BAM. This adjustment representsis related to impairment requirements

These assessments above are to be seen as preliminary because not the whole transition work has been finalized yet. The final impact of adopting IFRS 9 at the beginning of 2018 may change because:

- Bank is refining and finalizing its model for ECL calculations
- IFRS 9 will require Bank to revise its accounting processes and internal controls and these changes are not yet fully completed
- Bank has not finalized the testing and assessment of controls over its new IT systems and changes to its governance framework
- although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until Bank finalizes its first financial statements that include the date of initial application.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized as reduction of earlier formed Regulatory reserves for credit losses at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD (Continued)

2.4. Application and Impact of the New and Revised International Financial Reporting Standards (“IFRS”) and International Accounting Standards (“IAS”) (Continued)

First time adoption of IFRS 9 (Continued)

- For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt investment security has low credit risk at 1 January 2018, then the Bank will determine that the credit risk on the asset has not increased significantly since initial recognition.

Departures of the Local Regulations from the Requirements of IAS and IFRS

Although based on the International Financial Reporting Standards (“IFRS”), the statutory accounting requirements used for preparation of these financial statements differ in one significant aspect from IFRS, as stated below:

- Based on the Guidelines on the Treatment of Emergency Acquired Assets Received as Partial or Full Payment of Debts enacted by the Banking Agency of the Republic of Srpska (BARS), banks were obligated to sell such tangible assets held for sale within a year from the acquisition date, whereas as from the date after the expiry of the said deadline, the banks were under obligation to carry such assets in their books of account at the amount of BAM 1, which was a departure from IAS/IFRS (IAS 2 “Inventories“ and IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations“).The aforecited Guidelines were effective up to August 6, 2013, when the Banking Agency of the Republic of Srpska enacted Decision on cessation of effect of the Guidelines on the Treatment of Emergency Acquired Assets Received as Partial or Full Payment of Debts thereby abrogating the Guidelines, whereafter the Bank has recognized the such assets at cost. Following the initial recognition, the Bank carries such assets (properties) at the lower of cost/purchase price and net realizable value. According to the Bank’s estimates, the net realizable value of the assets acquired in lieu of debt collection, which were stated at technical value as of reporting date, amounted to BAM 331 thousand (December 31, 2016: BAM 398 thousand).

Accordingly, the accompanying financial statements, which have been prepared in accordance with the statutory accounting requirements for banks of the Republic of Srpska are not equivalent to nor do they represent a set of financial statements in full compliance with IFRS,

2.5 Going Concern

The accompanying financial statements have been prepared on a going concern basis, which entails that the Bank will continue to operate in the foreseeable future.

Throughout 2017 the Bank performed its operations in compliance with the effective legislation.

Upon calculation of the capital and capital adequacy rations, the Bank implemented the new Law on Banks, whith the regulatory capital ration amounting to 14.68% as of December 31, 2017 and after enactment of the deicision on loss absorption from the profit realized in 2017, the said ratio will reach 15.45%. The Bank’s regular core capital ratio amounted to 13.62%, and will reach 14.40% after enactment of the deicision on loss absorption from the profit realized in 2017. Based on the foregoing ratios, it is evident that theBank has a solid capital position and that it meets the requirements and criteria for maintaining capital buffers.

During the year, the bank’s liquidity levels ranged within the limits prescribed by the Banking Agency of the Republic of Srpska. We underline that 2017 is a milestone year in terms of the Bank entering the zone of profitable operation after several years with losses incurred, with a nonconsolidated profit of BAM 4,475 thousand.

Givne the Bank’s solid capital position, and its focus on straightforward banking with attractive credit product mix, along with improvements in service digitalization, the Bank’s management concluded that these financial statements may be prepated on a going concern basis, which entails that the Bank will continue to operate in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Consolidation

i. Business Combinations

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In reassessing its conclusion on the existence of control, the Group has taken into consideration the structured entities and entities with receivables classified as irrecoverable or partially recoverable, for which it reassessed whether the key decisions are made by the Group and whether the Group is exposed to variability of returns from those entities.

ii. Investments in Subsidiaries

Financial statements are prepared for the Bank and the Group. Financial statements of the Group include consolidated financial statements of the Bank and entity Hypo-Alpe-Adria Leasing d.o.o., Banja Luka under the Bank's control (subsidiary) up to September 7, 2017, when the liquidation procedure was instigated, where by the Bank lost control over its subsidiary. In the Bank's separate financial statements, investments in the subsidiary are accounted for at cost less any impairment.

Subsidiaries are consolidated from the date when effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealized gains and losses on transactions between the entities within the Group have been eliminated in preparing the consolidated financial statements. Where necessary, the accounting policies used by the subsidiary have been changed to ensure consistency with the policies adopted by the Group.

iii. Transactions Eliminated upon Consolidation

Intragroup balances and transactions, and unrealized income and expenses (except for foreign currency transaction gains or losses) arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only if there is no evidence of impairment.

3.2 Interest Income and Expenses

Interest income and expenses are recognized in the statement of comprehensive income as they accrue for all interest-bearing instruments using the effective interest method. Interest income and expenses are accounted for on an accrual basis. The effective interest method is a method that calculates the costs of repayment of financial assets or financial liabilities and the costs of recognition of interest income or interest expense over a period. The effective interest rate is the rate that precisely discounts the estimated future cash disbursements or payments over the expected life of a financial instrument or, as appropriate, a shorter period, to the net carrying value of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows, taking into consideration all contractual terms related to the financial instrument (e.g. advance payments) but not considering future credit losses. The calculation includes all fees and commissions paid or received, which are a constituent part of the effective interest rate, transaction costs and all other premiums and discounts.

Interest income and expenses also include fee and commission income and expenses relating to loan origination and other differences between the initial carrying value of a financial instrument and its value at maturity, which are recognized using the effective interest rate,

3.3. Fee and Commission Income and Expenses

Fees and commissions are generally recognized on an accrual basis when due for collection i.e. when the relevant service has been rendered,

Such fees and commissions relate to domestic and foreign payment transactions, off-balance sheet operations (issuance of guarantees), broker-dealer operations and the like.

Fee and commission expenses relate to fees paid to the Central Bank of Bosnia and Herzegovina for the local payments operations, SWIFT costs, costs of payment card operations and other fees (Note 8).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into the functional currency at official rates effective at the date of each transaction. Assets and liabilities denominated in foreign currencies on the statement of financial position date are translated into BAM by applying official rates of exchange effective on that date. Contingent liabilities denominated in foreign currencies are translated into BAM at official exchange rates effective at the statement of financial position date.

Foreign exchange effects arising from translation are credited or charged to the profit or loss statement. The Bank and the Group have no monetary securities denominated in foreign currencies.

Exchange rates used in these financial statements are official rates established by the Central Bank of Bosnia and Herzegovina ("CBBH").

3.5. Employee Benefits

Short-Term Employee Benefits

Short-term benefits include employee salaries and benefits and all the related taxes and contributions payable to the Republic of Srpska social security and pension funds, calculated by applying the specific percentage rates which are stipulated by the relevant regulations. Short-term employee benefits are recognized as expenses in the period in which they are incurred.

Retirement Benefits and Annual Leave (Vacation) Entitlements

According to the Collective Bargaining Agreement of the Republic of Srpska financial organizations, employees are entitled to receive benefits upon retirement. The retirement benefit liability recognized in the statement of financial position represents the present value of the defined benefit liabilities as determined by actuarial calculations.

Provisions for retirement benefits and annual leave (vacation) entitlements are disclosed in the statement of financial position within "other liabilities."

Retirement benefits provisions are based on actuarial reports and are used only for the purposes they are intended for. At the each year-end, accuracy and adequacy of the amounts of provisions for retirement benefits and annual leave entitlements are assessed. In accordance with amendments to IAS 19, changes in retirement benefits are included in "staff costs" within the statement of profit or loss unless they relate to actuarial gains or losses. Otherwise, such changes are immediately recognized in other comprehensive income. Benefits falling due more than 12 months after the statement of financial position date are discounted to their present value.

3.6. Income Taxes

Current Income Tax

Current income tax relates to the amount calculated and paid in accordance with the Corporate Income Tax Law. Current income tax is payable at the rate of 10% applied to the tax base determined in the taxa statement and reported in the annual corporate income tax return, being the amount of profit before taxation net of income and expense adjustment effects pursuant to the tax regulations of the Republic of Srpska.

The tax regulations in the Republic of Srpska do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, current period tax losses stated in tax return may be used to reduce or eliminate taxes to be paid in future periods but only for duration of no longer than five ensuing years.

Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences between tax base of assets and liabilities and their carrying amounts stated in financial statements of the Group. Deferred tax liabilities are recognized for all taxable temporary differences between the tax base of assets and liabilities at the statement of financial position date and carrying values reported in the financial statements, which will result in future period taxable amounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Income Taxes (Continued)

Deferred Income Taxes (Continued)

Deferred tax assets are generally recognized for all deductible temporary differences, unused tax assets and unused tax losses to the extent that it is probable that taxable profits will be available against which those deductible temporary differences, unused tax credits and unused tax losses can be utilized.

Deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences against profits earned.

3.7. Cash and Cash Equivalents

For purposes of the cash flow statement, cash on hand, balances on the accounts held with the Central Bank, foreign currency accounts with foreign and domestic banks and short-term deposits with maturities of up to 30 days held with foreign and domestic banks are all considered to be cash equivalents.

3.8. Financial Instruments

a) Recognition

The Group and the Bank recognize loans and receivables and other financial liabilities at their origination date, i.e., when they are extended to borrowers or received from lenders.

Regular way sales and purchases of financial instruments are recognized on the trade date, which is the date when the Group becomes a party to the contract governing the instrument.

b) Classification

The Group and the Bank classify its financial instruments into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; available-for-sale financial assets and other financial liabilities. Management determines the classification of financial instruments upon initial recognition.

As at December 31, 2017, the Group held loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial Assets Available for Sale

Financial assets available for sale are those assets which the Group intends to hold for an indefinite period and which can be sold for liquidity purposes or due to changes in interest rates, exchange rates or changes in equity prices.

Financial assets and Financial Liabilities at Fair Value through Profit or Loss

In this category of instruments there are two sub-categories: financial assets held for trading (including derivatives) and those designated by management as carried at fair value through profit or loss at inception. A financial instrument is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, for the purpose of short-term profit-taking, or if designated as such by management.

The Group classifies financial assets and liabilities as financial instruments at fair value through profit or loss when:

- the assets and liabilities are managed, evaluated and reported internally at fair value;
- such designation eliminates or significantly reduces an accounting mismatch that would otherwise arise;
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

b) Classification (Continued)

Other Financial Liabilities at Amortized Cost

Other financial liabilities comprise all financial liabilities that are not measured at fair value through profit or loss and include amounts due to customers, due to banks and other financial institutions, and subordinated debt.

c) Initial and Subsequent Measurement

Investments are initially recognized at fair value increased by transaction costs for all financial assets and liabilities not carried at fair value through profit or loss. Financial assets are derecognized at a time when the Group has transferred substantially all the risks and rights arising from ownership of the assets or when the Group's right to receive cash flows arising from financial assets has expired.

Available-for-sale financial assets and financial assets carried at fair value through profit and loss are subsequently stated at fair value. Loans and receivables as well as assets held to maturity are measured at amortized cost using the effective interest method. Gains or losses arising from fair value adjustments of financial assets carried at fair value through profit and loss are recognized in the statement of profit or loss or comprehensive income in the period when earned/ incurred. Gains and losses arising from fair value adjustments of financial assets available for sale are directly stated in equity, until their derecognition or impairment charges, when the cumulative income or expense previously recognized in equity is recognized in the statement of profit or loss. However, interest calculated using the effective interest method is recognized in the statement of profit or loss. Dividends are recognized in the statement of comprehensive income when the entity's right to receive payment is established.

d) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance (default) risk.

The fair value of securities quoted in an active market are based on current bid prices. If the market for a financial asset (and the market of unlisted securities) is not active, the Group establishes fair value by valuation techniques. These involve the application of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other valuation techniques.

d) Derecognition

The Group derecognizes financial assets (in full or partially) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights on those financial assets. This occurs when the Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realized, ceded or have expired.

The Group derecognizes financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Group will cease recognizing that liability and will instantaneously recognize a new financial liability with new terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments

e) Impairment of Financial Assets

i) Financial Assets Carried at Amortized Cost (Continued)

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets has suffered impairment.

A financial asset or a group of financial assets is considered to be impaired and impairment losses are incurred only if there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event'), the estimated future cash flows of the financial asset or group of financial assets have been affected by the event or events, and that the amount of the loss incurred can be reliably estimated. The criteria that the Group and the Bank use to determine that there is objective evidence of an impairment loss include the following:

- Significant financial difficulty of the counterparty;
- Delay in liability settlement of over 90 days for materially significant amounts;
- Allocation of higher risk category to the borrower according to the classification of the Banking Agency of the Republic of Srpska;
- Allocation of low credit rating to the borrower according to the internal credit rating scale;
- Loan restructuring (significant changes in loan terms, interest rate decrease, partial grace periods granted) necessary due to the credit (financial) situation (not caused by market conditions or technical changes); this includes extensions;
- Reduced loan coverage, e.g. caused by decrease in value of collaterals (particularly with regard to project financing) if other cash flow sources are insufficient;
- Debtor's non-cooperation in instances of evident and documented repayment difficulties; and
- Liquidation or bankruptcy of the debtor.

In instances of reduced loan coverage, e.g. caused by decrease in value of collaterals (particularly with regard to project financing) the Group and the Bank first assess individually whether objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is an objective evidence of the impairment of financial assets carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When a loan is irrecoverable it is written off by derecognition of both the relevant loan and the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the profit or loss as the income from reversal of impairment allowance.

When possible, the Bank seeks to restructure loans rather than foreclose collaterals securing loan repayment. If the terms of the financial assets are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, an assessment is made of whether the financial asset should be derecognized. If the cash flows of the renegotiated assets are substantially different, then the contractual rights to cash flows from the original financial assets are deemed to have expired. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. Rescheduled loans will be subject to individual or group-level assessment for impairment and provisioning using the original effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

f) Impairment of Financial Assets (Continued)

i) Financial Assets Carried at Amortized Cost (Continued)

Estimation of Potential Losses for Financial Assets in Accordance with the Requirements of the Banking Agency of the Republic of Srpska

In accordance with the Decision of the Banking Agency of the Republic of Srpska on Classification of Assets and Off-Balance Sheet Items according to the Degree of Collectability, the Bank is required to classify loans, investments and other balance sheet and off-balance sheet risk exposures into categories A, B, C, D and E in accordance with the assessment of recoverability of loans and other investments based on regularity and timeliness in liability settlement on the part of the debtor, debtor's financial position and collaterals securitizing collection of receivables. The estimated amount of reserves for potential losses is calculated by applying the following percentages: 2% to loans classified as category A, 5% - 15% to the loans in category B, 16% - 40% to loans in category C, 41% - 60% to loans in category D and 100% to investments in category E.

The difference between impairment allowances determined in accordance with IAS 39 and estimated provisions for potential losses on loans classified into categories was recorded on the reserves account within equity in prior periods and allocation to these reserves was made from retained earnings up to the amount of retained earnings. In case that the aforesaid item was not sufficient to absorb the shortfall reserves, it was stated as an equity deductible item. This rule was effective in the period from January 1, 2010 (upon transition to the provision calculation in accordance with IAS 39) up to December 31, 2013, when the Bank's obligation to absorb the shortfall in reserves from retained earnings as per regulatory requirement ceased. Accordingly, the Bank was able to return all funds allocated from profit for this purpose to the account of other reserves from profit not related to the quality assessment of assets, whereby the core capital of the Bank increased by BAM 26,467 thousand as of December 31, 2013. In this manner the balance on the account of special reserves for estimated losses allocated from retained earnings returned to the balance as of January 1, 2010. During 2014 the Bank used these reserves for loss absorption. As of December 31, 2017 and 2016 the Bank had no shortfall reserves per regulatory requirement as an equity deductible item. More detailed information in this respect is provided in Note 31.

ii) Assets Classified as Available for Sale

At each reporting date, the Group and the Bank assess whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value is recognized in the statement of comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit and loss to the extent of the previously recognized losses, whereas the remaining amount is recognized within equity under revaluation reserve until such security is sold.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is subsequently recognized in other comprehensive income.

g) Reclassification

A financial asset classified as available for sale that would have met the definition of loans and receivables (had it not been designated as available for sale) may be reclassified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in other comprehensive income shall be amortized to profit or loss over the remaining life of the asset using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

f) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting regulations, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

g) Derivative Financial Instruments

Derivative financial instruments are initially recognized in the statement of financial position in accordance with the policy for initial recognition of financial instruments and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and options pricing models.

All derivatives are carried as assets when their fair value is positive and as liabilities when negative. Changes in the fair value of derivatives are included in the profit or loss statement under "net trading losses". All derivatives are classified as held for trading.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. When the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealized and realized gains and losses recognized in the profit or loss unless there is no reliable measure of their fair value.

Derivative financial instruments include foreign exchange forward contracts and foreign exchange swaps.

3.9. Equity Investments

Equity investments in subsidiaries are measured at cost less impairment, if any. At each reporting date, the Bank assesses whther there is impairment of equity investments in the subsidiaries. These are consolidated under the full consolidation method and included in the consolidated financial statements of the Group.

3.10. Property and Equipment

Property and equipment are carried at their fair value, as periodically determined by certified appraisers, subsequently decreased by the accumulated depreciation and impairment, if any.

Subsequent expenditures are included in the asset's carrying amount or recognized 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 Bank and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings and equipment are credited to equity as revaluation reserve. The increase is recognized in the profit or loss statement only to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense in the profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized as an expense in their profit or loss statement. The decrease is debited directly to revaluation reserve within equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Revaluation reserves included in equity in respect of property and equipment are transferred directly to retained earnings successively (annually) or when the asset is derecognized. This may involve transferring the entire revaluation reserves when the asset is retired or disposed of.

(Thousands of BAM)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Property and Equipment (Continued)

Land is not depreciated. Depreciation of other assets is calculated based on their cost or previously revalued amounts using the straight-line method to allocate their cost or revalued amounts to the residual value of the assets over their estimated useful lives:

	Depreciation Rate	Useful Life (years)
Buildings	1.18% - 3.33%	30 - 85
Computer equipment	12.5% - 33.3%	3 - 8
Furniture and other equipment	6.67% -33.3%	3 - 15
Motor vehicles	25%	4

Management believes that depreciation rates applied fairly reflect the economic useful lives of property and equipment.

Gains and losses on disposal of assets are determined as the difference between the proceeds from the disposal and the carrying amounts of assets and are recognized in the profit or loss statements within gains or losses on the sale of disposal of property and equipment.

3.11. Intangible Assets

Intangible assets are stated at fair value as periodically determined by valuation, net of accumulated amortization.

Intangible assets include computer software and licenses.

The Group and the Bank recognize an intangible asset only if 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. Such investments are capitalized at cost.

Revaluations of intangible assets are conducted regularly so that the carrying amounts do not differ significantly from the amounts that would be recognized by determining the fair values of assets at the statement of financial position date. If the carrying amount of an intangible asset is increased as a result of revaluation, the increase is directly recorded as an increase in the revaluation reserves within equity.

If the carrying amount of an intangible asset is reduced as a result of revaluation, the decrease should be recognized as an expense unless the revaluation reserve has not been previously formed or directly charged to the revaluation reserve.

Intangible assets are derecognized when they are sold or when there are no future economic benefits expected from their use. Gains or losses arising from the retirement or disposal of an intangible asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and recognized as income or expenses in the profit or loss statement.

The estimated useful lives of intangible assets are as follows:

	Amortization Rate	Useful Life (years)
Intangible assets	9.83% - 33.33%	3 - 10

3.12. Leases

Leases in which the Group, as the lessee, assumes all the risks and rewards of ownership, are classified as finance leases. All other leases are operating leases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Leases (Continued)

a) Finance Leases

Finance lease is a lease that, substantially, transfers all the risks and rewards incidental to ownership of the leased item. After the expiry of the lease period, the right of ownership can but need not be transferred.

Upon initial recognition, the Bank as the lessor recognizes the funds given to finance lease in the statement of financial position as long-term financial investments equal to the amount of the purchase value of the leased asset plus future interest.

Gross investment in the lease represents the total amount of all minimum lease payments and any non-guaranteed residual value attributable to the lessor. Net investment in the lease equals gross investment in the lease as decreased by the unearned finance income calculated at an interest rate defined by the relevant lease contract. Investments in the lease stated in the statement of financial position as long-term financial investments are subsequently measured at amortized cost less the assessed allowance for impairment.

Finance income, i.e. interest income based on the finance lease operations is recognized based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

b) Operating Leases

Entity as the Lessor

Leases are classified as operating leases if the terms of the lease do not transfer substantially all risks and rewards of ownership to the lessee.

Assets used for operating lease are recognized within the statement of financial position of the lessor at cost and are depreciated in accordance with the depreciation policy applied to the lessors own assets. Lease income from operating leases (rentals) is recognized as income in the period it refers to.

Initial direct costs incurred by lessors in negotiating and arranging an operating lease may be recognized as expenses of the period when incurred or be added to the carrying amount of the leased asset, deferred and recognized as an expense over the lease term on the same basis as the rental income.

Entity as the Lessee

Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. Contingent fees arising from operating lease are recognized as expenses of the period when incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.13. Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in supply of goods or services or for administrative purposes. Investment property is initially measured at cost increased by transaction costs. Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair value are included in the profit or loss statement in the period in which they arise. When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently retired from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. Tangible Assets Acquired in Lieu of Debt Collection

The Group occasionally acquires real estate and movable property in lieu of collection of certain loans and receivables.

In accordance with the relevant IAS and IFRS such assets are initially recognized at cost. After the initial recognition, these assets are stated at the lower of the following two values - cost and net realizable value. An impairment loss is recognized whenever the carrying amount of an asset exceeds its net realizable value. Impairment losses are recognized in the profit or loss statement for the year.

Gains and losses on the sales of such assets are recognized in the profit or loss statement for the year.

3.15. Impairment of Non-Financial Assets

All assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortization and are tested for impairment whenever there are indications that these may be impaired or at least annually.

An impairment loss is recognized in the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

Non-financial assets that are impaired are assessed at each reporting date for possible reversal of the impairment. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reduced up to the amount of the carrying value of the assets which does not exceed the carrying amount that would have been determined, net of accumulated depreciation/amortization, for which the recognized impairment loss was not accounted for.

3.16. Transaction Accounts and Deposits

Transaction accounts and deposits are initially recognized at fair value, net of transaction costs. Subsequently, they are stated at their amortized cost, using the effective interest rate, and any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit or loss statement over the period of their utilization using the effective interest method.

3.17. Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit or loss statement over the period of utilization using the effective interest method.

3.18. Provisions

Provisions for liabilities and charges are maintained at the level that the Bank’s management considers sufficient for absorption of losses. The management determines the sufficiency of provisions based on considerations of into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors.

Provisions are released only for the expenditures for which they were initially recognized. If an outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

Provisions for restructuring and damage claims/losses per legal suits filed are recognized when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19. Issued (Share) Capital

Share capital consists of ordinary (common stock) shares. Share capital is stated at nominal value.

3.20. Dividends

Dividends are recognized as liabilities in the period wherein a decision on dividend disbursement is made by the Bank's shareholders.

3.21. Revaluation Reserves

a) For Property, Equipment and Intangible Assets

Revaluation surpluses are credited to revaluation reserves. When the carrying amount of an asset increases due to revaluation, such increase is to be included in equity as revaluation surplus (reserve). However, the increase is recognized in profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

When an asset's carrying value decreases due to revaluation, such decrease is to be recognized as an expense. However, the decrease is to be charged within equity up to the amount of the existing (previously recorded) revaluation surplus relating to the asset.

b) For Financial Assets Available for Sale

Revaluation reserves for financial assets available for sale include changes in the fair value of financial assets available for sale, net of deferred taxes.

3.22. Earnings per Share

The Group and the Bank present basic earnings per share. Basic earnings per share is calculated by dividing the profit or loss for the current period intended for ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Since the Group and the Bank have no potentially dilutive ordinary shares such as convertible debt and options on shares, the Group and the Bank do not calculate diluted earnings per share.

3.23. Off-Balance Sheet Commitments and Contingent Liabilities

In the ordinary course of business, the Group enters into off-balance sheet contingent liabilities recorded on the off-balance sheet accounts, which primarily include guarantees, letters of credit, undrawn loans and loans per credit cards. Such financial commitments are recorded in the statement of financial position, if and when they become payable.

Financial guarantees are contracts that require the Group to undertake specific payments per guarantees to reimburse to the guarantee beneficiaries for the losses incurred due to inability of certain debtors to make the due payments in accordance with the terms of debt instruments. Liabilities per guarantees issued are initially recognized at fair value, which is amortized over the validity period of the guarantee. Liabilities per guarantees are subsequently measured at amortized amount or the present value of expected payments (when a payment under the guarantee is likely), whichever is higher.

3.24. Custody Operations

Assets and income arising from operating activities, where the Bank performs custody operations, which include holding or keeping the funds for the benefit of individuals, creditors and other institutions are included in Bank's financial statements.

3.25. Segment Reporting

An operating segment represents a group of assets and business activities engaged in providing products or services that are subject to risks and returns that are different from those of other operating segments. A geographical segment provides products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

The Group monitors its performance per operating segments and per geographical segments (branches) for the purposes of consolidated reporting. The geographical segment was not published due to the fact that the Bank's operations are concentrated in Bosnia and Herzegovina. Detailed information on the segments, as well as the structure and the result on each of the segments, is provided in Note 5.

4. KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly reviewed and are based on historical experience and other factors such as the expected flow of future events that can be reasonably assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

a) Impairment Losses on Loans and Receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on and off-balance sheet exposure to credit risk is assessed on a monthly basis. Impairment losses are made mainly against the carrying value of loans to corporate and retail customers and as provisions for liabilities and charges arising from off-balance exposure to customers, mainly in the form of guarantees and letters of credit and other assets.

Impairment losses are also considered for credit risk exposures to banks and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

The Bank first assesses whether objective evidence of impairment exists individually for assets that are individually significant and collectively for assets that are not individually significant. However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics and then assessed collectively for impairment.

The Bank estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of collateral, where these changes can be correlated with defaults.

In November 2016 the Bank amended its methodology on credit risk provisions, based on the changes that will be applied upon future implementation of IFRS 9 requirements.

Amendments to the portfolio risk provisioning ("PRP") methodology in part relating to the accounting estimates pertain to the exclusion of cure rates, while special risk provision – Collective impairment ("SRPci") methodology amendments refer to the time loans/debtors spend in the default status used in calculation of LGD BE for the retail loan portfolio.

The amendments from November 30, 2016 resulted in decrease in PRP provisions by BAM 2,715 thousand and decrease in SRPci provisions by BAM 2,051 thousand as compared to the previous provision calculation as of October 31, 2016. The Bank did not calculate the comparative effect of the aforedescribed amendments as of November 31, 2016. Changes to the aforesaid accounting estimates are immaterial and their effects on the future accounting periods cannot currently be anticipated.

The first and foremost criterion for defining the type of impairment is determining whether an impairment trigger has occurred, as defined in the Bank's workout policy.

Loans of the borrowers that are not in the default status will be subject to portfolio (collective) impairment while the default-status loans will be subject to either individual or collective impairment and provisioning depending on the significance of the exposure at default (EAD) to their group of related entities. Special risk provisions represent impairment allowances of assets for the amounts expect not be collected upon contractually agreed maturity. The loss amount for which the remaining exposure is adjusted is a result of the gross exposure (on-balance and/or off-balance sheet) decreased by expected future cash flows discounted to their present value. Impairment losses on financial assets carried at amortized cost is calculated as the difference between the carrying value of assets and the present value of the expected future cash flows from such assets discounted at the original effective interest rate.

SRP represent a risk measure of identified losses (default on the obligation to make the payment) and can always be allocated to the individual loan facility.

Portfolio risk provisions ("PRP") represent impairment allowances for incurred but not reported ("IBNR" or unidentified) losses. Default on the obligation to make the payment need not occur for PRP to be assessed as a general measure of the expected credit risk within the loan portfolio adjusted for the loss identification period ("LIP").

4. KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

a) Impairment Losses on Loans and Receivables (Continued)

In accordance with the recommendations resulting from the Asset Qaulity Review (AQR) performed as of March 31, 2017, the Bank made the following adjustments to the calculated impriment allowances (provisions) for loans and receivables due from customers:

- For non retail segments (corporate) 060_PJRE, 070_CO, 081_SCPI, 087_SCCO, 089_SCOT, 090,_EX, LIP factor was increased from 0.5 to 1
- The Bank applied the suggested LGD rates: segment: 011_PISe = 70%, 012_PIOt =80%. Based on the recommendations resulting from AQR, the Bank applied the suggested unsecured portfolio LGD rate of 70% to the entire corporate loan portfolio (segment: 060_PJRE, 070_CO, 081_SCPI, 087_SCCO, 089_SCOT, 090_EX, 100_OTH).

The aggregate effect of the implemented aforesaid adjustments and changes to the accounting estimates according to AQR findings was realized as of December 31, 2017, which led to the increase in impairment allowances (provisions) of the loans and receivables due form customers by the amount of T BAM 5.240.

b) Taxation

The Group records tax liabilities in accordance with the tax laws of the Republic of Srpska. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. In accordance with the Law on the Tax Administration of the Republic of Srpska, expiration period of the tax liability is five years. This virtually means that tax authorities could determine payment of outstanding liabilities in the period of five years from the origination of the liability.

c) Regulatory Requirements

The Banking Agency of the Republic of Srpska is authorized to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets, liabilities and equity, in accordance with the underlying regulations.

d) Litigation

The Group makes individual assessment of all court cases and makes the related provisions based on professional legal advice received. As disclosed in Note 33, the Bank made provisions of BAM 3,106 thousand for litigations (2016: BAM 9.846 thousand), which the management estimated as sufficient.

e) Tangible Assets Foreclosed

The Group occasionally acquires real estate in lieu of debt collection per certain loans and receivables. Real estate is stated at the lower of the net recoverable value of the related loan receivable and the current fair value of such assets less costs to sell. Gains or losses arising on disposal of such assets are recognized in the statement of profit or loss.

f) Employee Retirement Benefits

Long-term provisions related to the future outflows for retirement benefits are formed based on the actuarial calculation performed in accordance with IAS 19. For the purposes of the assessment, the Group engages a certified actuary to perform the calculation based on the data from the Group's HR Department records according to the estimated time of employees' retirement. The present value of the future liabilities is calculated by applying a discount rate. These provisions are only used to settle the expenses that the provisions have originally been made for. At each year-end, the Group re-assesses these provisions. If the amount recorded is higher/lower than estimated amount, the difference is reflected through profit and loss, except in the event that such a difference is a result of actuarial assumptions, when it is presented within equity as actuarial gain or loss.

In December 2017, a certified actuary performed a new actuarial calculation as of December 31, 2017 in accordance with IAS 19. Following the new calculation the Group recorded a decrease in the previously recognized provisions by crediting actuarial gains within equity. An assessment of short-term provisions for unused annual leaves (vacations) is performed based on the number of days of unused vacation as of the statement of financial position date and the average monthly gross salary per employee.

4. KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

g) Impairment of Assets Available for Sale

The Group determines that the equity investments available-for-sale are impaired when there has been a significant and prolonged decrease in their fair value below their cost. Determining a significant and prolonged decrease demands estimates. Among other factors, the Group estimates normal fluctuations in the prices of shares.

In addition, impairment may be appropriate when there is evidence of the deterioration of the sound financial standing of the investor, deterioration of the success of the industry or the sector as well as changes in technology and operating and financing cash flows.

If each decrease in fair value below cost were to be considered significant and prolonged, the Group and the Bank would have incurred additional loss in the amount of BAM 4 thousand for the year 2017, which would represent the transfer of the total fair value reserves to profit and loss.

h) Fair Value of Property, Equipment and Investment Property

Fair value of property, equipment and investment property is regularly assessed based on the market value of similar property situated at similar locations by certified appraisers. Fair value is determined by means of capitalization valuation method (income approach) that takes into account actual or realizable annual income from the property under valuation relative to the value of the underlying investment. The actual annual income is then decreased by the costs of maintenance, depreciation, taxes and risk of rent payment default or failure to lease property. Factors applied in the assessment are specific for the market of Bosnia and Herzegovina.

(Thousands of BAM)

5. SEGMENT REPORTING

Segments recognized for reporting purposes in accordance with IFRS 8 include the following:

- Operations with the Retail segment, within which the following two sub-segments are recognized:
  - sub-segment of private individuals (PI) and
  - subs-segment of micro entities;
- Operations with the Corporate segment, within which three sub-segments are recognized: small, medium, and large entities);
- Operations with the Public segment – segment of public enterprises; and
- Treasury.

Since the Group operates mainly in Bosnia and Herzegovina, secondary (geographical) segments are not presented.

The table below shows the overall breakdown of the income statement for the Bank, given that it represents the major component of the consolidated statement of profit and loss.

BANK	RET	COR	PUB	TRE	OTH	Total
Year Ended December 31, 2017						
Interest income	21,141	5,216	3,331	147	-	29,835
Interest expenses	(4,326)	(523)	(1,211)	(1,913)	-	(7,973)
Net interest income	16,815	4,693	2,120	(1,766)		21,862
Fee and commission income	11,325	2,489	192	67	-	14,073
Fee and commission expenses	(1,101)	(440)	(50)	(315)	-	(1,906)
Net fee and commission income	10,224	2,049	142	(248)	-	12,167
Net foreign exchange losses	(10)	(5)	-	(80)	-	(95)
Net trading losses	-	-	-	(136)	-	(136)
Other operating income	2,511	1,492	674		690	5,367
Staff costs	(8,229)	(1,231)	(776)	(265)	(3,355)	(13,856)
Depreciation/amortization charge	(1,293)	(193)	(122)	(42)	(526)	(2,176)
Expenses per CHF incentives	(668)	-	-	-	-	(668)
Other operating expenses	(10.900)	(1.630)	(1.028)	(351)	(4.444)	(18,353)
PROFIT/(LOSS) BEFORE IMPAIRMENT LOSSES AND PROVISIONS	**8.450**	**5.175**	**1.010**	**(2.888)**	**(7.635)**	**4,112**
Provisions for potential losses, commitments and write-offs	3.751	(1.271)	(255)	-	(10)	2,215
Provisions for other risks and contingent liabilities	(774)	789	(648)	-	-	(633)
Impairment losses on property, equipment and intangible assets	-	-	-	-	(1.213)	(1,213)
Losses on fair value adjustment of investment property	-	-	-	-	(13)	(13)
Impairment losses on equity investments	-	-	-	-	-	-
PROFIT/(LOSS) BEFORE TAXES	**11.427**	**4.693**	**107**	**(2.888)**	**(8.871)**	**4,468**
Income tax expense	-	-	-	-	7	7
NET PROFIT/(LOSS) FOR THE YEAR	**11.427**	**4.693**	**107**	**(2.888)**	**(8.864)**	**4,475**

(Thousands of BAM)

5. SEGMENT REPORTING (Continued)

BANK	RET	COR	PUB	TRE	OTH	Total
Year Ended December 31, 2016						
Interest income	17,765	2,913	4,077	332	-	25,087
Interest expenses	(3,249)	(208)	(1,412)	(2,372)	-	(7,241)
Net interest income	14,516	2,705	2,665	(2,040)	-	17,846
Fee and commission income	9,493	1,848	191	74	-	11,606
Fee and commission expenses	(1,005)	(543)	(68)	(323)	-	(1,939)
Net fee and commission income	8,488	1,305	123	(249)	-	9,667
Net foreign exchange (losses)/gains	(244)	85	3	570	-	414
Net trading losses	-	-	-	(155)	-	(155)
Other operating income	3,210	1,504	2,561	-	141	7,416
Staff costs	(8,680)	(1,298)	(818)	(280)	(3,538)	(14,614)
Depreciation/amortization charge	(1,532)	(229)	(144)	(49)	(624)	(2,578)
Other operating expenses	(26,662)	(1,676)	1,089	(3,234)	(3,690)	(34,173)
(LOSS)/PROFIT BEFORE IMPAIRMENT LOSSES AND PROVISIONS	**(10,904)**	**2,396**	**5,479**	**(5,437)**	**(7,711)**	**(16,177)**
Provisions for potential losses, commitments and write-offs	5,105	4,092	(188)	-	(34)	8,975
Provisions for other risks and contingent liabilities	-	-	-	-	343	343
Impairment losses on property, equipment and intangible assets	-	-	-	-	(1,565)	(1,565)
Losses on fair value adjustment of investment property	-	-	-	-	-	-
Impairment losses on equity investments	-	(600)	-	-	-	(600)
(LOSS)/PROFIT BEFORE TAXES	**(5,799)**	**5,888**	**5,291**	**(5,437)**	**(8,967)**	**(9,024)**
Income tax expense	-	-	-	-	9	9
NET (LOSS)/PROFIT FOR THE YEAR	**(5,799)**	**5,888**	**5,291**	**(5,437)**	**(8,958)**	**(9,015)**

The table below shows the total assets and liabilities for the Bank, given that it represents the major component of the consolidated statement of financial position:

BANK	RET	COR	PUB	TRE	OTH	Total
December 31, 2017						
Total assets	296,315	166,991	65,148	180,854	-	709,308
Total liabilities	357,103	101,748	66,567	32,344	-	557,762
December 31, 2016						
Total assets	277,905	124,455	143,948	169,498	-	715,806
Total liabilities	290,160	71,230	67,057	140,197	111	568,755

6. FINANCIAL RISK MANAGEMENT

The risk management strategy of the Group and the Bank is to maintain stable performance in the future. The Group and the Bank possess an internal risk management model. The most significant tools and methods used in the model for internal risk management are: internal credit rating system (for corporate and retail segments and banks), collaterals, internal indicators in respect of provisions/bad debts, etc. The use of risk management tools has a great impact on asset quality, liquidity structure, efficiency ratios and early warnings, and reduce the Bank's exposure to all types of risk.

The Group and the Bank are exposed to the following major risks: credit risk, market risk, liquidity risk, and operational risks.

a) Credit Risk Management

The Group and the Bank are exposed to credit risk which is the risk of their inability to collect due loans and other receivables with interest accrued thereon within contractually defined terms.

The Group and the Bank manage credit risk through an ongoing analysis of the creditworthiness of existing and potential borrowers to pay their liabilities for principal and interest, and changes in indebtedness limits where necessary. This is performed in in accordance with the loan approval, additional lending and investment activity procedures in place and assumptions regarding contingent off-balance sheet liabilities. In addition, the Group also manages its exposure to credit risk by minimizing any form of risk related to quality, concentration, collection securitization, maturity and currency.

The Bank has formed separate organizational units in charge of managing and controlling credit risk and the collection of bad debts aligned with the organizational chart used within Addiko Group. The Bank approves loans in accordance with the defined loan approval process bases on the borrower creditworthiness, i.e., solely based on the estimates of the borrower's sustainable cash flows as the primary source of loan repayment.

For every loan, there are several levels of authority for their approval, the highest of which is the Supervisory Board of Bank. Loan approval decision are made (and the competent authority level determined) based on total liabilities/limits defined at the level of a group of related parties.

Management of Non-Performing Loans

Non-performing (NPL status) loans are loans that over 90 days past due in repayment (materially significant past-due means that the liabilities exceed 2.5% of the total exposure and that the delay from entering the materially significant past-due status is longer than 90 days) or loans where borrowers have exhibited problems in business operations indicating borrowers' inability to discharge their liabilities from operations and evident risk of default. According to the local categorization these are exposures classified in C, D and E categories, or assets with a special provisions in accordance with IAS (NPLs) with an internal rating of 5A or worse. Loans in category B, and/or internal ratings ranging from 4A to 4E, are additionally monitored with the active participation of the Credit Operations Department but are not considered non-performing loans.

NPL management is organized through the Credit Operations Department/Loan Restructuring, which is in charge of corporate (COR) and public sector (PUB) segments and the retail segment customers (including private individuals and SME sub-segment) (entirely or partially) in instances when such private individuals comprise a group of related parties with one or more legal entities which are the customers of the Credit Operations Department and the Collection Department in charge of SMEs and private individuals.

The Credit Operations Department is in charge of corporate and public segment clients (with all their related parties) with the status of over 90 days past due, with 5A or a worse rating and categories C, D and E within the local classification; transfer of customers from the Market Department is performed immediately upon fulfillment of these criteria. Prior to transfer to the Credit Operations Department/Loan Restructuring, the Market Department prepares a Client Transfer Protocol and the credit committees are in charge of transfer approval. In addition, the Credit Operations Department is entitled to assume other borrowing customers with ratings better than 5A in all instances where the Credit Operations Department estimates that the credit risk could deteriorate.

6. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit Risk Management (Continued)

Management of Non-Performing Loans (Continued)

Upon identification of a client as a NPL client, the Credit Operations Department assumes competence and responsibility for the whole group of clients with the Bank as well as for defining collection strategy at the client group level.

Transfer of borrowing clients to the Credit Operations Department is performed at the client group level, whereby all group members are allocated the credit rating of the worst group member. Exceptionally, the Credit Operations Department can assume on one group member or allocate different credit ratings to the group members; however, this must be explained, documented and approves by competent bodies.

After assuming clients, the Credit Operations Department assumes functions of both the Market and Underwriting Departments, as it is responsible for borrowing client processing and monitoring, for proposing manners of resolution and manners of possible collection of the Bank's/Group's receivables to the competent Credit Committee, calculation of the credit risk at the client/loan facility levels under both local regulations and IFRS/IAS, for obtaining valid collateral appraisal, for borrower rating adjustments, for assessment and proposal of the amount of individually assessed loan loss provisions (the so-called special risk provisions or SRP), and for collection of receivables using all legal means available.

All the borrowers under the remit of the Credit Operations Department/Loan Restructuring and Workout Functions are subject to the mandatory monitoring on an semi-annual basis in the form of a credit report, which is approved by the Credit Committees in line with their respective competences.

The Loan Restructuring and Workout Functions are parts of the Credit Operations Department dealing with the early risk assessment, loan restructuring and all legal activities relating to enforced collection.

The Collection Department in charge of the Retail clients – SMEs and individuals – whose liability settlement is one or more days past due and with debts matured amounting to EUR 10 (in BAM equivalent) in instances of private individuals (PI) and EUR 25 (in BAM equivalent) in instances of micro-sized entities.

For the purpose of portfolio stabilization, the Collection Department may collect loans and receivables below the limits defined if their days past due are longer than 30 days.

The Collection Department "covers" all collection activities starting from the client's day 1 past due stats and includes late collection phases (90+, 180+ days past due), all legal procedures (including execution procedure) and repossession and re-sale of assets,

The process of collection from the Retail segment clients involves collection per all loan facilities with days past due, through the functions of:

- Client Recovery – while the client is in the category of up to 180 days past due it is considered recoverable, and all activities undertaken are focused on the recovery of the client and the return of the client back to the performing status; and
- Debt Collection – once the number of days past due per a single loan facility or a single borrower exceeds 180 days, client recovery is no longer deemed possible; accordingly the focus shifts to minimizing the losses.

The Collection Department is comprised of the following organizational units/functions, each of which has its strictly defined competences and responsibilities:

- Early Collection is in charge of all clients/debtors and co-debtors and guarantors with 1 to 90 days of delays in liability settlement. The function is part of a centralized office with a call center, where all calls related to debt collection are made and received.
- Late Collection / Legal sub-unit and Repossession are competent for all clients/debtors and co-debtors and guarantors with 91 days of delays in liability settlement and all legal suits within the Collection Department's scope of authority.
- Restructuring sub-unit is in charge of financial restructuring measures performed on the loan portfolio within the responsibility of the Collection Department.
- Administration sub-unit provides administrative support to all teams within the Collection Department in the process of collection and in charge of past-due reminder sending, reminder text messaging, and debt balance notification sending, etc. This sub-unit also performs collateral activations, calculations of debt balances, debt cancellations complaints and sending and receiving mail.

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit Risk Management (Continued)

Maximum Exposure to Credit Risk

The table below shows the Group's and the Bank's maximum exposure to credit risk, by the statement of the financial position items. The credit risk management tables present loans and receivables due from customers including the accrued fees unearned, while the statement of financial position provides loans and receivables, net.

GROUP	Total gross carrying value	Collective and individual impairment (SRPii/ SRPci)	Portfolio provisions for losses (PRPLL)	Total net carrying value
December 31, 2017				
Cash and balances with the Central Bank	121,863	-	-	121,863
Balances held with other banks	19,425	(11)	(4)	19,410
Loans and receivables due from customers	632,346	(99,849)	(8,719)	523,778
Derivative financial assets	-	-	-	-
Financial assets available for sale	2,258	-	-	2,258
Other financial assets	4,278	(2,378)	(9)	1,891
Total financial assets	**780,170**	**(102,238)**	**(8,732)**	**669,200**
Contingent liabilities and commitments	126,097	(232)	(2,314)	123,551
Total credit risk exposure	**906,267**	**(102,470)**	**(11,046)**	**792,751**
December 31, 2016				
Cash and balances with the Central Bank	107,130	-	-	107,130
Balances held with other banks	21,675	-	(7)	21,668
Loans and receivables due from customers(*)	600,300	(121,362)	(3,070)	475,868
Derivative financial assets	66	-	-	66
Financial assets available for sale	68,421	-	-	68,421
Other financial assets	4,543	(2,271)	(9)	2,263
Total financial assets	**802,135**	**(123,633)**	**(3,086)**	**675,416**
Contingent liabilities and commitments	77,571	(304)	(495)	76,772
Total credit risk exposure	**879,706**	**(123,937)**	**(3,581)**	**752,188**

BANK	Total gross carrying value	Collective and individual impairment (SRPii/ SRPci)	Portfolio provisions for losses (PRPLL)	Total net carrying value
December 31, 2017				
Cash and balances with the Central Bank	121,863	-	-	121,863
Balances held with other banks	19,425	(11)	(4)	19,410
Loans and receivables due from customers	632,346	(99,849)	(8,719)	523,778
Financial assets available for sale	2,258	-	-	2,258
Other financial assets	4,278	(2,378)	(9)	1,891
Total financial assets	**780,170**	**(102,238)**	**(8,732)**	**669,200**
Contingent liabilities and commitments	126,097	(232)	(2,314)	123,551
Total credit risk exposure	**906,267**	**(102,470)**	**(11,046)**	**792,751**
December 31, 2016				
Cash and balances with the Central Bank	107,130	-	-	107,130
Balances held with other banks	21,672	-	(7)	21,665
Loans and receivables due from customers(*)	600,452	(121,881)	(3,069)	475,502
Derivative financial assets	66	-	-	66
Financial assets available for sale	68,421	-	-	68,421
Other financial assets	4,543	(2,271)	(9)	2,263
Total financial assets	**802,284**	**(124,152)**	**(3,085)**	**675,047**
Contingent liabilities and commitments	77,571	(304)	(495)	76,772
Total credit risk exposure	**879,855**	**(124,456)**	**(3,580)**	**751,819**

The maximum exposure is presented without deducting the value of any underlying collateral.

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit Risk Management (Continued)

Loans and Receivables Due from Customers - Rating System

The Bank's rating system is presented in accordance with the internal rating scale of Addiko Group (five rating classes and five levels within each class). The probability of default of a certain client, whose rating has been assigned within the internal Addiko Group's rating scale, is expressed through the internal ratings, as follows:

- Rating Class 1 (ratings of 1A - 1E), which includes customers from the best to the very good credit worthiness;
- Rating Class 2 (ratings of 2A - 2E), which includes clients from good to moderate credit worthiness;
- Rating Class 3 (ratings of 3A - 3E), which include clients from acceptable to insufficient creditworthiness;
- Rating Class 4 (ratings of 4A - 4E) comprising of customers under surveillance measures, as a result of short-term or long-term indicators of business difficulties, in a particular client or within a certain industry;
- Rating Class 5 (ratings of 5A - 5E), which includes clients where there is a significant delay in the payment obligations or a significant doubt about clients creditworthiness.

The Group's and the Bank's credit risk exposure arising from and receivables due from customers and banks and balances with other banks, by category, is provided below:

	December 31, 2017				December 31, 2016			
GROUP	Gross	Portfolio provisions (PRPLL)	Collective and Individual Impairment (SRP/SRPci)	Net	Gross	Portfolio provisions (PRPLL)	Collective and Individual Impairment (SRP/SRPci)	Net
No rating	1,431	(41)	(2)	1,388	7,940	(78)	(1,797)	6,065
1A-1E	108,719	(743)	(4)	107,972	42,204	(58)	(19)	42,127
2A-2E	212,479	(2,018)	(116)	210,345	246,627	(550)	(342)	245,735
3A-3E	172,706	(4,680)	(156)	167,870	141,773	(935)	(146)	140,692
4A-4E	39,476	(1,235)	(2,857)	35,384	19,705	(377)	(56)	19,272
5A-5E	116,960	(6)	(96,725)	20,229	163,726	(112)	(119,969)	43,645
Total	**651,771**	**(8,723)**	**(99,860)**	**543,188**	**621,975**	**(2,110)**	**(122,329)**	**497,536**

	December 31, 2017				December 31, 2016			
BANK	Gross	Portfolio provisions (PRPLL)	Collective and Individual Impairment (SRP/SRPci)	Net	Gross	Portfolio provisions (PRPLL)	Collective and Individual Impairment (SRP/SRPci)	Net
No rating	1,431	(41)	(2)	1,388	7,940	(78)	(1,797)	6,065
1A-1E	108,719	(743)	(4)	107,972	42,164	(58)	-	42,106
2A-2E	212,479	(2,018)	(116)	210,345	247,343	(1,516)	(120)	245,707
3A-3E	172,706	(4,680)	(156)	167,870	141,541	(935)	(81)	140,525
4A-4E	39,476	(1,235)	(2,857)	35,384	19,509	(377)	(1)	19,131
5A-5E	116,960	(6)	(96,725)	20,229	163,627	(112)	(119,882)	43,633
Total	**651,771**	**(8,723)**	**(99,860)**	**543,188**	**622,124**	**(3,076)**	**(121,881)**	**497,167**

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit Risk Management (Continued)

Loans and Receivables Due from Customers - Performance Breakdown

GROUP	2017	2016
Neither past due nor impaired	506,200	439,493
Past due but not impaired	5,500	743
Impaired (non-performing)	120,646	160,064
Gross	**632,346**	**600,300**
Collective and individual impairment (SRPii/ SRPci)	(99,849)	(121,362)
Portfolio provisions for contingent losses (PRPLL)	(8,719)	(3,070)
Net	**523,778**	**475,868**

BANK	2017	2016
Neither past due nor impaired	506,200	439,089
Past due but not impaired	5,500	642
Impaired (non-performing)	120,646	160,721
Gross	**632,346**	**600,452**
Collective and individual impairment (SRPii/ SRPci)	(99,849)	(121,881)
Portfolio provisions for contingent losses (PRPLL)	(8,719)	(3,069)
Net	**523,778**	**475,502**

Neither past-due nor impaired loans

Neither past-due nor impaired loans and receivables based on the segment structure can be summarized as follows:

GROUP	2017	2016
Public sector	40,166	61,567
Non-banking financial institutions	9,752	1,513
Corporate customers	157,152	108,137
Entrepreneurs	10,500	5,219
Retail - individuals	288,405	262,893
Other	225	164
	506,200	**439,493**

BANK	2017	2016
Public sector	40,166	61,567
Non-banking financial institutions	9,752	1,513
Corporate customers	157,152	108,025
Entrepreneurs	10,500	5,149
Retail - individuals	288,405	262,671
Other	225	164
	506,200	**439,089**

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit Risk Management (Continued)

Loans and Receivables Due from Customers - Performance Breakdown (Continued)

Past-due but not impaired loans

Past due but not impaired loans and receivables, by the segment structure and days past due, can be summarized as follows:

GROUP	up to 30 days	30 - 60 days	60 - 90 days	90 - 180 days	over 180 days	Total
December 31, 2017						
Public sector	7	-	-	-	-	7
Non-banking financial institutions	-	-	-	-	-	-
Corporate customers	3,938	109	-	-	-	4,047
Entrepreneurs	1	-	-	-	-	1
Retail - individuals	841	414	190	-	-	1,445
Other	-	-	-	-	-	-
	4,787	**523**	**190**	**-**	**-**	**5,500**
December 31, 2016						
Public sector	12	-	-	-	-	12
Non-banking financial institutions	-	-	-	-	-	-
Corporate customers	89	231	2	-	-	322
Entrepreneurs	12	-	-	-	-	12
Retail - individuals	181	194	22	-	-	397
Other	-	-	-	-	-	-
	294	**425**	**24**	**-**	**-**	**743**

BANK	up to 30 days	30 - 60 days	60 - 90 days	90 - 180 days	over 180 days	Total
December 31, 2017						
Public sector	7	-	-	-	-	7
Non-banking financial institutions	-	-	-	-	-	-
Corporate customers	3,938	109	-	-	-	4,047
Entrepreneurs	1	-	-	-	-	1
Retail - individuals	841	414	190	-	-	1,445
Other	-	-	-	-	-	-
	4,787	**523**	**190**	**-**	**-**	**5,500**
December 31, 2016						
Public sector	12	-	-	-	-	12
Non-banking financial institutions	-	-	-	-	-	-
Corporate customers	1	231	2	-	-	234
Entrepreneurs	-	-	-	-	-	-
Retail - individuals	180	194	22	-	-	396
Other	-	-	-	-	-	-
	193	**425**	**24**	**-**	**-**	**642**

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit Risk Management (Continued)

Loans and Receivables Due from Customers - Performance Breakdown (Continued)

Impaired loans

Impaired loans with the fair value of related collateral, held by the Group and the Bank as security instruments, may be summarized as follows:

GROUP	Public sector	Non-banking financial institutions	Corporate	Entrepreneurs	Retail	Other	Total
December 31, 2017							
Gross	5,369	-	36,912	1,135	77,106	124	120,646
Collective and individual impairment (SRPii/ SRPci)	(1,871)	-	(28,086)	(972)	(68,811)	(109)	(99,849)
Net	3,498	-	8,826	163	8,295	15	20,797
Collateral fair value	1,836	-	14,861	203	28,081	-	44,981
December 31, 2016							
Gross	5,619	-	58,803	1,481	94,029	132	160,064
Collective and individual impairment (SRPii/ SRPci)	(2,108)	-	(35,792)	(1,014)	(82,366)	(82)	(121,362)
Net	**3,511**	**-**	**23,011**	**467**	**11,663**	**50**	**38,702**
Collateral fair value	2,598	-	32,396	364	19,731	25	55,114

BANK	Public sector	Non-banking financial institutions	Corporate	Entrepreneurs	Retail	Other	Total
December 31, 2017							
Gross	5,369	-	36,912	1,135	77,106	124	120,646
Collective and individual impairment (SRPii/ SRPci)	(1,871)	-	(28,086)	(972)	(68,811)	(109)	(99,849)
Net	3,498	-	8,826	163	8,295	15	20,797
Collateral fair value	1,836	-	14,861	203	28,081	-	44,981
December 31, 2016							
December 31, 2016							
Gross	5,608	1,337	58,272	1,435	93,946	123	160,721
Collective and individual impairment (SRPii/ SRPci)	(2,101)	(967)	(35,445)	(987)	(82,304)	(77)	(121,881)
Net	**3,507**	**370**	**22,827**	**448**	**11,642**	**46**	**38,840**
Collateral fair value	2,467	-	30,829	354	19,609	-	53,259

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit Risk Management (Continued)

Rescheduled and Restructured Receivables

A restructured loan is a loan that is refinances, rescheduled or otherwise converted, i.e., a loan in which, due to the borrower's changed conditions and repayment capabilities, or its inability to make repayment in line with initially agreed repayment schedule or because of the revised (lower) current market rate, the previously agreed deadlines (period or repayment schedule) and/or other terms and conditions have subsequently been altered so that the Bank can allow the borrower easier (and for the Bank itself more secure) debt servicing. The breakdown of the restructured and refinanced loans, at December 31, 2017 and 2016 is provided below:

	Number of restructured loans	Amount
December 31, 2017		
Corporate clients	4	6,724
Retail clients - individuals and entrepreneurs	207	3,729
Total	211	10,453
December 31, 2016		
Corporate clients	5	5,451
Retail clients - individuals and entrepreneurs	1,935	76,019
Total	1,940	81,470

Concentration per Industry

The breakdown of the Group's and the Bank's financial assets exposed to credit risk per industry on the gross and net bases (net of provisions) is shown in the following table:

GROUP	2017	%	2016	%
Retail customers	379,293	48.62%	364,696	45.47%
Trade	68,020	8.72%	50,983	6.36%
Mining and industry	80,179	10.28%	85,339	10.64%
Services, tourism and catering business	9,919	1.27%	12,308	1.53%
Transport and communications	1,918	0.25%	3,591	0.45%
Real estate	598	0.08%	135	0.02%
Agriculture, forestry and fishing	1,444	0.19%	1,427	0.18%
Construction industry	10,307	1.32%	2,494	0.31%
Financial institutions	131,962	16.91%	110,180	13.74%
Power industry	20,275	2.60%	3,418	0.43%
Administration and other public services	47,600	6.10%	135,425	16.88%
Other	28,655	3.67%	32,139	4.01%
Allowance for impairment	(110,970)		(126,719)	
	669,200		**675,416**	

BANK	2017	%	2016	%
Retail customers	379,293	48.62%	364,263	45.4%
Trade	68,020	8.72%	50,871	6.3%
Mining and industry	80,179	10.28%	85,339	10.6%
Services, tourism and catering business	9,919	1.27%	12,169	1.5%
Transport and communications	1,918	0.25%	3,521	0.4%
Real estate	598	0.08%	135	0.0%
Agriculture, forestry and fishing	1,444	0.19%	1,422	0.2%
Construction industry	10,307	1.32%	2,494	0.3%
Financial institutions	131,962	16.91%	111,516	13.9%
Power industry	20,275	2.60%	3,418	0.4%
Administration and other public services	47,600	6.10%	135,410	16.9%
Other	28,655	3.67%	31,726	4.0%
Allowance for impairment	(110,970)		(127,237)	
	669,200		**675,047**	

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit Risk Management (Continued)

Off-Balance Sheet Items

The contractual amounts of the Group's and the Bank's off-balance sheet financial liabilities that they have committed to extend as loans to customers are summarized in the table below:

GROUP	Up to 1 year	1 - 5 years	Over 5 years	Total
December 31, 2017				
Irrevocable loan commitments	32,026	31,946	25,519	**89,491**
Payment and performance guarantees and letters of credit	12,205	23,405	996	**36,606**
	44,231	**55,351**	**26,515**	**126,097**
December 31, 2016				
Irrevocable loan commitments	38,280	15,972	2,820	57,072
Payment and performance guarantees and letters of credit	14,829	5,474	196	20,499
	53,109	**21,446**	**3,016**	**77,571**

BANK	Up to 1 year	1 - 5 years	Over 5 years	Total
December 31, 2017				
Irrevocable loan commitments	32,026	31,946	25,519	**89,491**
Payment and performance guarantees and letters of credit	12,205	23,405	996	**36,606**
	44,231	**55,351**	**26,515**	**126,097**
December 31, 2016				
Irrevocable loan commitments	38,280	15,972	2,820	57,072
Payment and performance guarantees and letters of credit	14,829	5,474	196	20,499
	53,109	**21,446**	**3,016**	**77,571**

b) Market Risk

Given that the Bank represents the main segment of the consolidated statement of financial position, the following section analyzes the market risk from the aspect of the Bank.

The Bank is exposed to market risk which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, foreign currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

General Requirements

The Bank develops its market risk strategy on the basis of strategic discussions between the competent units of Treasury and Risk Controlling. Decisions on combined business and risk strategies are only made by the Asset and Liability Management Committee (ALCO).

As part of the daily reporting procedure, the management receives value-at-risk (VaR) and performance figures for trading transactions on a daily basis and figures on the banking book investments and market risk steering on a weekly basis. There is also a daily report to the Management in which the key risk and performance figures of the branches are communicated. In these, the value-at-risk at the branch level is compared to the defined limits. Limit breaches initiate defined escalation processes up to the Executive Board level.

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

b) Market Risk (Continued)

Risk Measurement

The principal tool used to measure and control market risk exposure within the Bank's trading portfolio is value-at-risk (VaR). VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) given an adverse movement with a specified probability (confidence level). The model is based upon a 99% confidence level, assumes a 1 day holding period and takes into account 250 historical scenarios. The use of a 99% confidence level means that losses exceeding the VaR figure should occur, on average, not more than once every 100 days.

The Bank uses VaR to measure the following market risks:

- general interest rate risk in the trading book;
- foreign exchange risk on the statement of financial position level (both trading and banking books);
- equity and debt securities risk in the trading book;
- credit spread risk.

The Bank's VaR per risk type for years 2017 and 2016:

BANK	Minimum	Maximum	Monthly average	December 31
2017				
Interest rate risk	29	96	53	29
Foreign currency risk	2	6	4	3
Price risk	-	-	-	-
Credit spread risk	1	35	14	1
Total	**32**	**137**	**71**	**33**
2016				
Interest rate risk	123	312	205	231
Foreign currency risk	4	18	10	9
Price risk	-	2	1	-
Credit spread risk	7	89	38	60
Total	**134**	**421**	**254**	**300**

c) Foreign Currency Risk

Foreign currency risk is the Group's and the Bank's exposure to possible impact of change in foreign currency exchange rate and danger that unfavorable changes may result in loss denominated in BAM (local currency). The level of risk is a function of height and length of the Bank's and the Group's exposure to possible changes in foreign exchange rates, and depends on the amount of the Group's borrowing in foreign currencies and the degree of alignment of assets and liabilities of the Bank's and the Group's balance sheet and off-balance sheet, i.e., the degree of matching of the foreign currency flows.

Foreign currency risk exposure arises from credit, deposit, investment and trading activities. It is controlled daily in accordance with legislation and the internally set limits for each currency and for the assets and liabilities denominated in foreign currencies. During the year open currency positions were maintained within the limits prescribed by the Decisions of the Banking Agency of the Republic of Srpska and the internal limits set according to the Addiko Group's methodology. Currency matching of the financial assets and financial liabilities is maintained by selling and purchasing all currencies, by contracting deposits and approving loans with currency clause index and by monitoring such loans. Foreign currency risk management activities and responsibilities are defined by the program, policies and procedures for foreign currency risk management.

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

c) Foreign Currency Risk (Continued)

Sensitivity Analysis

The following table indicates the currencies to which the Bank had significant exposures at December 31, 2017 and 2016. The position in euros was not analyzed since BAM is pegged to EUR.

Currency	FX Open position, December 31, 2017	10% increase	10% decrease	FX Open position, December 31, 2016	10% increase	10% decrease
USD	210	34	(34)	349	65	(65)
CHF	175	29	(29)	(36,954)	(6,730)	6,730

FX open position represents net exposure in a foreign currency. The analysis calculates the effect of a reasonably predictable movements of the currencies against BAM and their influence on the profit or loss, with all other variables held constant. Negative values in the table reflect a potential net reduction of the profit, while a positive amount reflects a net potential increase.

The Group had the following significant currency positions:

GROUP	EUR	USD	CHF	Other currencies	FX Sub-total	BAM Sub-total	Total
December 31, 2017							
ASSETS							
Cash and balances held with the central bank	4,365	779	895	1,217	7,256	114,607	121,863
Balances held with other banks	9,720	7,345	370	1,975	19,410	-	19,410
Loans and receivables due from customers	430,833	-	5,653	1	436,487	85,532	522,019
Financial assets available for sale	24	-	-	-	24	2,234	2,258
Property and equipment	-	-	-	-	-	27,609	27,609
Intangible assets	-	-	-	-	-	4,438	4,438
Investment property	-	-	-	-	-	2,388	2,388
Prepaid income taxes	-	-	-	-	-	1,212	1,212
Other financial assets	477	-	-	-	477	1,414	1,891
Assets held for sale	-	-	-	-	-	545	545
Other assets	191	-	-	-	191	5,484	5,675
Total assets	445,610	8,124	6,918	3,193	463,845	245,463	709,308
LIABILITIES							
Deposits due to banks	44,056	-	-	-	44,056	5,991	50,047
Deposits due to customers	245,365	7,894	6,734	2,093	262,086	197,295	459,381
Borrowings	28,300	-	-	-	28,300	-	28,300
Other financial liabilities	6,084	-	9	-	6,093	2,073	8,166
Other liabilities	567	-	-	-	567	3,975	4,542
Other provisions	822	20	-	-	842	5,895	6,737
Deferred tax liabilities	-	-	-	-	-	589	589
Total liabilities	325,194	7,914	6,743	2,093	341,944	215,818	557,762
Net foreign currency position	120,416	210	175	1,100	121,901	29,645	151,546

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

c) Foreign Currency Risk (Continued)

GROUP	EUR	USD	CHF	Other currencies	FX Sub-total	BAM Sub-total	Total
December 31, 2016							
ASSETS							
Cash and balances held with the central bank	4,357	943	790	685	6,775	100,355	107,130
Balances held with other banks	9,806	6,435	2,501	2,923	21,665	3	21,668
Loans and receivables due from customers	409,099	-	11,414	1	420,514	53,935	474,449
Derivative financial assets	-	-	-	-	-	66	66
Financial assets available for sale	66,185	-	-	-	66,185	2,236	68,421
Property and equipment	-	-	-	-	-	30,342	30,342
Intangible assets	-	-	-	-	-	3,484	3,484
Investment property	-	-	-	-	-	2,554	2,554
Prepaid income taxes	-	-	-	-	-	1,206	1,206
Other financial assets	711	-	-	-	711	1,552	2,263
Other assets	27	2	-	-	29	4,716	4,745
Total assets	**490,185**	**7,380**	**14,705**	**3,609**	**515,879**	**200,449**	**716,328**
LIABILITIES							
Deposits due to banks	93,852	-	43,489	-	137,341	4,331	141,672
Deposits due to customers	156,532	7,017	8,154	2,932	174,635	190,479	365,114
Borrowings	35,788	-	-	-	35,788	-	35,788
Liabilities per derivative financial instruments	-	-	-	-	-	87	87
Other financial liabilities	5,868	-	16	-	5,884	2,873	8,757
Other liabilities	148	-	-	-	148	3,018	3,166
Other provisions	47	14	-	-	61	13,398	13,459
Deferred tax liabilities	-	-	-	-	-	596	596
Total liabilities	**292,235**	**7,031**	**51,659**	**2,932**	**353,857**	**214,782**	**568,639**
Net foreign currency position	**197,950**	**349**	**(36,954)**	**677**	**162,022**	**(14,333)**	**147,689**

Loans and deposits denominated in BAM with contracted currency clause are presented within appropriate foreign currency position.

The Bank had the following significant currency positions:

BANK	EUR	USD	CHF	Other currencies	FX Sub-total	BAM Sub-total	Total
December 31, 2016							
ASSETS							
Cash and balances held with the central bank	4,365	779	895	1,217	7,256	114,607	121,863
Balances held with other banks	9,720	7,345	370	1,975	19,410	-	19,410
Loans and receivables due from customers	430,833	-	5,653	1	436,487	85,532	522,019
Financial assets available for sale	24	-	-	-	24	2,234	2,258
Property and equipment	-	-	-	-	-	27,609	27,609
Intangible assets	-	-	-	-	-	4,438	4,438
Investment property	-	-	-	-	-	2,388	2,388
Prepaid income taxes	-	-	-	-	-	1,212	1,212
Other financial assets	477	-	-	-	477	1,414	1,891
Assets held for sale	-	-	-	-	-	545	545
Other assets	191	-	-	-	191	5,484	5,675
Total assets	445,610	8,124	6,918	3,193	463,845	245,463	709,308
LIABILITIES							
Deposits due to banks	44,056	-	-	-	44,056	5,991	50,047
Deposits due to customers	245,365	7,894	6,734	2,093	262,086	197,295	459,381
Borrowings	28,300	-	-	-	28,300	-	28,300
Other financial liabilities	6,084	-	9	-	6,093	2,073	8,166
Other liabilities	567	-	-	-	567	3,975	4,542
Other provisions	822	20	-	-	842	5,895	6,737
Deferred tax liabilities	-	-	-	-	-	589	589
Total liabilities	325,194	7,914	6,743	2,093	341,944	215,818	557,762
Net foreign currency position	120,416	210	175	1,100	121,901	29,645	151,546

6. FINANCIAL RISK MANAGEMENT (Continued)

c) Foreign Currency Risk (Continued)

BANK	EUR	USD	CHF	Other currencies	FX Sub-total	BAM Sub-total	Total
December 31, 2016							
ASSETS							
Cash and balances held with the central bank	4,357	943	790	685	6,775	100,355	107,130
Balances held with other banks	9,806	6,435	2,501	2,923	21,665	-	21,665
Loans and receivables due from customers	408,733	-	11,414	1	420,148	53,935	474,083
Derivative financial assets	-	-	-	-	-	66	66
Financial assets available for sale	66,185	-	-	-	66,185	2,236	68,421
Property and equipment	-	-	-	-	-	30,246	30,246
Intangible assets	-	-	-	-	-	3,483	3,483
Investment property	-	-	-	-	-	2,554	2,554
Prepaid income taxes	-	-	-	-	-	1,206	1,206
Other financial assets	711	-	-	-	711	1,552	2,263
Other assets	27	2	-	-	29	4,660	4,689
Total assets	**489,819**	**7,380**	**14,705**	**3,609**	**515,513**	**200,293**	**715,806**
LIABILITIES							
Deposits due to banks	93,853	-	43,489	-	137,342	4,637	141,979
Deposits due to customers	156,532	7,017	8,154	2,932	174,635	190,479	365,114
Borrowings	35,788	-	-	-	35,788	-	35,788
Liabilities per derivative financial instruments	-	-	-	-	-	87	87
Other financial liabilities	5,866	-	16	-	5,882	2,865	8,747
Other liabilities	148	-	-	-	148	3,008	3,156
Other provisions	47	14	-	-	61	13,227	13,288
Deferred tax liabilities	-	-	-	-	-	596	596
Total liabilities	**292,234**	**7,031**	**51,659**	**2,932**	**353,856**	**214,899**	**568,755**
Net foreign currency position	**197,585**	**349**	**(36,954)**	**677**	**161,657**	**(14,606)**	**147,051**

d) Interest Rate Risk Management

Interest rate risk represents the possibility of a decrease in planned or expected yield on interest-bearing or interest rate sensitive positions due to a change in interest rates and/or yield on the capital market.

Interest rate risks arise when assets or liabilities transactions are in a mismatch with the funds and/or capital investments when it comes to concordance rates and maturity dates. In case there is an excess of fixed interest rate on assets, an increasing interest rate would, for example, have a negative effect on the present value of the bank and/or on net interest revenue. The same consequences would happen if there was a decrease in the fixed interest rate on the liabilities side.

The following table shows the sensitivity of the current portfolio value to a reasonable change in interest rates (parallel movement), with all other variables constant. The amounts are stated in thousands of BAM.

BANK	Interest rates changes	Sensitivity	Interest rates changes	Sensitivity
December 31, 2017				
BAM	+/-100 bp	4,003/(4,256)	+/-200 bp	7,771/(8,783)
EUR	+/-100 bp	(4,576)/5,216	+/-200 bp	(8,605)/11,181
CHF	+/-100 bp	114/(123)	+/-200 bp	220/(257)
USD	+/-100 bp	206/(218)	+/-200 bp	400/(449)
Other	+/-100 bp	19/(19)	+/-200 bp	37/(39)
Total		**(234)/600**		**(176)/1,654**
December 31, 2016				
BAM	+/-100 bp	4,669/(4,960)	+/-200 bp	9,069/(10,232)
EUR	+/-100 bp	(2,992)/3,167	+/-200 bp	(5,830)/6,535
CHF	+/-100 bp	525/(543)	+/-200 bp	1,032/(1,107)
USD	+/-100 bp	180/(191)	+/-200 bp	351/(393)
Other	+/-100 bp	26/(26)	+/-200 bp	51/(53)
Total		**2,408/(2,553)**		**4,674/(5,252)**

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

e) Liquidity Risk Management

The Group and the Bank define liquidity risk as the risk of not being able to meet due payment obligations on time or in full amount; or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates; or only being able to sell assets at a discount to market prices.

The main objective of liquidity risk management and control is to ensure that the Bank and the Group maintain the capacity to make payments and undertake refinancing activities at any time.

Monitoring of liquidity risk is carried out, on the one hand, on the basis of the liquidity ratio and "time-to-wall" key indicators (maximum liquidity time horizon), under normal and stress conditions, and on the other hand, through the integration of the structural liquidity risk into overall Bank control (risk-bearing capacity).

Limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been set, both at Addiko Group level and for the individual subsidiaries, and are monitored constantly. To ensure that existing liquidity gaps can be closed at any time through the mobilization of the liquidity potential, threshold values are being defined for all scenarios and if these are exceeded, measures must be introduced to reduce the identified liquidity risks.

Maturity Analysis

The following tables show the analysis of the Group's assets and liabilities by maturity based on the remaining period from the statement of financial position date to the agreed due date:

GROUP	Up to 1 month	1 - 3 months	3 - 12 months	Over 1 year	Total
December 31, 2017					
ASSETS					
Cash and balances held with the central bank	121,863	-	-	-	121,863
Balances held with other banks	19,410	-	-	-	19,410
Loans and receivables due from customers	109,290	19,953	77,875	314,901	522,019
Financial assets available for sale	251	-	1	2,006	2,258
Property and equipment	-	-	27,609	-	27,609
Intangible assets	-	-	4,438	-	4,438
Investment property	-	-	2,388	-	2,388
Prepaid income taxes	-	-	-	1,212	1,212
Other financial assets	1,891	-	-	-	1,891
Assets held for sale	-	-	545	-	545
Other assets	5,675	-	-	-	5,675
Total assets	**258,380**	**19,953**	**112,856**	**318,119**	**709,308**
LIABILITIES					
Deposits due to banks	6,059	13,694	14,915	15,379	50,047
Deposits due to customers	249,715	11,600	97,294	100,772	459,381
Borrowings	398	688	2,968	24,246	28,300
Other financial liabilities	8,166	-	-	-	8,166
Other liabilities	4,447	-	-	95	4,542
Other provisions	738	946	1,020	4,033	6,737
Deferred tax liabilities	-	-	-	589	589
Total liabilities	269,523	26,928	116,197	145,114	557,762
Maturity mismatch	**(11,143)**	**(6,975)**	**(3,341)**	**173,005**	**151,546**

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

e) Liquidity Risk Management (Continued)

Maturity Analysis (Continued)

GROUP	Up to 1 month	1 - 3 months	3 - 12 months	Over 1 year	Total
December 31, 2016					
ASSETS					
Cash and balances held with the central bank	107,130	-	-	-	107,130
Balances held with other banks	21,668	-	-	-	21,668
Loans and receivables due from customers	112,094	16,254	70,162	275,939	474,449
Derivative financial assets	66	-	-	-	66
Financial assets available for sale	1,744	-	1	66,676	68,421
Property and equipment	-	-	-	30,342	30,342
Intangible assets	-	-	1	3,483	3,484
Investment property	-	-	-	2,554	2,554
Prepaid income taxes	-	-	-	1,206	1,206
Other financial assets	2,263	-	-	-	2,263
Other assets	4,745	-	-	-	4,745
Total assets	**249,710**	**16,254**	**70,164**	**380,200**	**716,328**
LIABILITIES					
Deposits due to banks	3,631	18,425	118,416	1,200	141,672
Deposits due to customers	260,385	9,879	45,484	49,366	365,114
Borrowings	453	656	3,527	31,152	35,788
Liabilities per derivative financial instruments	87	-	-	-	87
Other financial liabilities	8,757	-	-	-	8,757
Other liabilities	3,166	-	-	-	3,166
Other provisions	4,161	1,370	487	7,441	13,459
Deferred tax liabilities	596	-	-	-	596
Total liabilities	**281,236**	**30,330**	**167,914**	**89,159**	**568,639**
Maturity mismatch	**(31,526)**	**(14,076)**	**(97,750)**	**291,041**	**147,689**

The following tables show the analysis of the Bank's assets and liabilities by maturity based on the remaining period from the statement of financial position date to the agreed due date:

BANK	Up to 1 month	1 - 3 months	3 - 12 months	Over 1 year	Total
December 31, 2017					
ASSETS					
Cash and balances held with the central bank	121,863	-	-	-	121,863
Balances held with other banks	19,410	-	-	-	19,410
Loans and receivables due from customers	109,290	19,953	77,875	314,901	522,019
Financial assets available for sale	251	-	1	2,006	2,258
Property and equipment	-	-	27,609	-	27,609
Intangible assets	-	-	4,438	-	4,438
Investment property	-	-	2,388	-	2,388
Prepaid income taxes	-	-	-	1,212	1,212
Other financial assets	1,891	-	-	-	1,891
Assets held for sale	-	-	545	-	545
Other assets	5,675	-	-	-	5,675
Total assets	**258,380**	**19,953**	**112,856**	**318,119**	**709,308**
LIABILITIES					
Deposits due to banks	6,059	13,694	14,915	15,379	50,047
Deposits due to customers	249,715	11,600	97,294	100,772	459,381
Borrowings	398	688	2,968	24,246	28,300
Other financial liabilities	8,166	-	-	-	8,166
Other liabilities	4,447	-	-	95	4,542
Other provisions	738	946	1,020	4,033	6,737
Deferred tax liabilities	-	-	-	589	589
Total liabilities	269,523	26,928	116,197	145,114	557,762
Maturity mismatch	**(11,143)**	**(6,975)**	**(3,341)**	**173,005**	**151,546**

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

e) Liquidity Risk Management (Continued)

Maturity Analysis (Continued)

BANK	Up to 1 month	1-3 months	3-12 months	Over 1 year	Total
December 31, 2016					
ASSETS					
Cash and balances held with the central bank	107,130	-	-	-	107,130
Balances held with other banks	21,665	-	-	-	21,665
Loans and receivables due from customers	111,989	16,199	70,140	275,755	474,083
Derivative financial assets	66	-	-	-	66
Financial assets available for sale	1,744	-	1	66,676	68,421
Property and equipment	-	-	-	30,246	30,246
Intangible assets	-	-	1	3,483	3,484
Investment property	-	-	-	2,554	2,554
Prepaid income taxes	-	-	-	1,206	1,206
Other financial assets	2,263	-	-	-	2,263
Other assets	4,689	-	-	-	4,689
Total assets	**249,546**	**16,199**	**70,141**	**379,920**	**715,806**
LIABILITIES					
Deposits due to banks	3,938	18,425	118,416	1,200	141,979
Deposits due to customers	260,385	9,879	45,484	49,366	365,114
Borrowings	451	745	3,438	31,154	35,788
Liabilities per derivative financial instruments	87	-	-	-	87
Other financial liabilities	8,747	-	-	-	8,747
Other liabilities	3,156	-	-	-	3,156
Other provisions	3,990	1,370	487	7,441	13,288
Deferred tax liabilities	596	-	-	-	596
Total liabilities	**281,350**	**30,419**	**167,825**	**89,161**	**568,755**
Maturity mismatch	**(31,804)**	**(14,220)**	**(97,684)**	**290,759**	**147,051**

Analysis of Financial Liabilities per Remaining Contractual Maturity, Undiscounted

The table below shows the remaining undiscounted maturities of the Bank's financial liabilities as at December 31, 2017 and 2016:

BANK	Up to 1 month	1-3 months	3-12 months	Over 1 year	Total	Net carrying value
December 31, 2017						
Deposits due to banks	6,059	-	28,609	15,379	50,047	50,047
Deposits due to customers	248,577	12,226	100,654	105,001	466,458	459,381
Borrowings	398	795	3,420	26,887	31,500	28,300
Liabilities per derivative financial instruments	-	-	-	-	-	-
Other financial liabilities	8,166	-	-	-	8,166	8,166
Total	**263,200**	**13,021**	**132,683**	**147,267**	**556,171**	**545,894**

BANK	Up to 1 month	1-3 months	3-12 months	Over 1 year	Total	Net carrying value
December 31, 2016						
Deposits due to banks	4,925	18,434	120,044	1,200	144,603	141,979
Deposits due to customers	259,736	9,988	47,517	51,182	368,423	365,114
Borrowings	450	881	5,463	33,163	39,957	35,788
Liabilities per derivative financial instruments	87	-	-	-	87	87
Other financial liabilities	8,747	-	-	-	8,747	8,747
Total	**273,945**	**29,303**	**173,024**	**85,545**	**561,817**	**551,715**

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

f) Fair Value of Financial Assets and Liabilities

The fair value of financial assets and financial liabilities that are traded in the active markets can be measured based on quoted market prices or dealer quotes. For all other financial instruments the Bank determines fair value using other valuation techniques.

The Bank measures the fair value using the following fair value hierarchy that reflects the significance of input parameters, used in the measurement:

- Level 1 inputs: quoted market prices (unadjusted) in an active market for identical assets.
- Level 2 inputs: inputs other than quoted prices included in Level 1 that are based on observable inputs, either directly or indirectly for the relevant asset or liability. This category includes instruments measured using: quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments that are considered less than active or other measurement techniques, in which all of the significant inputs, directly or indirectly, are observable from market data.
- Level 3 inputs: unobservable inputs. This category includes all instruments for which measurement techniques are not observable and these parameters have a significant impact on the assessment of the value of the instruments. This category includes instruments that are measured based on quoted prices for similar products that require significant adjustments or assumptions to reflect differences between the instruments.

The fair values of assets and liabilities of the Group, at levels in accordance with IFRS 13, can be summarized as follows:

GROUP	Carrying value	Fair value total	Level 1	Level 2	Level 3
December 31, 2017					
Financial assets carried at fair value					
Fair value of assets - recurring measurement					
Financial assets available for sale	2,258	2,258	2,029	-	229
Financial assets other than carried at fair value					
Fair value of assets - non-recurring measurement					
Cash and balances held with the central bank	121,863	121,863	-	-	121,863
Balances held with other banks	19,410	19,410	-	-	19,410
Loans and receivables due from banks	522,019	526,716	-	-	526,716
Loans and receivables due from customers	1,891	1,891	-	-	1,891
Other financial assets					
Other assets for which the fair value is disclosed	545	545	-	-	545
Investment property	2,388	2,388	-	-	2,388
Intangible assets	4,438	4,438	-	-	4,438
Property and equipment	27,609	27,609	-	-	27,609
Total	**702,421**	**707,118**	**2,029**	**-**	**705,089**
Financial liabilities carried at fair value					
Liabilities per derivative financial instruments	-	-	-	-	-
Financial liabilities other than carried at fair value					
Fair value of liabilities - non-recurring measurement					
Deposits due to banks	50,047	51,307	-	-	51,307
Deposits due to customers	459,381	468,463	-	-	468,463
Borrowings	28,300	29,237	-	-	29,237
Other financial liabilities	8,166	8,166	-	-	8,166
Total	**545,894**	**557,173**	**-**	**-**	**557,173**

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

f) Fair Value of Financial Assets and Liabilities (Continued)

GROUP	Carrying value	Fair value total	Level 1	Level 2	Level 3
December 31, 2016					
Financial assets carried at fair value					
Fair value of assets - recurring measurement					
Derivative financial assets	66	66	-	66	-
Financial assets available for sale	68,421	68,421	68,192	-	229
Financial assets other than carried at fair value					
Fair value of assets - non-recurring measurement					
Cash and balances held with the central bank	107,130	107,130	-	-	107,130
Balances held with other banks	21,668	21,668	-	-	21,668
Loans and receivables due from customers	474,449	517,748	-	-	517,748
Other financial assets	2,263	2,263	-	-	2,263
Other assets for which the fair value is disclosed					
Investment property	2,554	2,554	-	-	2,554
Intangible assets	3,484	3,484	-	-	3,484
Property and equipment	30,342	30,342	-	-	30,342
Total	**710,377**	**753,676**	**68,192**	**66**	**685,418**
Financial liabilities carried at fair value					
Liabilities per derivative financial instruments	87	87	-	87	-
Financial liabilities other than carried at fair value					
Fair value of liabilities - non-recurring measurement					
Deposits due to banks	141,672	142,941	-	-	142,941
Deposits due to customers	365,114	367,329	-	-	367,329
Borrowings	35,788	32,571	-	-	32,571
Other financial liabilities	8,757	8,757	-	-	8,757
Total	**551,418**	**551,685**	**-**	**87**	**551,598**

The fair values of assets and liabilities of the Bank, at levels in accordance with IFRS 13, can be summarized as follows:

BANK	Carrying value	Fair value total	Level 1	Level 2	Level 3
December 31, 2017					
Financial assets carried at fair value					
Fair value of assets - recurring measurement					
Financial assets available for sale	2,258	2,258	2,029	-	229
Financial assets other than carried at fair value					
Fair value of assets - non-recurring measurement					
Cash and balances held with the central bank	121,863	121,863	-	-	121,863
Balances held with other banks	19,410	19,410	-	-	19,410
Loans and receivables due from banks	522,019	526,716	-	-	526,716
Loans and receivables due from customers	1,891	1,891	-	-	1,891
Other financial assets					
Other assets for which the fair value is disclosed	545	545	-	-	545
Investment property	2,388	2,388	-	-	2,388
Intangible assets	4,438	4,438	-	-	4,438
Property and equipment	27,609	27,609	-	-	27,609
Total	**702,421**	**707,118**	**2,029**	**-**	**705,089**
Financial liabilities carried at fair value	-	-	-	-	-
Liabilities per derivative financial instruments	-	-	-	-	-
Financial liabilities other than carried at fair value	-	-	-	-	-
Fair value of liabilities - non-recurring measurement	50,047	51,307	-	-	51,307
Deposits due to banks	459,381	468,463	-	-	468,463
Deposits due to customers	28,300	29,237	-	-	29,237
Borrowings	-	-	-	-	-
Other financial liabilities	8,166	8,166	-	-	8,166
Total	**545,894**	**557,173**	**-**	**-**	**557,173**

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

f) Fair Value of Financial Assets and Liabilities (Continued)

BANK	Carrying value	Fair value total	Level 1	Level 2	Level 3
December 31, 2016					
Financial assets carried at fair value					
Fair value of assets - recurring measurement					
Derivative financial assets	66	66	-	66	-
Financial assets available for sale	68,421	68,421	68,192	-	229
Financial assets other than carried at fair value					
Fair value of assets - non-recurring measurement					
Cash and balances held with the central bank	107,130	107,130	-	-	107,130
Balances held with other banks	21,665	21,665	-	-	21,665
Loans and receivables due from customers	474,083	517,343	-	-	517,343
Other financial assets	2,263	2,263	-	-	2,263
Other assets for which the fair value is disclosed					
Investment property	2,554	2,554	-	-	2,554
Intangible assets	3,483	3,483	-	-	3,483
Property and equipment	30,246	30,246	-	-	30,246
Total	**709,911**	**753,171**	**68,192**	**66**	**684,913**
Financial liabilities carried at fair value					
Liabilities per derivative financial instruments	87	87	-	87	-
Financial liabilities other than carried at fair value					
Fair value of liabilities - non-recurring measurement					
Deposits due to banks	141,979	143,248	-	-	143,248
Deposits due to customers	365,114	367,329	-	-	367,329
Borrowings	35,788	32,571	-	-	32,571
Other financial liabilities	8,747	8,747	-	-	8,747
Total	**551,715**	**551,982**	**-**	**87**	**551,895**

By definition fair value is the value a third party is willing to pay for a contract in an arm's length transaction. In order to calculate the fair market value, the future cash flows must be discounted to their present value where there are cash flows clearly defined by the terms of the contract. The Investor is willing to assume the contract if the contract compensates fairly the price per all risks included in the contract. This means that the investor demands an adequate rate of return that covers all the risks. Accordingly, the investor will discount all future cash flows using this return rate to arrive at the present value that the investor is willing to pay for the contract. The present value arrived at in this manner guarantees the investor the required annual rate of return and represents the fair value:

$$FV_l = \sum_{i=1}^{T} \frac{CF_i}{(1 + RRR_i^l)^i}$$

FV	fair value of loan l
T	maturity of the loan
CF_n	cash flows (principal and interest) as per loan agreement
RRR_n^l	rate of return per investor for the maturity n and loan l

The required rate of return:

$$RRR_n = r_n + s_n^l + (1 - cr_l) fc_n + cc_l \cdot ec^l$$

r_n	risk-free interest for the currency of the loan l and maturity of the cash flows
s_n^l	n- annual premium for idiosyncratic credit risk aligned with the risk of the country of debtor's origin
fc_n	funding spread
ec^l	pre-tax excess equity cost
cr_l	percentage share of the contract coverage by capital, which represents an economic capital requirement for each contract.

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

f) Fair Value of Financial Assets and Liabilities (Continued)

The following table presents movements in the financial assets carried at fair value within Level 3 of the fair value hierarchy:

	Banja Luka Stock Exchange	Central Securities Register	Euro Axis Bank	S.W.I.F.T.	Vučijak a.d.	Total
Balance at January 1, 2017	**175**	**30**	**-**	**24**	**-**	**229**
Increase in the year	-	-	-	-	-	-
Decrease in the year	-	-	-	-	-	-
Change in revaluation reserves	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Balance at December 31, 2017	**175**	**30**	**-**	**24**	**-**	**229**
Balance at January 1, 2016	**175**	**30**	**418**	**24**	**-**	**647**
Increase in the year	-	-	-	-	-	-
Decrease in the year	-	-	-	-	-	-
Change in revaluation reserves	-	-	(9)	-	-	(9)
Sales	-	-	(409)	-	-	(409)
Balance at December 31, 2016	**175**	**30**	**-**	**24**	**-**	**229**

During 2017, there were no reclassifications between the Levels.

g) Operational Risks

Operational risk management is an important part of the Group's and the Bank's operations, which allows their long-term successful business and the preservation of reputation.

As part of operational risk framework, the Bank implements the following activities:

- definition and identification of operational risk;
- development and application of methods and systems for measurement, analysis, limitations and control of operational risks in accordance with regulatory and requirements of Addiko Group;
- measurement, analysis and supervision of operational risk in line with minimum standards for operational risk management;
- maintenance of database on losses from operational risks – regular data collection and reporting on loss events;
- regular updates of the existing and development of new policies, manuals and procedures in accordance with regulatory and requirements of Addiko Group;
- performing qualitative estimates (scenario analyses and risk assessment) in order to identify and assess risk in business processes;
- reputation risk management aiming at risk identification, assessment, monitoring and control and reporting reputational risk;
- education of all employees in order to improve their knowledge and experience, awareness and skills in dealing with operational risk or specific processes (e.g. collection of data on losses, risk assessment);
- development of the internal control system through the process of mapping all the relevant SIK processes within the Bank, by definition of their owners, recognition of risks arising within a process, adequate alleviation of those risks and testing operating effectiveness of the controls in place;
- assessment and establishment of adequate operational risk management upon development of new products;
- assessment of the risk of outsourcing and management of outsourced activities within the Bank in collaboration with organizational units that are owners of the outsourced activities.

6. FINANCIAL RISK MANAGEMENT (Continued)

h) Capital Risk Management

In accordance with the effective Law on Banks, the minimum amount of a bank's paid-in capital to be maintained at all times must not be below BAM 15,000 thousand. The Bank's subscribed capital amounted to BAM 153,049 thousand in line with these provisions.

Pursuant to the new Decision on Bank Capital Calculation enacted by the Banking Agency of the Republic of Srpska ("BARS") in 2017, the Bank's capital is comprised of regulatory capital as the sum of the Bank's core capital and supplementary capital after the regulatory adjustments:

- The Bank's core capital is the sum of the regular core capital and additional core capital after regulatory adjustments;
- The Bank's supplementary capital is comprised of the equity instruments and subordinated debts, share premium accounts, general provisions for credit losses and other items after regulatory adjustments.

Regular core capital items include: equity instruments if the recognition criteria are met for them, share premium accounts relating to the equity instruments, retained earnings, other comprehensive income, other reserves and reserves for general banking risks.

The Bank deducts from the regular core capital items the following: loss for the current financial year, unabsorbed prior years' losses, intangible assets, deferred tax assets depending on the future profitability, all tax expenses relating to the regular core capital items predictable at the time of the item calculation, investments into the Bank's own equity instruments (e.g., redeemed Treasury shares), the amount of the Bank's qualified interest in a non-FSI entity, and free delivery (settlement) risk and other legally prescribed items if they arise during the banking operations.

The Bank's additional core capital is comprised of additional core capital items less the regulatory adjustments and application of the temporary exemption of the regulatory capital deductibles.

The Bank deducts from the additional core capital items the following: the Bank's direct and indirect investments into own additional core capital instruments, including those instruments that would be subject to the Bank's purchase obligation under the existing contractual commitments, the Bank's direct and indirect investments in additional core capital instruments of a FSI entity if the entity has a reciprocal investment into the Bank, which the Agency believes to have been made with a view to artificial increase in the regulatory capital, the amount of direct or indirect Bank's investment into the additional core capital instruments of a FSI entity if the Bank holds a significant interest therein, the amount of direct or indirect Bank's investment into the additional core capital instruments of a FSI entity if the Bank holds no significant interest therein, excluding items that, as the issue underwriter, it has held for no more than five working days, the amount of items to be deducted from the supplementary capital that exceed the Bank's supplementary capital, tax liabilities relating to the additional core capital items predictable at the time of the item calculation, unless the Bank adequately adjusts the amount of the additional core capital items to the extent that such tax liabilities may reduce their amount.

The Bank's supplementary capital is comprised of the supplementary capital items less the regulatory adjustments and application of the temporary exemption of the regulatory capital deductibles. The supplementary capital may not exceed a half of the core capital, and as from July 26, 2018 it may not exceed one third of the core capital.

The supplementary capital items include: paid equity instruments and subordinated debts recognized as supplementary capital items, share issue premium accounts, and general provisions for credit losses maximum up to 1.25% of the amount of the risk-weighted exposures.

Equity instruments and subordinated debts meeting the inclusion criteria may be included in the supplementary capital only after the Bank has obtained a prior approval from the Agency.

The Bank deducts from the supplementary capital items the following: the Bank's direct or indirect investments in its own supplementary capital instruments, including its own supplementary capital instruments subject to a potential purchase obligation under the existing contractual commitments, the Bank's investments in the supplementary capital instruments of a FSI entity if the entity has a reciprocal investment into the Bank, which the Agency believes to have been made with a view to artificial increase in the regulatory capital, the Bank's direct or indirect investments in the supplementary capital instruments of a FSI entity if the Bank holds a significant interest therein, the amount of direct or indirect Bank's investment into the supplementary capital instruments of a FSI entity if the Bank holds no significant interest therein, excluding items that, as the issue underwriter, it has held for no more than five working days.

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

h) Capital Risk Management (Continued)

The table below provides the Bank's capital structure for the purpose of calculation of the Bank's capital adequacy ratio in accordance with the new Decision on Bank Capital Calculation enacted by the Banking Agency of the Republic of Srpska ("BARS") (Official Gazette of RS no. 74/2017 and 114/2017):

	2017
Core capital	
Equity instruments recognized at the regular core capital	153,094
Retained earnings	(70,039)
Other comprehensive income	20
(-) Other intangible assets	(4,437)
Regular core capital	**78,638**
Additional core capital	-
Total core capital	**78,638**
Supplementary capital	
Total supplementary capital	6,068
Total regulatory capital	**84,706**
Risk exposures	
Risk-weighted exposures for credit risk, financial derivatives exposure to credit risk and free delivery (settlement) risk	485,476
Total exposures to the position risk, currency and commodity risks	21,803
Total operational risk exposure	69,932
Total risk exposures	**577,211**
Ratio of the regular core capital	13.62%
Regular core capital surplus	39,676
Core capital ratio	13.62%
Core capital surplus	26,689
Regulatory capital ratio	14.68%
Regulatory capital surplus	15,441

As of December 31, 2017 and 2016 all the Bank's capital ratios were in compliance with the regulatory requirements. The regulatory capital ration will reach 15.45% after the enactment of the decision of profit distribution and loss absorption, whereby the Bank will have fulfilled the requirement of capital buffer maintenance (the prescribed minimum is 14.5%). From the foregoing it is evident that the Bank has a solid capital postion.

With regard to capital risk management, the Bank aims to:

- provide compliance with the Banking Agency of the Republic of Srpska requirements;
- provide compliance with Addiko Group standards;
- provide solid capital basis as a support for further development of Bank's operations;
- provide possibilities of long-term business operation while providing profit for shareholders.

The Bank's management monitors adequacy ratios and other performance indicators on a regular basis. Reports on indicators are submitted to the Banking Agency of the Republic of Srpska quarterly in the prescribed form.

The Bank manages capital and performs reconciliations in accordance with its goals, market changes and risks typical for Bank's operations. Depending on the primary goal, the Bank adjusts capital structure as follows:

- by adjustments of dividend payments to shareholders, i.e., by increase in share capital from profit allocation;
- by increase in capital reserves from profit allocation;
- by new issues of shares which can be private and public;
- by increase in supplementary capital items.

Based on the previously effective Decision on the Minimum Standards for Bank Capital Management and Capital Protection of Bars from 2014, the Bank's capital was comprised of:

- core capital (Tier 1) and
- supplementary capital (Tier 2).

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

h) Capital Risk Management (Continued)

The core capital of the Bank used to consist of paid-in share capital, statutory reserves, audited profit for the current and previous years (if the decision was made to allocate it to the share capital) and other reserves from profit less core capital deductible items, comprised of intangible assets, unabsorbed losses from previous years and current year's loss, carrying value of own shares held by the Bank, deferred tax assets and the negative revaluation reserve.

The Bank's supplementary capital includes general provisions for credit losses on the Bank's assets within category A, subordinated debt up to 50% of the core capital and positive revaluation reserves.

For the purposes of calculating the net capital, the core and supplementary capital were reduced by deductible items, comprising the amount of shortfall loan loss reserves as per regulatory requirements of the Banking Agency of the Republic of Srpska.

In accordance with the Decision:

- The supplementary capital was not allowed to exceed a half of the Bank's core capital as from December 31, 2015, with the core capital equal to at least 8% of the total risk-weighted assets; and
- The supplementary capital was not allowed to exceed a third of the Bank's core capital as from December 31, 2015, with the core capital equal to at least 9% of the total risk-weighted assets,i.e. the banks were also required to adjust the scope and structure of their operations to the performance indicators defined by the regulations of the Banking Agency of the Republic of Srpska, i.e., the Decision on the Minimum Standards for Bank Capital Management and Capital Protection and other relevant decisions of the Banking Agency of the Republic of Srpska in the field of banking business supervision and the RS Law on Banks.

The following table shows the capital structure of the Bank, for the purpose of calculating the capital adequacy ratio in accordance with the Decision on the Minimum Standards for Bank Capital Management and Capital Protection of BARS, which was effective up to August 15, 2017. The Bank is required to submit to BARS parallel reports, those prepared in accordance with the said Decision and the reports prepared in accordance with new Decision on Bank Capital Calculation effective from Augutst 2017:

	2017	2016
Core capital (Tier I):		
Shareholders' equity	153,094	153,094
Legal reserves	-	-
Retained earnings	610	548
Other reserves	-	-
Unabsorbed and current loss	(70,649)	(70,649)
Intangible assets	(4,437)	(3,483)
Deferred tax assets	-	-
Negative revaluation reserve	(4)	(115)
Total core capital (Tier I)	**78,614**	**79,395**
Supplementary capital (Tier II):		
General reserves of category A, by BARS regulations	7,472	6,449
Positive revaluation reserves	-	109
Permanent deposit	-	-
Total supplementary capital (Tier II)	**7,472**	**6,558**
Deductible items		
Shortfall reserves for loan losses per BARS regulations	-	-
Net capital	**86,086**	**85,953**
Total risk-weighted assets*	490,160	429,676
Total risk weighted off-balance sheet items*	69,827	45,937
Weighted operational risk*	52,038	51,463
Total risks weighted	**612,025**	**527,076**
Capital adequacy ratio as at December 31	14.1%	16.3%
The ratio of the core capital to the total weighted risks	**12.8%**	**15.1%**

** The amounts of capital and other balance sheet items in the above table are calculated in accordance with BARS regulations*

(Thousands of BAM)

7. INTEREST INCOME AND EXPENSES

a) Interest Income - Breakdown per Source

	GROUP		BANK	
	2017	2016	2017	2016
Interest income from the retail customers	21,141	17,602	21,141	17,526
Interest income from corporate and public sector customers	8,647	7,747	8,637	7,535
Interest income from loans and receivables due from banks	-	-	-	-
Interest income from balances with other banks	57	26	57	26
	29,845	**25,375**	**29,835**	**25,087**

b) Interest Income - Breakdown per Product

	GROUP		BANK	
	2017	2016	2017	2016
Balances with the Central Bank	-	-	-	-
Balances with other banks	57	26	57	26
Loans and receivables due from customers	29,578	25,023	29,568	24,735
Financial assets available for sale	210	326	210	326
	29,845	**25,375**	**29,835**	**25,087**

c) Interest Expenses - Breakdown per Source

	GROUP		BANK	
	2017	2016	2017	2016
Deposits due to banks and financial institutions	2,830	3,541	2,825	3,430
Deposits due to retail customers	4,326	3,243	4,326	3,243
Deposits due to public sector	379	403	379	403
Deposits due to corporate customers	264	102	264	102
Balances with the Central Bank	93	42	93	42
Balances with other banks	52	3	52	3
Bonds	21	6	21	6
Other deposits	13	12	13	12
	7,978	**7,352**	**7,973**	**7,241**

d) Interest Expenses - Breakdown per Product

	GROUP		BANK	
	2017	2016	2017	2016
Current accounts and deposits of customers	5,291	3,918	5,291	3,918
Current accounts and deposits of banks	1,724	2,432	1,719	2,321
Negative interest per loans extended	166	51	166	51
Borrowings	797	951	797	951
	7,978	**7,352**	**7,973**	**7,241**

(Thousands of BAM)

8. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and Commission Income

	GROUP		BANK	
	2017	2016	2017	2016
Fee income arising from domestic payment transfers	5,947	5,223	5,948	5,225
Fees earned on VISA card operations	3,087	2,856	3,087	2,856
Fee income arising from international payment transfers	1,739	1,501	1,739	1,501
Fee income from currency conversion operations	895	881	891	881
Charges for early loan repayment, reminders and other loan fees	431	799	431	767
Commission from issued guarantees, letters of credit and other sureties	824	177	824	177
Brokerage commissions	31	77	31	77
Other fee and commission income	1,122	122	1,122	122
	14,076	**11,636**	**14,073**	**11,606**

b) Fee and Commission Expenses

	GROUP		BANK	
	2017	2016	2017	2016
Fee expenses incurred on payment card operations	1,217	1,277	1,217	1,277
Fees for loans, issued guarantees and other fees	117	228	117	222
Fee expenses incurred on domestic payment transfers	303	221	296	222
Fee expenses incurred on international payment transfers	138	160	137	159
Fee expenses incurred on stock exchange operations and Central Register fees	139	59	139	59
	1,914	**1,945**	**1,906**	**1,939**

9. OTHER OPERATING INCOME

	GROUP		BANK	
	2017	2016	2017	2016
Collection of receivables previously written-off	3,203	3,749	3,204	3,834
Gains on the sales and value adjustments of tangible assets acquired in lieu of debt collection	570	2,349	570	2,319
Rental income	375	436	378	453
Income from closing dormant accounts	104	194	104	194
Sale of securities	318	82	318	82
Sales of consultancy services	25	36	25	47
Dividend income	48	8	48	8
Capital gains on the sales of acquired tangible assets, property and equipment	227	8	227	8
Write-off of liabilities	-	5	-	-
Other income	549	568	493	471
	5,419	**7,435**	**5,367**	**7,416**

(Thousands of BAM)

10. STAFF COSTS

	GROUP		BANK	
	2017	2016	2017	2016
Net salaries	7,670	8,603	7,603	8,332
Payroll taxes and contributions	4,843	5,486	4,769	5,258
Other employee benefits	815	669	808	602
(Income)/ Expenses provisions for employee retirement benefits and unused annual leaves	(47)	134	(47)	57
Provisions for employee bonuses	723	365	723	365
	14,004	**15,257**	**13,856**	**14,614**

Other employee benefits include the cost of employee commuting allowances, paid recreation hours, insurance and other forms of employee benefits.

11. EXPENSES PER CHF INCENTIVES

Expenses per CHF incentives totaling BAM 668 thousand in FY 2017 (2016: BAM 16,637 thousand) resulted from the conversion of CHF loans to the local currency, which was a resolution of the issue of customers with CHF currency clause-indexed loans. In order to address the CHF loan portfolio, in March 2016, the Bank offered concessions to its retail customers with CHF currency clause-indexed loans in form of a 30% reduction of their credit commitments along with loan amount conversion to BAM at the spot exchange rates and a fixed interest rate of 5.99% for the new loans. The proposed Bank's offer had a component of social responsibility, in the form of additional incentive to reduce the amount of liabilities for loan repayment by 50% to 25% of the clients with the lowest monthly income (for more details, please refer to Note 18).

12. OTHER OPERATING EXPENSES

	GROUP		BANK	
	2017	2016	2017	2016
Software lease costs	4,221	4,204	4,221	4,204
Property insurance and security	2,146	1,894	2,146	1,894
Telecommunications	1,414	1,390	1,410	1,373
Cost of materials, fuel, energy and services	1,258	1,350	1,258	1,338
Indirect taxes and contributions	1,185	1,174	1,185	1,165
Advertising, marketing and entertainment	1,217	1,070	1,217	1,067
Rental costs	1,208	984	1,208	961
Maintenance	811	953	801	911
Litigation costs	1,573	839	1,573	814
Losses on the sales and fair value adjustments of the tangible assets acquired in lieu of debt collection	177	776	177	774
Non-material expenses	198	711	198	678
Fees payable to the Banking Agency of the Republic of Srpska	625	625	623	619
Intellectual services rendered by related banks	403	-	403	-
Consulting services	157	262	157	222
Membership fees and commissions	278	220	272	220
Per diems and other travel costs	250	170	250	165
Sponsorship and humanitarian aid projects	153	97	153	97
Losses on impairment of financial assets available for sale	-	79	-	79
Disposals and write-offs of property and equipment	124	41	124	40
Other expenses	988	1,083	977	915
	18,386	**17,922**	**18,353**	**17,536**

(Thousands of BAM)

13. PROVISIONS FOR POTENTIAL LOSSES, COMMITMENTS AND WRITE-OFFS

	GROUP		BANK	
	2017	2016	2017	2016
Loans and receivables due from customers (Note 18)	(4.069)	(7.677)	(4.509)	(9.247)
Other financial assets (Note 24)	221	312	221	312
Other assets (Note 24)	-	-	-	-
Provisions for off-balance sheet exposures (Note 33)	1.747	(428)	1.747	(443)
Balances with other banks (Note 17)	9	5	9	5
Write-offs	323	398	317	398
	(1.769)	**(7.390)**	**(2.215)**	**(8.975)**

14. PROVISIONS FOR OTHER RISK AND CONTINGENT LIABILITIES

	GROUP		BANK	
	2017	2016	2017	2016
Expenses per provisions for litigations (Note 33)	633	2,589	633	2,589
Expenses per restructuring provisions (Note 33)	-	(2,246)	-	(2,246)
	633	**343**	**633**	**343**

15. INCOME TAXES

a) *Components of Income Taxes*

	GROUP		BANK	
	2017	2016	2017	2016
Current income tax expenses	-	-	-	-
Deferred tax (benefits)/expense	(7)	(9)	(7)	(9)
	(7)	**(9)**	**(7)**	**(9)**

b) *Reconciliation between tax expense and profit before taxes multiplied by the applicable tax rate*

	GROUP		BANK	
	2017	2016	2017	2016
Profit/(loss) before taxes	3,874	(10,894)	4,468	(9,024)
Income taxes at the statutory tax rate of 10%	387	(1,090)	447	(902)
Adjustments				
Tax effects of expenses not recognized for tax purposes	441	243	344	102
Tax effects of income not recognized for tax purposes	(24)	(39)	(24)	(39)
Tax effect of recognized provisions for potential losses	92	(839)	92	-
Non-deductible entertainment costs	2	2	2	2
Non-deductible penalties	11	3	11	3
Tax effects of depreciation and amortization not recognized for tax purposes	(104)	(259)	(104)	(259)
Tax effects of provisions for employee benefits	(47)	52	(47)	52
Tax (gains)/losses not recognized as deferred tax assets or liabilities	-	1,871	-	1,032
Utilisation of tax losses carried forwars	(758)	-	(721)	-
Reversal of deferred tax (liabilities)/assets	(7)	47	(7)	-
Income tax expense	**(7)**	**(9)**	**(7)**	**(9)**
Effective tax rate	0%	0%	0%	0%

In FY 2017 the bank's taxable income amounted to BAM 7,207 thousand. The Bank eliminated the taxable income amount using the same amount of the tax losses carried forward from prior periods. The remaining gross tax losses of BAM 14,381 thousand will be available for elimination or reduction of the Bank's taxable profits in the ensuing years. A tax loss is vailable for carryforward withing five years from inception (the aforesaid amount can be used up to December 31, 2021).

(Thousands of BAM)

15. INCOME TAXES (Continued)

c) *Deferred Taxes*

The following table shows items for which deferred tax assets and liabilities were formed:

	GROUP		BANK	
	2017	2016	2017	2016
Deferred tax liabilities				
Revaluation reserves from fixed assets	(248)	(255)	(248)	(255)
Changes in fair value of securities available for sale	-	-	-	-
Fixed assets - different tax and accounting depreciation rates	(341)	(341)	(341)	(341)
	(589)	(596)	**(589)**	(596)
Deferred tax liabilities, net	**(589)**	**(596)**	**(589)**	**(596)**

Movements on deferred taxes of the Group were as follows:

GROUP	January 1, 2017	Recognized in the profit or loss	Recognized in other comprehensive income	December 31, 2017	Deferred tax assets	Deferred tax liabilities
Retirement benefits and restructuring provisions	-	-	-	-	-	-
Fixed assets - different tax and accounting rates	-	-	-	-	-	-
Provisions for other risks and contingent liabilities	-	-	-	-	-	-
Impairment of fixed assets recognized in profit or loss	-	-	-	-	-	-
Change in fair value available-for-sale securities	-	-	-	-	-	-
Revaluation reserves from fixed assets	(256)	6	1	(249)	-	(249)
Fixed assets - different tax and accounting rates	(340)			(340)	-	(340)
	(596)	6	1	(589)	-	(589)

GROUP	January 1, 2016	Recognized in the profit or loss	Recognized in other comprehensive income	December 31, 2016	Deferred tax assets	Deferred tax liabilities
Retirement benefits and restructuring provisions	-	-	-	-	-	-
Fixed assets - different tax and accounting rates	-	-	-	-	-	-
Provisions for other risks and contingent liabilities	-	-	-	-	-	-
Impairment of fixed assets recognized in profit or loss	-	-	-	-	-	-
Change in fair value available-for-sale securities	(3)	3	-	-	-	-
Revaluation reserves from fixed assets	(340)	6	78	(256)	-	(256)
Fixed assets - different tax and accounting rates	(340)	-	-	(340)	-	(340)
	(683)	9	78	(596)	-	(596)

(Thousands of BAM)

15. INCOME TAXES (Continued)

c) Deferred Taxes (Continued)

Movements on deferred taxes of the Bank were as follows:

BANK	January 1, 2017	Recognized in the profit or loss	Recognized in other comprehensive income	December 31, 2017	Deferred tax assets	Deferred tax liabilities
Retirement benefits and restructuring provisions	-	-	-	-	-	-
Fixed assets - different tax and accounting rates	-	-	-	-	-	-
Provisions for other risks and contingent liabilities	-	-	-	-	-	-
Impairment of fixed assets recognized in profit or loss	-	-	-	-	-	-
Change in fair value available-for-sale securities	-	-	-	-	-	-
Revaluation reserves from fixed assets	(256)	6	1	(249)	-	(249)
Fixed assets - different tax and accounting rates	(340)			(340)	-	(340)
	(596)	6	1	(589)	-	(589)

BANK	January 1, 2016	Recognized in the profit or loss	Recognized in other comprehensive income	December 31, 2016	Deferred tax assets	Deferred tax liabilities
Retirement benefits and restructuring provisions	-	-	-	-	-	-
Fixed assets - different tax and accounting rates	-	-	-	-	-	-
Provisions for other risks and contingent liabilities	-	-	-	-	-	-
Impairment of fixed assets recognized in profit or loss	-	-	-	-	-	-
Change in fair value available-for-sale securities	(3)	3	-	-	-	-
Revaluation reserves from fixed assets	(340)	6	78	(256)	-	(256)
Fixed assets - different tax and accounting rates	(340)	-	-	(340)	-	(340)
	(683)	9	78	(596)	-	(596)

16. CASH AND BALANCES HELD WITH THE CENTRAL BANK

	GROUP		BANK	
	2017	2016	2017	2016
Cash in hand:				
- in local currency	13,768	15,200	13,768	15,200
- in foreign currencies	7,256	6,774	7,256	6,774
Balances with the Central Bank (BAM)				
- obligatory reserve	47,106	32,608	47,106	32,608
- gyro account	53,733	52,548	53,733	52,548
	121,863	**107,130**	**121,863**	**107,130**

The obligatory reserve represents amounts required to be deposited with the Central Bank of Bosnia and Herzegovina. Pursuant to the Decision of the Central Bank of Bosnia and Herzegovina, starting from August 31, 2016, the required reserve represents 10% of average balance of liabilities per deposits and borrowings irrespective of their maturities.

The required reserve is maintained as the average balance on the current account with the Central Bank of Bosnia and Herzegovina. This reserve is available for liquidity purposes. The Central Bank pays a fee for the obligatory reserve in the manner prescribed by the Law

(Thousands of BAM)

17. BALANCES HELD WITH OTHER BANKS

	GROUP		BANK	
	2017	2016	2017	2016
Foreign currency accounts with foreign and domestic banks	13,363	17,030	13,363	17,027
Up to 7 days term deposits	6,061	4,639	6,061	4,639
Foreign currency cheques in the course of collection	1	6	1	6
Total	**19,425**	**21,675**	**19,425**	**21,672**
Less: Allowance for impairment	(15)	(7)	(15)	(7)
	19,410	**21,668**	**19,410**	**21,665**

As of December 31, 2017 the amount of BAM 6,061 thousand related to the foreign currency term deposits totaling USD 3.5 million, maturing within 7 days, placed with Erste Group Bank AG Austria at an interest rate of 1.6% and a deposit placed as collateral with Addiko Bank AG at EONIA interest rate and in the total amount of EUR 180 thousand.

Foreign currency accounts held with foreign and domestic banks accrue interest depending on the terms of respective contracts executed with those banks for various currencies.

Movements on the account of provisions are presented in the following table:

	GROUP		BANK	
	2017	2016	2017	2016
Balance at January 1	*7*	*2*	*7*	*2*
Charge for the year	13	6	13	6
Reversal/decrease	(4)	(1)	(4)	(1)
Charge for the year, net (Note 13)	*9*	***5***	*9*	***5***
Foreign exchange effects, net	*(1)*	-	*(1)*	-
Balance at December 31	**15**	**7**	**15**	**7**

18. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

	GROUP		BANK	
	2017	2016	2017	2016
Retail customers	365,494	355,779	365.494	355,473
Private companies	176,868	154,850	178.868	154,123
Public sector (Government)	45,535	67,182	45.535	67,171
Public companies	21,257	12,453	21.257	12,445
Entrepreneurs	11,636	6,711	11.636	6,584
Non-residents	1,462	1,541	1.462	1,541
Non-banking financial institutions	9,743	1,502	9.743	2,841
Other organizations	351	282	351	274
Total, gross	**632,346**	**600,300**	**632,346**	**600,452**
Less: Impairment allowance	(108,568)	(124,432)	(108,568)	(124,950)
Total loans, net	**523,778**	**475,868**	**523,778**	**475,502**
Accrued fee income charged	(1,759)	(1,419)	(1,759)	(1,419)
Total net loans and receivables due from customers	**522,019**	**474,449**	**522,019**	**474,083**

In order to address the CHF loan portfolio, on March 8, 2016, at the initiative of the Executive Board and with the consent of its majority owner, the Bank initiated the CHF Loan Project. The Bank offered concessions to its retail customers with CHF currency clause-indexed loans in form of a 30% reduction of their credit commitments along with loan amount conversion to BAM at the spot exchange rates and a fixed interest rate of 5.99% for the new loans, with the costs of conversion borne by the Bank. Collaterals for the new loans remained the same and further extension of the repayment period was possible up to 100% of the remaining repayment period up to 75 years of age of the borrower. The proposed Bank's solution had a component of corporate social responsibility, in the form of additional incentive to reduce the amount of credit commitments by 50% to 25% for the clients with the lowest monthly income.

(Thousands of BAM)

18. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

The Project officially ended on December 5, 2016 although the Bank continued processing applications received up to that date. All subsequently received loan conversion applications were thereafter considered individually as part of regular activities in 2017 as well.

The total decrease of the retail segment's balance sheet debt amounted up to BAM 25,972 thousand in 2016, which, after the release of the previously formed impairment allowances and provisions, directly resulted in expenses of BAM 16,631 thousand in 2016, respectively BAM 668 thousand in 2017 (Note 11).

Loans and receivables due from customers per product type are presented below:

	GROUP			BANK
	2017	2016	2017	2016
Investment loans	180,804	182,443	180,804	183,782
Consumer loans	222,322	179,400	222,322	179,400
Housing loans	77,333	95,600	77,333	95,508
Loans for working capital	35,072	39,734	35,072	39,734
Mortgage loans	28,993	38,816	28,993	38,816
Account overdrafts	58,722	33,101	58,722	33,101
Car loans	291	906	291	173
Paid guarantees	164	291	164	291
Other	28,645	30,009	28,645	29,647
Total	**632,346**	**600,300**	**632,346**	**600,452**
Less: Impairment allowance	(108,568)	(124,432)	(108,568)	(124,950)
Total loans, net	**523,778**	**475,868**	**523,778**	**475,502**
Accrued fee income charged	(1,759)	(1,419)	(1,759)	(1,419)
Total loans and receivables due from customers	**522,019**	**474,449**	**522,019**	**474,083**

During 2017 the Bank acquired real estates and movables used as collateral securitizing loans in the total amount of BAM 1,097 thousand (2016: BAM 1,080 thousand).

During 2017 the Bank sold assets acquired in lieu of debt collection with the carrying value of BAM 154 thousand (2016: BAM 1,398 thousand).

Movements on provisions for loans were as follows:

	GROUP		BANK	
	2017	2016	2017	2016
Balance at January 1	124,432	**159,386**	124,950	**161,459**
Charge for the year	24,331	21,410	24,331	19,679
Reversal/release	(26,916)	(26,339)	(27,356)	(26,178)
Decrease - unwinding (interest income on impaired receivables)	(1,484)	(2,748)	(1,484)	(2,748)
Charge for the year, net (Note 13)	**(4,069)**	***(7,677)***	**(4,509)**	***(9,247)***
Foreign exchange effects, net	(1,746)	29	(1,746)	29
Sales	-	(13,243)	-	(13,243)
Write-offs	(10,049)	(14,063)	(10,127)	(14,048)
Balance at December 31	**108,568**	**124,432**	**108,568**	**124,950**

(Thousands of BAM)

19. FINANCIAL ASSETS

a) Securities available for sale

	GROUP		BANK	
	2017	2016	2017	2016
Debt securities - listed, marketable				
Kingdom of Spain Government bonds	-	17,620	-	17,620
Hungary Government bonds	-	18,203	-	18,203
Italy Government bonds	-	17,475	-	17,475
Romania Government bonds	-	3,438	-	3,438
Bulgaria Government bonds	-	3,580	-	3,580
Poland Government bonds	-	5,846	-	5,846
RS Ministry of Finance bonds	2,029	2,030	2,029	2,030
Total listed securities	**2,029**	**68,192**	**2,029**	**68,192**
Equity securities - unlisted				
Banja Luka Stock Exchange	175	175	175	175
Central Register of Securities, Banja Luka	30	30	30	30
Euro Axis Bank	-	-	-	-
SWIFT	24	24	24	24
Total unlisted securities	**229**	**229**	**229**	**229**
Total securities available for sale	**2,258**	**68,421**	**2,258**	**68,421**

Investments in debt securities totaling BAM 2,029 thousand as of December 31, 2017 refer to the long-term debt securities issued by the Ministry of Finance of Republic of Srpska at interest rates ranging from 1.5% to 6%.

b) Derivative financial assets and liabilities

Derivatives held for trading

GROUP AND BANK	2017	2016
Assets		
Fair value:		
Currency forwards and currency swaps	-	66
Notional amount:		
Currency forwards and currency swaps	134,952	191,651
Liabilities		
Fair value:		
Currency forwards and currency swaps	-	87
Notional amount:		
Currency forwards and currency swaps	134,952	191,671

The Bank uses foreign currency forward contracts and currency swaps to manage foreign exchange risk. Derivatives are classified as financial instruments held for trading, as the Bank has not implemented hedge accounting.

The notional amounts of certain types of financial assets provide a basis for comparison with the assets in the statement of financial position, but do not necessarily indicate the amount of future cash flows or current fair value of the assets and therefore do not indicate the exposure to credit risk, or the risk of price changes.

(Thousands of BAM)

20. EQUITY INVESTMENTS IN SUBSIDIARIES

Equity investments in subsidiaries with the net carrying value of BAM 0 thousand (BAM 2,975 thousand gross) as of December 31, 2016 relate to a 100% owned investment in the subsidiary Hypo Alpe-Adria-Leasing d.o.o. Banja Luka, which was established in June 2011 and is involved in lease activities. In 2016 capital of the subsidiary Hypo Alpe-Adria-Leasing d.o.o., Banja Luka was increased three times, as follows: on March 14, 2016 by BAM 300 thousand, on July 29, 2016 by BAM 150 thousand and on October 5, 2016 by BAM 150 thousand. Given the strategic decision of Addiko Group to retire from the leasing business, the Bank' investment in the subsidiary was impaired in the amount of BAM 600 thousand on December 12, 2016. Thereby the value of the equity investment in the subsidiary was decreased to zero. At the issuer's proposal dated April 7, 2017, a liquidation procedure was instigated over Hypo Alpe-Adria-Leasing d.o.o. Banja Luka before the District Commercial Court of Banja Luka. On September 9, 2017, the liquidation procedure was officially commenced, whereby the Bank lost control over the subsidiary Hypo Alpe-Adria-Leasing d.o.o. Banja Luka.

Movements on the Bank's equity investments are provided below:

	2017	2016
January 1		-
Increase	-	600
Impairment	-	(600)
December 31	-	-

21. PROPERTY AND EQUIPMENT

	GROUP				BANK			
	Land and buildings	Equipment, other assets	Invest-ments in progress	Total	Land and buildings	Equipment, other assets	Invest-ments in progress	Total
Cost								
Balance, January 1, 2016	38,047	11,189	140	49,376	38,047	10,803	140	48,990
Additions	-	380	622	1,002	-	380	622	1,002
Transfers	-	703	(703)	-	-	703	(703)	-
Retirement and disposal	-	(139)	-	(139)	-	(139)	-	(139)
Write-offs	-	(7)	-	(7)	-	-	-	-
Derecognition	(82)	-	-	(82)	(82)	-	-	(82)
Sales	-	(228)	-	(228)	-	(27)	-	(27)
Balance, December 31, 2016	37,965	11,898	59	49,922	37,965	11,720	59	49,744
Balance, January 1, 2017	37,965	11,898	59	49,922	37,965	11,720	59	49,744
Additions	13	604	58	675	13	604	58	675
Transfers	-	58	(58)	-	-	58	(58)	-
Retirement and disposal	-	(191)	-	(191)	-	(191)	-	(191)
Loss of control	-	(178)	-	(178)	-	-	-	-
Impairment	(119)	-	-	(119)	(119)	-	-	(119)
Derecognition	-	-	(57)	(57)	-	-	(57)	(57)
Sales	-	(2,983)	-	(2,983)	-	(2,983)	-	(2,983)
Reclassifications	(547)	-	-	(547)	(547)	-	-	(547)
Balance, December 31, 2017	**37,312**	**9,208**	**2**	**46,522**	**37,312**	**9,208**	**2**	**46,522**
Accumulated depreciation				-				-
Balance, January 1, 2016	7,947	8,213	-	16,160	7,947	8,025	-	15,972
Charge for the year	587	932	-	1,519	587	877	-	1,464
Retirement and disposal	-	(114)	-	(114)	-	(114)	-	(114)
Impairment	1,757	454	-	2,211	1,757	454	-	2,211
Write-offs	-	(6)	-	(6)	-	-	-	-
Derecognition	(18)	-	-	(18)	(18)	-	-	(18)
Sales	-	(172)	-	(172)	-	(17)	-	(17)
Balance, December 31, 2016	**10,273**	**9,307**	**-**	**19,580**	**10,273**	**9,225**	**-**	**19,498**
Balance, January 1, 2017	10,273	9,307	-	19,580	10,273	9,225	-	19,498
Charge for the year	566	578	-	1,144	566	560	-	1,126
Retirement and disposal	-	(180)	-	(180)	-	(180)	-	(180)
Loss of control	-	(100)	-	(100)	-	-	-	-
Impairment	1,095	-	-	1,095	1,095	-	-	1,095
Sales	-	(2,471)	-	(2,471)	-	(2,471)	-	(2,471)
Reclassifications	(155)	-	-	(155)	(155)	-	-	(155)
Balance, December 31, 2017	**11,779**	**7,134**	**-**	**18,913**	**11,779**	**7,134**	**-**	**18,913**
Net book value:								
at December 31, 2017	**25,533**	**2,074**	**2**	**27,609**	**25,533**	**2,074**	**2**	**27,609**
at December 31, 2016	**27,692**	**2,591**	**59**	**30,342**	**27,692**	**2,495**	**59**	**30,246**

(Thousands of BAM)

21. PROPERTY AND EQUIPMENT (Continued)

The Group's and the Bank's property as of December 31, 2017 included land and buildings with the carrying value of BAM 723 thousand for which the Bank did not possess appropriate title deeds (2016: BAM 746 thousand).

As of December 31, 2017, neither the Group nor the Bank had mortgage or pledge liens assigned over their property and equipment.

As of December 31, 2017, the Group and the Bank recorded impairment in the amount of BAM 1,227 thousand, of which the amount of BAM 1 thousand was recorded as a decrease of previously recognized revaluation reserve while BAM 1,226 thousand was recognized in the current year's profit and loss statement.

If the value of property and equipment were presented at historical cost, the Bank would have recognized the following amounts:

BANK	2017	2016
Cost	**49,612**	**51,940**
Accumulated depreciation	(24,615)	(24,525)
Net book value	**24,997**	**27,415**

22. INTANGIBLE ASSETS

	GROUP Licenses and software	BANK Licenses and software
Cost		
Balance at January 1, 2016	*17,379*	*17,234*
Additions	1,023	1,023
Retirement and disposal	(10)	(10)
Balance at December 31, 2016	**18,392**	**18,247**
Balance at January 1, 2017	*18,392*	*18,247*
Additions	1,948	1,948
Loss of control	(145)	-
Reclassification from the property and equipment	57	57
Balance at December 31, 2017	**20,252**	**20,252**
Accumulated amortization		
Balance at January 1, 2016	*13,663*	*13,540*
Charge for the year	1,134	1,113
Impairment	111	111
Balance at December 31, 2016	**14,908**	**14,764**
Balance at January 1, 2017	*14,908*	*14,764*
Charge for the year	1,051	1,050
Loss of control	(145)	-
Balance at December 31, 2017	**15,814**	**15,814**
Net book value:		
at December 31, 2017	**4,438**	**4,438**
at December 31, 2016	**3,484**	**3,483**

If the value of intangible assets were presented at historical cost, the Bank would have recognized the following amounts:

BANK	2017	2016
Cost	**19,947**	**17,943**
Accumulated depreciation	(15,509)	(14,460)
Net book value	**4,438**	**3,483**

(Thousands of BAM)

23. INVESTMENT PROPERTY

	GROUP	BANK
Cost		
Balance at December 31, 2015	**2,490**	**2,490**
Balance at January 1, 2016	2,490	2,490
Reclassification	64	64
Balance at December 31, 2016	**2,554**	**2,554**
Balance at January 1, 2017	2,554	2,554
Fair value adjustment	(13)	(13)
Reclassification/derecognition	(153)	(153)
Balance at December 31, 2017	**2,388**	**2,388**

24. OTHER FINANCIAL ASSETS

	GROUP		BANK	
	2017	2016	2017	2016
Other financial assets				
In local currency:				
- Receivables from customers arising from litigations	1,605	1,522	1,605	1,522
- Receivables from the sales of collaterals	45	195	45	195
- Receivables from credit card operations	889	728	889	728
- Advances paid	433	486	433	486
- Rental receivables from customers	75	82	75	82
- Receivables for consultant fees	2	16	2	16
- Receivables on behalf of and for the account of third parties	199	401	199	401
- Receivables for assets sold	1	-	1	-
- Other receivables	340	362	340	362
In foreign currencies:				
- Receivables from credit card operations	607	661	607	661
- Prepaid interest	1	1	1	1
- Other receivables	81	89	81	89
Total:	**4,278**	**4,543**	**4,278**	**4,543**
Less: Impairment allowance	(2,387)	(2,280)	(2,387)	(2,280)
	1,891	**2,263**	**1,891**	**2,263**

Movements on provisions (Impairment allowance accounts) are provided in the table below:

	GROUP		BANK	
	2017	2016	2017	2016
Balance at January 1	*2,280*	***1,968***	*2,280*	***1,968***
Charge for the year	336	312	336	312
Reversal of provisions	(115)	-	(115)	-
Charge for the year, net (Note 13)	221	***312***	221	***312***
Release of provisions	(114)	-	(114)	-
Balance at December 31	**2,387**	**2,280**	**2,387**	**2,280**

(Thousands of BAM)

25. OTHER ASSETS

Breakdown of the non-financial assets is provided in the table below:

	GROUP		BANK	
	2017	2016	2017	2016
Other non-financial assets				
In local currency:				
- Tangible assets received in lieu of debt collection	1,773	1,486	1,773	1,486
- Consumables, tools and fixtures	100	121	100	121
- Prepaid expenses	288	221	288	208
- Receivables for prepaid income taxes in Brčko District	-	-	-	-
- Receivables for deposited funds	509	634	509	634
- Receivables from investment funds	305	240	305	234
- Receivables for assets in acquisition	376	398	376	398
- Other receivables	2,133	1,616	2,133	1,579
In foreign currencies:				
- Prepaid expenses	1	9	1	9
- Other receivables	190	20	190	20
Total:	**5,675**	**4,745**	**5,675**	**4,689**
Less: Impairment allowance	-	-	-	-
	5,675	**4,745**	**5,675**	**4,689**

26. DEPOSITS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Deposits due to banks and financial institutions, grouped per agreed placement period, are presented below:

	GROUP		BANK	
	2017	2016	2017	2016
Demand deposits	6,059	3,610	6,059	3,917
Short-term deposits	25,449	32,864	25,449	32,864
Long-term deposits	18,539	105,198	18,539	105,198
	50,047	**141,672**	**50,047**	**141,979**

Within the total foreign currency short-term deposits, BAM 25,426 thousand relates to the deposits placed by Addiko Bank d.d. Sarajevo and Addiko Bank a.d. Beograd for periods from 8 to 12 months at fixed annual interest rates ranging from 0.5% to 2.42%.

Deposits due to banks and financial institutions classified per currency are presented below:

	GROUP		BANK	
	2017	2016	2017	2016
Local currency	5,991	4,331	5,991	4,637
Foreign currency	44,056	137,341	44,056	137,342
	50,047	**141,672**	**50,047**	**141,979**

Deposits denominated in BAM with contracted currency clause are presented within appropriate foreign currency items. Decrease foreign currency deposits compared to FY 2016 is a consequence of repayment financing lines to the majority owner in accordance with the agreed maturity date.

(Thousands of BAM)

27. DEPOSITS DUE TO CUSTOMERS

Deposits due to customers, grouped per agreed placement period, are presented below:

	GROUP		BANK	
	2017	2016	2017	2016
Demand deposits	243,628	253,921	243,628	253,921
Short-term deposits	5,293	9,289	5,293	9,289
Long-term deposits	210,460	101,904	210,460	101,904
	459,381	**365,114**	**459,381**	**365,114**

Deposits due to customers classified per customer type are presented below:

	GROUP		BANK	
	2017	2016	2017	2016
Retail customers	334,187	252,413	334,187	252,413
Private companies	61,780	56,028	61,780	56,028
Public sector	20,549	20,680	20,549	20,680
Non-residents	18,312	15,554	18,312	15,554
Public companies	11,535	9,643	11,535	9,643
Entrepreneurs	6,941	5,968	6,941	5,968
Other organizations	6,077	4,828	6,077	4,828
	459,381	**365,114**	**459,381**	**365,114**

Deposits due to customers classified per currency are presented below:

	GROUP		BANK	
	2017	2016	2017	2016
Local currency	197,295	190,479	197,295	190,479
Foreign currency	262,086	174,635	262,086	174,635
	459,381	**365,114**	**459,381**	**365,114**

Deposits denominated in BAM with contracted currency clause are presented within appropriate foreign currency items.

28. BORROWINGS

	GROUP		BANK	
	2017	2016	2017	2016
Long-term local currency borrowings:				
- RS Development and Employment Fund	2,510	5,183	2,510	5,183
- Fund for Development of Eastern Region of the Republic of Srpska	2,504	3,134	2,504	3,134
- RS Housing Fund	23,286	27,471	23,286	27,471
	28,300	**35,788**	**28,300**	**35,788**

Long-term borrowings in local currency were contracted with a foreign currency clause.

RS Development and Employment Fund, Banja Luka approved a loan to the Bank for financing development projects. The repayment was agreed in accordance with the repayment schedules to the end users of the loans. Interest is charged at the rate of 6-month EURIBOR as adjusted for percentage points in accordance with the criteria for adjustment of interest rates pursuant to the Framework Agreement applied to the Investment Development Bank of the Republic of Srpska Banja Luka credit facilities.

RS Fund for Development of Eastern Region of the Republic of Srpska – which assist in development projects in the eastern region of the Republic of Srpska – approved a loan to the Bank. The repayment was agreed in accordance with the repayment schedules to the end users of the loans. Interest is charged at the rate of 6-month EURIBOR as adjusted for percentage points in accordance with the criteria for adjustment of interest rates pursuant to the Framework Agreement applied to the Investment Development Bank of the Republic of Srpska Banja Luka credit facilities.

(Thousands of BAM)

28. BORROWINGS (Continued)

Housing Fund of the Republic of Srpska, Banja Luka has provided a loan to the Bank for financing the purchase, reconstruction, and extension of homes. The repayment was agreed in accordance with the repayment schedules to the end users of the loans. Interest is charged at the rate of 6-month EURIBOR as adjusted for percentage points in accordance with the criteria for adjustment of interest rates pursuant to the Framework Agreement applied to the Investment Development Bank of the Republic of Srpska Banja Luka credit facilities.

29. OTHER FINANCIAL LIABILITIES

	GROUP		BANK	
	2017	2016	2017	2016
Local currency liabilities:				
- Accounts payable	521	1,222	521	1,212
- Liabilities arising from credit card operations	478	462	478	462
- Liabilities per advances received	116	400	116	400
- Early loan repayments	422	275	422	275
- Blocked customer accounts	130	213	130	213
- Unrealized payments for foundation of entities	116	119	116	119
- PTA liabilities	55	-	55	-
- Dividend payment liabilities	70	70	70	70
- Other liabilities	165	114	165	114
Foreign currency liabilities:				
- Early loan repayments	4,752	5,170	4,752	5,170
- Accounts payable	905	458	905	458
- Liabilities arising from credit card operations	252	245	252	245
- PTA liabilities	12	8	12	8
- Other liabilities	172	1	172	1
	8,166	**8,757**	**8,166**	**8,747**

30. OTHER LIABILITIES

Breakdown of the Bank's and the Group's non-financial liabilities is provided in the table below:

	GROUP		BANK	
	2017	2016	2017	2016
Local currency liabilities:				
- Liabilities to employees	1,680	1,297	1,680	1,297
- Liabilities for taxes and contributions	849	1,007	849	1,007
- Liabilities to employees for unused annual leaves	314	366	314	366
- Deferred interest income	100	100	100	100
- Other deferred fees	95	62	95	62
- Accrued expenses	678	57	678	50
- Other liabilities	259	129	259	126
Foreign currency liabilities				
- Other liabilities	567	148	567	148
	4,542	**3,166**	**4,542**	**3,156**

Movements on provisions for unused annual leaves are presented below:

	2017	2016.
Balance at January 1	**366**	**312**
Charge for the year	-	57
Release of provisions	-	(3)
Reversal of provisions	(52)	-
(Reversal)/charge for the year, net	***(52)***	***54***
Balance at December 31	**314**	**366**

(Thousands of BAM)

31. EQUITY

Share Capital

The Bank's share capital includes initial shareholder investments and subsequent share issues. The Bank's shareholders are entitled to participation in the management of the Bank, as well as in the distribution of profit.

During 2017 the Bank did not increase/decrease its share capital. The Bank's share capital comprises 153,094,205 common stock (ordinary) shares with a par value of BAM 1 per share, which was registered with the District Commercial Court of Banja Luka on January 25, 2017 under Decision no. 057-0-Reg-17-001851.

As of December 31, 2017, the Bank's majority shareholder was Addiko Bank AG with a 99.86% equity interest (December 31, 2016: equity interest of the majority shareholder was 99.86%).

Reserves

The Bank's reserves as of December 31, 2017 are provided in the following table:

	2017	2016
Legal reserves	-	-
Special reserves for regulatory losses according to BARS regulations	61,826	61,826
Balance at December 31	**61,826**	**61,826**

The difference between impairment allowances determined according to IFRS (as described in Note 3.7) and estimated provisions for potential losses on loans classified into categories according to BARS regulation was recorded on the reserves account within equity and allocation of these reserves was made from retained earnings up to the amount of retained earnings. In case that the aforesaid item was not sufficient to absorb the shortfall reserves, it was stated as an equity deductible item. This rule was effective in the period from January 1, 2010 (upon transition to the provision calculation in accordance with IFRS) up to December 31, 2013, wherefrom the Bank's obligation to absorb the shortfall in reserves from retained earnings as per regulatory requirement has ceased.

Accordingly, the Bank was able to return all funds allocated from profit for this purpose to the account of other reserves from profit, which relate to the assessment of the quality of assets, whereby the core capital of the Bank increased by BAM 26,467 thousand. In this manner the balance on the account of special reserves for estimated losses allocated from retained earnings returned to the balance as of January 1, 2010.

The Bank used other reserves from profits to cover losses in 2014.

As of December 31, 2017 and 2016, the Group and the Bank had no recorded shortfall reserves as per BARS regulations.

	GROUP		BANK	
	2017	2016	2017	2016
Total reserves per regulatory requirements for balance sheet assets and off-balance sheet items	128.525	139.847	128.525	140.236
Total impairment allowance as per IAS 39 and IAS 37 (for balance sheet assets and off-balance sheet items)	113.516	127.925	113.516	128.037
Special reserves for regulatory losses per BARS regulations	61.826	61.826	61.826	61.826
The excess amount of credit loss reserves according to BARS regulations	(46.817)	(49.904)	(46.817)	(49.627)

(Thousands of BAM)

32. EARNINGS PER SHARE

	GROUP		BANK	
	2017	2016	2017	2016
Net profit/(loss) for the year	3,881	(10,888)	4,475	(9,015)
Weighted average number of shares outstanding	153,094,205	145,912,141	153,094,205	145,912,141
Basic earnings per share (in BAM)	**0.025**	**(0.075)**	**0.029**	**(0.062)**

The Bank (and the Group) has no potentially dilutive ordinary shares such as convertible debt and share options. Therefore, the Bank does not calculate diluted earnings per share.

33. OTHER PROVISIONS

Other provisions as of December 31, 2017 are presented below:

	GROUP		BANK	
	2017	2016	2017	2016
Litigation	3,106	9,846	3,106	9,846
Restructuring	775	1,282	775	1,282
Other provisions	16	1,143	16	1,049
Retirement benefits	294	389	294	312
	4,191	*12,660*	*4,191*	*12,489*
Provisions for contingent liabilities	2,546	799	2,546	799
	6,737	**13,459**	**6,737**	**13,288**

Movements on the Group's and Bank's provisions may be summarized as follows:

	Restructuring	Retirement Benefits	Litigations	Other	Total
January 1, 2016	**1,092**	**320**	**12,657**	**44**	**14,113**
Charge for the year	1,212	-	258	1,033	2,503
Reversal	-	(8)	(2,846)	-	(2,854)
Charge/(reversal) for the year, net	1,212	(8)	(2,588)	1,033	(351)
Release	(1,022)	-	(223)	(28)	(1,273)
December 31, 2016	**1,282**	**312**	**9,846**	**1,049**	**12,489**
January 1, 2017	**1,282**	**312**	**9,846**	**1,049**	**12,489**
Charge for the year	-	-	2,398	-	2,398
Reversal or decrease	-	(15)	(1,765)	-	(1,780)
(Reversal)/charge for the year, net	-	(15)	633	-	618
Release	(507)	(3)	(7,373)	(1,033)	(8,916)
December 31, 2017	**775**	**294**	**3,106**	**16**	**4,191**

Movements on off-balance sheet provisions are shown below:

	GROUP		BANK	
	2017	2016	2017	2016
January 1	799	1,227	799	1,242
Charge for the year	2,254	484	2,254	469
Reversal	(507)	(912)	(507)	(912)
(Reversal)/charge for the year, net (Note 13)	**1,747**	**(428)**	**1,747**	**(443)**
December 31	**2,546**	**799**	**2,546**	**799**

(Thousands of BAM)

33. OTHER PROVISIONS (Continued)

Restructuring

The table below presents the expected maturities of restructuring provisions:

	2017	2016
Within a year	776	1,282
From 1 to 5 years	-	-
Total	**776**	**1,282**

Retirement Benefits

From the total decrease in the amount of provisions for retirement benefits in the amount of BAM 18 thousand in 2017, BAM, 84 thousand refers to the actuarial losses per demographic assumptions offset against actuarial gains of BAM 66 thousand in the same respect. More details on actuarial assumption used in the calculation of the provisions for retirement benefits are provided in Note 35 – Retirement Benefits.

Litigation and Other Provisions

In an attempt to collect receivables arising from loans, guarantees, letters of credit or other grounds, as at December 31, 2017 the Bank was involved in the total of 4,381 court cases with the aggregate value of BAM 87,730 thousand.

As of December 31, 2017 there were 233 pending lawsuits filed against the Bank, with the total nominal value of claims sought of BAM 46,737 thousand, excluding penalties and default interest. The said amount includes 8 cases with totaling BAM 135 thousand, where the claims had been paid in prior periods, so that they do not pose any additional risk of contingent losses, but were still listed as pending lawsuits as there were procedures in progress as per extraordinary remedy, i.e., case revisions were underway as of December 31, 2017. The aforesaid amount also includes 22 lawsuits totaling BAM 32,057 thousand, which, in accordance with the agreements on assignment of receivables (Brush), were transferred under the remit of the assuming party and do not pose any risk to the Bank. Such cases not posing any risk to the Bank (already paid for or with risks transferred to the assuming parties) are not accounted for.

There were 138 lawsuits altogether with claims relating to the loans contracted with CHF currency clause and the alleged increased interest margin. The aggregate nominal value of such suits amounted to BAM 21,034 thousand as of December 31, 2017. One of these lawsuits, amounting to BAM 1,064 thousand and relating to the loan contracted with CHF currency clause and the alleged increased interest margin, contains a claim for damage compensation.

The Bank assesses the amount of provisions for litigation costs based on the estimated probability of cash outflows arising from the past or constructive obligations. As of December 31, 2017 the Bank made provisions for litigation losses/costs in the amount of BAM 3,106, which was estimated as sufficient by the management.

In 2017 the Bank intensified activities or resolving the ongoing lawsuits and managing legal risk inherent in the lawsuits. Strategies were reviewed per case as well as models of legal representation of the Bank and court defence coordination, out-of-court resolution or settlement processes were set up, as well as recording of and reporting on lawsuits involving the Bank. The foregoing resulted in a significant decrease in the total number of lawsuits involving the Bank and their aggregate value compared to those as at December 31, 2016, when the aggregate value of lawsuits filed against the Bank amounted to BAM 273,624 thousand, while the Bank's provisions in respect thereof amounted to BAM 9,846 thousand.

(Thousands of BAM)

34. COMMITMENTS AND CONTINGENT LIABILITIES

Loans, Payment Guarantees, Performance Guarantees and Letters of Credit

		GROUP		BANK
	2017	2016	2017	2016
Loan commitments	89,491	57,074	89,491	57,074
Payment guarantees	20,327	15,188	20,327	15,188
Performance guarantees	11,169	4,412	11,169	4,412
Letters of credit and other sureties	5,110	897	5,110	897
	126,097	**77,571**	**126,097**	**77,571**

In the course of their business, the Bank and the Group assume credit commitments which are maintained on the off-balance sheet accounts and primarily include guarantees, letters of credit and undrawn portions of loans approved. The Bank and the Group formed provisions for these exposures, as disclosed in Note 33.

35. RETIREMENT BENEFITS

The following significant actuarial assumptions were used in calculation of the present value of the employee retirement benefits: discount rate, expected salary growth rate and mortality rate.

Sensitivity analysis of retirement benefits to the change in the discount rate may be presented as follows:

			In BAM
Discount rate	5%	4.50%	5.50%
Present value of the liabilities (in BAM)	294,036	309,622	279,698
% of variance		5.30%	-4.88%

If the interest rate used for discounting were 0.5% lower, the present value of the liabilities would increase by 5.3%. On the other hand, if the discount rate were by 0.5% higher, the present value of the liabilities would decrease by 4.88%.

Sensitivity analysis of retirement benefits to the change in the average salary may be presented as follows:

			In BAM
Average retirement benefit amount	current	0.5% lower	0.5% higher
Present value of the liabilities (in BAM)	294,036	292,566	295,507
% of variance		-0.50%	0.50%

The impact of changes in salary amounts is directly proportional to the changes in retirement benefit amounts. Sensitivity analysis of retirement benefits to the change in the mortality rate may be presented as follows:

			In BAM
Average age	current	1 year younger	1 year older
Present value of the liabilities (in BAM)	294,036	282,050	303,992
% of variance		-4.08%	3.39%

If the employees were a year older on average, the present value of retirement benefits would increase by 3,39%, and if they were a year younger on average, the average retirement benefit would decrease by 4.08%.

The expected maturity periods of provisions for retirement benefits are provided below:

	2017	2016
Within the ensuing 12 months	40	79
From 1 to 5 years	56	78
From 5 and 10 years	62	53
Over 10 years	136	102
Total	**294**	**312**

36. RELATED PARTY TRANSACTIONS

A related party is a person or an entity that is related to the entity that is preparing its financial statements

- A person or a close family member related to the entity if it:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity; or
  - is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

- An entity is related to a reporting entity if any of the following conditions applies:
  - The entity and the reporting entity are members of the same group;
  - One entity is an associate or joint venture of the other entity;
  - Both entities are joint ventures of the same third party;
  - One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
  - The entity is controlled or jointly controlled by a person identified in point one;
  - A person identified above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

- In accordance with IAS 24, the Bank's related parties are:
  - the major shareholder and its related parties (entities included in the consolidation of Addiko Group);
  - Supervisory Board and Management members (i.e. key management personnel);
  - key management personnel family members; and
  - legal entities where the Bank holds significant equity interests (above 10%).

(Thousands of BAM)

36. RELATED PARTY TRANSACTIONS (Continued)

The following table presents the assets and liabilities arising from transactions with related parties:

	GROUP		BANK	
	2017	2016	2017	2016
Assets:				
Foreign currency accounts:				
ADDIKO BANK d.d., Ljubljana, Republic of Slovenia	564	393	564	393
ADDIKO BANK d.d., Zagreb, Republic of Croatia	300	506	300	506
ADDIKO BANK d.d., Sarajevo	546	472	546	469
ADDIKO BANK a.d., Beograd, Serbia	127	154	127	154
ADDIKO BANK AG, Vienna, Austria	904	2,286	904	2,286
Other assets, net				
Hypo Alpe-Adria-Leasing d.o.o., Banja Luka	-	(2)	-	370
ADDIKO BANK d.d., Zagreb, Republic of Croatia	10	2	10	2
ADDIKO BANK d.d., Sarajevo	60	54	60	54
ADDIKO BANK a.d., Podgorica, Montenegro	13	17	13	17
ADDIKO BANK a.d., Beograd, Serbia	10	12	10	12
ADDIKO BANK AG, Vienna, Austria	352	71	352	71
	2,886	**3,965**	**2,886**	**4,334**
Liabilities:				
Demand deposits:				
ADDIKO BANK a.d., Beograd, Serbia	3	11	3	11
Hypo Alpe-Adria-Leasing d.o.o., Banja Luka	-	-	-	307
ADDIKO BANK a.d., Podgorica, Montenegro	53	40	53	40
Short-term deposits:				
ADDIKO BANK d.d. Sarajevo	11,755	14,689	11,755	14,689
ADDIKO BANK a.d. Beograd , Serbia	13,694	16,625	13,694	16,625
Long-term deposits:				
ADDIKO BANK AG, Vienna, Austria	-	101,098	-	101,098
Other liabilities:				
ADDIKO BANK a.d., Beograd, Serbia	454	225	454	225
ADDIKO BANK d.d., Sarajevo	155	169	155	169
ADDIKO BANK d.d., Zagreb, Republic of Croatia	97	76	97	76
ADDIKO BANK a.d., Podgorica, Montenegro	9	11	9	11
ADDIKO BANK AG, Vienna, Austria	497	383	497	374
	26,717	**133,327**	**26,717**	**133,625**

(Thousands of BAM)

36. RELATED PARTY TRANSACTIONS (Continued)

The following table presents the income and expenses arising from transactions with related parties:

	GROUP		BANK	
	2017	2016	2017	2016
Interest income:				
ADDIKO BANK AG, Vienna, Austria	2	-	2	-
Hypo Alpe-Adria-Leasing d.o.o. Banja Luka	-	-		30
ADDIKO BANK a.d. Beograd , Serbia	-	4		4
Fee and commission income:				
ADDIKO BANK d.d., Sarajevo	17	21	17	21
Hypo Alpe-Adria-Leasing d.o.o., Banja Luka	-	-	1	2
Other operating income:		-		
ADDIKO BANK d.d., Sarajevo	35	44	35	44
Hypo Alpe-Adria-Leasing d.o.o. Banja Luka	(176)	-	801	1,341
ADDIKO BANK AG, Vienna, Austria	92	-	92	-
ADDIKO BANK d.d. Zagreb, Republic of Croatia	1	-	1	-
	(29)	**69**	**949**	**1,442**
Interest expenses:				
ADDIKO BANK AG, Vienna, Austria	(1,604)	(2,291)	(1,604)	(2,290)
ADDIKO BANK d.d. Sarajevo	(74)	(42)	(74)	(20)
ADDIKO BANK a.d. Beograd , Serbia	(48)	(11)	(48)	(11)
ADDIKO BANK d.d. Zagreb, Republic of Croatia	(1)	-	(1)	-
Fee and commission expenses:				
ADDIKO BANK d.d., Sarajevo	(514)	(448)	(514)	(448)
ADDIKO BANK d.d., Zagreb, Republic of Croatia	(4)	(5)	(4)	(5)
ADDIKO BANK d.d. Ljubljana, Republic of Slovenia	(1)	-	(1)	-
ADDIKO BANK a.d. Beograd , Serbia	(4)	(3)	(4)	(3)
ADDIKO BANK AG, Vienna, Austria	-	(80)	-	(80)
Other operating expenses:				
ADDIKO BANK AG, Vienna, Austria	(280)	(276)	(280)	(268)
ADDIKO BANK d.d., Zagreb, Republic of Croatia	(441)	(418)	(441)	(418)
ADDIKO BANK d.d., Sarajevo	(45)	(98)	(45)	(79)
Hypo Alpe-Adria-Leasing d.o.o., Banja Luka	-	-	-	(600)
ADDIKO BANK d.d., Ljubljana, Republic of Slovenia	-	(1)	-	(1)
ADDIKO BANK a.d. Beograd , Serbia	(219)	-	(219)	-
	(3,235)	**(3,673)**	**(3,235)**	**(4,223)**
	(3,264)	**(3,604)**	**(2,286)**	**(2,781)**

Salaries and payroll taxes and contributions paid to and on behalf of the Group's and Bank's Supervisory/Management Board members and key management personnel are provided below:

	GROUP		BANK	
	2017	2016	2017	2016
Net salaries	424	672	424	557
Payroll taxes and contributions	278	441	278	367
Severance pays and retirement benefits	-	211	-	156
Taxes and contributions payable on severance pays and retirement benefits	-	92	-	55
	702	**1,416**	**702**	**1,135**

(Thousands of BAM)

36. RELATED PARTY TRANSACTIONS (Continued)

The following table provides details on loans and deposits of the key management personnel and their family members:

	GROUP		BANK	
	2017	2016	2017	2016
Assets :				
Supervisory Board	-	-	-	-
Management Board				
Loans	-	3		3
Impairment allowances	-	-	-	-
Key management personnel	119	-	119	-
Loans	(1)	-	(1)	-
Impairment allowances				
Family members of the key management personnel *				
Loans	13	-	13	-
Total assets	**131**	**3**	**131**	**3**
Liabilities:				
Management Board				
Deposits	44	40	44	40
Provisions for contingent liabilities	-	1	-	1
Key management personnel				
Deposits	64	-	64	-
Total liabilities	**108**	**41**	**108**	**41**
Irrevocable crediting commitments				
Supervisory Board	14	-	14	-
Management Board	26	17	26	17
Key management personnel	23	-	23	-
Total irrevocable crediting commitments	**63**	**17**	**63**	**17**

The following table provides details on interest and fee and commission income and expenses relating to the key management personnel and their family members:

	2017	2016	2017	2016
Supervisory Board	-	-	-	-
Management Board				
Interest income	1	-	1	-
Fee and commission income	1	-	1	-
Key management personnel				
Interest income	7	-	7	-
Interest expenses	(2)	-	(2)	-
Fee and commission income	1	-	1	-
Family members of the key management personnel *				
Interest income	1	-	1	-
Total	**9**	**-**	**9**	**-**

- In previous tables, Family members of the key management personnel were not included in the reporting for FY 2016

(Thousands of BAM)

37. OPERATING LEASE ARRANGEMENTS

Operating lease is mostly related to office space leases for branches and the lease of space for ATM installation.

Total future minimum lease payments to be settled pursuant to the long-term contractual leases were as follows:

	GROUP		BANK	
	2017	2016	2017	2016
Up to 1 year	424	135	424	141
From 1 to 5 years	123	94	123	94
Over 5 years	-	-	-	-
	547	**229**	**547**	**235**

Operating lease expenses in the financial year 2017 amounted to BAM 1,208 thousand for the Group and the Bank, while in 2016 the amounts were BAM 986 thousand and BAM 961 thousand, respectively..

Total future minimum lease payments to be collected pursuant to the long-term contractual leases were as follows:

	GROUP		BANK	
	2017	2016	2017	2016
Up to 1 year	379	378	379	331
From 1 to 5 years	-	10	-	-
Over 5 years	-	-	-	-
	379	**388**	**379**	**331**

Operating lease income in the financial year 2017 amounted to BAM 375 thousand for the Group and BAM 378 thousand for the Bank, while in the financial year 2016, the amounts were BAM 436 thousand and BAM 453 thousand, respectively.

38. EVENTS AFTER THE REPORTING PERIOD

Until the issue date of these financial statements, there have been no events after the reporting date that that would significantly affect the Group's and the Bank's financial statements or require additional disclosures or adjustments.

39. TAXATION RISKS

The Republic of Srpska and Bosnia and Herzegovina currently have several tax laws in effect, as imposed by various governmental agencies. The applicable taxes include: a turnover tax, corporate tax, and payroll (social insurance) taxes, among others. Hence, few precedents with regard to tax issues have been established in the Republic of Srpska. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, thus creating uncertainties and areas of legal contention.

Tax returns, along with other legal compliance matters (e.g., customs and currency control matters) are subject to the review and investigation by a number of authorities that are legally enabled to impose extremely severe fines, penalties and interest charges.

The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Bank and the Group may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Bank may be assessed additional taxes, penalties and interest, which can be significant. In accordance with the Law on Tax Administration of the Republic of Srpska, expiration period of the tax liability is five years. This virtually means that tax authorities could determine payment of outstanding liabilities in the period of five years from the origination of the liability. The aforedescribed situation creates tax risks in the Republic of Srpska that are substantially more significant than those typically existing in countries with more developed tax systems.

(Thousands of BAM)

40. EXCHANGE RATES

The official exchange rates for major currencies as of December 31, 2016 and 2015 used in the translation of statement of financial position components denominated in foreign currencies into BAM were as follows:

In BAM

	December 31, 2017	December 31, 2016
USD	1.630810	1.855450
CHF	1.671364	1.821240
EUR	1.955830	1.955830

Bodies of the Bank
On December 31, 2017

Supervisory board

Hans-Hermann Anton Lotter	Chairman
Biljana Rabitsch	Vice-Chairman
Meliha Povlakić	Member
Razvan Munteanu	Member
Damir Karamehmedović	Member

Audit Committee

Đorđe Lazović	Chairman
Siniša Radonjić	Member
Ivan Trifunović	Member
Marlene Schellander-Pinter	Member
Claudia Mayrhofer	Member

Management Board

Mario Ivanković	President of the Management Board
Boštjan Pečenko	Member of the Management Board
Žaklina Dimitrijević	Member of the Management Board

Internal Auditor: **Srđan Lamešić**

Bank headquarters

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Important notice:

This Annual report has been prepared with great care and the information it contains has been checked. The possible occurrence of rounding errors, typesetting and printing errors and errors in expression can however not be precluded. The English language report is a translation.

Addiko Bank