Addiko Bank

Annual Report 2016

Addiko Bank a.d. Banja Luka
Bosnia and Herzegovina

Key Data

Addiko Group		EUR m
	2016	2015
Income statement	**1.1.-31.12.**	**1.1.-31.12.**
Net interest income	9	9
Net fee and commission income	5	5
Inpairment or reversal of impairment on loans and receivables	5	-19
Operating expenses	-17	-20
Operating result - prior to risk provisions on loans and receivables	-9	-6
Operating result - after risk provisions on loans and receivables	-5	-26
Result after tax	-5	-27
Statement of financial position	**31.12.**	**31.12.**
Loans and receivables to customers	242	229
Customer deposits	187	183
Equity (including non-controlling interests)	75	74
Total assets	366	407
Risk weighted assets (banking book)	269	239
Key figures	**1.1.2016-31.12.**	**1.1.2015-31.12.**
Cost/Income-ratio	95%	141%
Net interest income/Ø Risk weighted assets (banking book)	3.4%	4.0%
Capital Ratios (before profit utilization proposal)	**31.12.**	**31.12.**
Own capital funds according to CRR	44	44
Own funds requirement	32	29
Surplus capital	12	15
Core Capital (Tier 1)	41	39
Tier 1 ratio	15.1%	16.3%
Own capital funds ratio	16.3%	18.4%
Employees and locations	**31.12.**	**31.12.**
Employees at closing date (Full Time Equivalent - FTE)	427.5	499
Number of locations	35	36

Letter from the CEO

The year of 2016 was more than challenging. It was a year of restructuring, a turning-point and the year, which marked a starting-point of a new phase in the business operations of the Bank.

The first step taken by the new owners - Advent International and the European Bank for Reconstruction and Development - was to implement the new business strategy and the new brand. The new name of the Bank and the new logo were much more than a symbolic change of the visual identity. They actually were introduced to announce the key changes of the Bank's business concept, which were to follow soon afterwards. We created Addiko as a relevant brand, whose basic value is establishing open and direct relations with our clients.

In addition to the rebranding, in 2016 we focused on resolving the issues around the inherited CHF-loan portfolio by, on the one hand, taking care of the interest of our clients and on the other hand not endangering our business continuity. We offered to our clients to convert their CHF-loan into BAM while writing off a significant part of their debt, by giving them discount taking into account client's financial situation. The high acceptance rate of this offer demonstrates the attractiveness of this solution to our clients resulting in a high percentage of loans being converted.

In parallel with developing and implementing our new business strategy, with a significant change in the approach to the market, clients and business model, we were working hard on strengthening key performance indicators. We increased our credit portfolio in all business segments, gained trust of new clients, setting a strong long-term basis for a stable and profitable growth. Guided by our principles to focuse on essentials, efficiency and simplicity, we tailored our product portfolio to our clients´needs, offering a new approach and building at the same time the basis for future growth.

Given the organisational restructuring and cleaning of our loan book from burdens, which we inherited from the past, the financial result was affected by one-off effects, the largest part related to costs of CHF loan conversion, followed by write-offs for litigation cases, unused infrastructure and organisational restructuring. However we are especially satisfied about the fact that we closed 2017 with a positive result out of the ordinary business. This positive result is a proof of the potential of the Bank and the value we create for our clients.

A very challenging year is behind us, the year in which we succeeded to transform our business model and implement our new strategy and the new brand. I would like to thank the entire Addiko Bank team for their devoted work and diligence. I would also like to thank our existing loyal and new clients, as well as our sharholders and supervisors, for their trust and support.

We are entering the year 2017with an increased depositary base, a better structure of our credit portfolio and a good liquidity base. Especially, I would like to emphasize our strong capital base that amounts to 153 million BAM at the end of 2016, which makes us one of the best capitalized banks at the local market. I am certain, that the year 2017 will be even more successful, with a strong focus on straightforward banking, efficiency and simple communication with our clients.

Best regards,

Mario Ivanković
Chief Executive Officer

Management Board of Addiko Bank a.d.

Mario Ivanković, Director

Boštjan Pečenko, Executive Director

Table of Contents:

Management Board Report

1. Overview of Addiko Bank

Addiko Bank a.d. (hereinafter: the Bank) is part of Addiko Bank AG, (hereinafter: the Group), an international financial group, headquartered in Vienna, Austria, operating through six banks with its core business in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro, providing daily banking services for over 1.1 million clients.

Being exclusively focused on markets and clients in the SEE region, Addiko Bank puts clients from this region at the core of its strategy, by promoting products and services relevant in the SEE economic environment, faster processes and decisions and simple communication.

The holding company AI Lake (Luxembourg) S.á.r.l. is the direct parent company of the Addiko Group and is indirectly owned by funds advised by Advent International, a global active private equity investor and by the European Bank for Reconstruction and Development (EBRD).

2. Significant events in the 2016 financial year

2.1. New name, brand and higher corporate standards

Rebranding was one of the key strategic projects for the Group in 2016 and likewise for our Bank. Following the 2015 privatization, with the new ownership structure in place and in line with the new business strategy, Addiko Group decided to start future business operations under the new Addiko Bank brand and new visual identity, in a wish to send a strong signal about the changes, performed within the Group, and also to set an entirely new direction.

The rebranding was conducted in two phases, with the new brand launched on July 11 in Austria, Croatia, Slovenia, Serbia, and Montenegro, while the process was concluded with the rebranding of both subsidiary banks in Bosnia and Herzegovina (Addiko Bank a.d. Banja Luka i Addiko Bank d.d. Sarajevo) on October 31.

With the rebranding the Group did not only change its name and logo but made a comprehensive change for the better, which resulted in implementation of higher business standards and more efficient banking operations. The goal of the rebranding was to create a credible, relevant and distinctive new brand.

The Addiko Bank brand symbolizes at the same time the Group's efforts in building a new, modern bank, with the aim of providing straightforward banking to its clients. Focusing on essentials, delivering on efficiency and communicating simplicity are the foundations, which the Group's operations are now based on.

2.2. Solving the issue of loans with the currency clause in Swiss francs

One of the top priorities in 2016 was to resolve the CHF loans issue, in which the Bank was fully supported by the Group and the new owners. Namely, the Bank prepared a voluntary, responsible, understandable and utterly fair offer to its clients.
The Bank's offer included a reduction of the outstanding loan by 30% with the loan conversion at the current exchange rate and the 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%. 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, which has caused the clients' debts to increase in local currency. The clients have recognized that the solution is a fair and quality one, which was confirmed by the high percentage of realized solutions.

The total amount of CHF loan facilities amounted to BAM 26 million. The offered conversion resulted in the bank losing BAM 16.6 million which can be seen as the banks contribution to resolve the issue in the interest of its clients. This had a direct impact on the Bank's final annual result, a loss of BAM 9 million. Leaving aside this one-off loss, incurred upon the given CHF loan facilities, other indicators of the Bank's business operations give us reasons to be very optimistic.

It is important to emphasize, that even after the results in 2016, the Bank's capital adequacy was 16.29%, which is far above 12%, required by law, and is still above the average of the banking sector in the Republic of Srpska.

3. Economic development of the Bank

3.1. Overview

After having cleaned up the portfolio in the first quarter of 2016, the Bank continued systematically implementing its strategy of developing overall operations and key business segments in 2016.

The Bank's core activities in 2016 were: Implementation of the rebranding process, setting up of straightforward banking, both, internally and externally, creating a new, better and more efficient organisation, advancement of the quality of disbursements in all business segments, improvement of the service quality and final resolving of the issue of loans with the currency clause in Swiss francs.

Reducing substantially unnecessary documentation in daily business, the Bank relieved its clients of the excessive banking bureaucracy. In addition, the Bank adjusted working hours of its branches to clients' needs and their way of living. Also, the Bank gave clients the choice of selecting the date of payment of monthly loan installment for some products. Furthermore, the service of electronic banking was additionally updated and improved, and the Bank has ambitious plans regarding the development of the digital communication channels with clients.

3.2. Significantly increased key performance indicators

A new organization and segmentation was implemented, both, in the Retail and Corporate business segments, to allow a targeted coverage and dedicated products in line with the market trends and potentials. This will enable efficient operations and ensure that straightforward banking is delivered to our clients.

In 2016, **Retail Banking** focus was on consumer lending and offering of key banking products, offering faster and more convenient services for products, relevant to the clients. Stronger sales management practices and standardized simpler products led to significantly higher volumes and more attractive margins.

Through optimization of key processes, the Bank devoted more attention to clients, practically demonstrating the substantial change that was initiated by the rebranding process.

By introducing innovative and competitive products for the clients with proven credit history and by improving the standard of services and sales, the Bank recorded a high increase of new loans, which forms a good basis for significant growth in 2017.

Profitability of the branches and optimisation of the branch network were in special focus, which will support the achievement of the divisions' and the Bank's plans in the coming years. The Bank's product range was additionally enriched with a new, more attractive offer for refinancing the existing liabilities for clients from all segments, which is aligned with the Bank's strategy of focusing on Retail segment and attracting new clients. The Bank continued optimising the lending process and managed to significantly improve time-to-market, time-to-client, operating costs, and service quality. In addition, focus was kept on intensive development of modern distribution channels and improvement of the Contact Centre operations with the aim to increase the overall satisfaction of clients.

The **Corporate division** was actively managing the quality and volume of corporate clients' financial assets, with a strong focus on strategic clients' base, ensuring liquidity for capital projects to clients and a potential for income growth to the Bank.

In essence, the Bank actively supported private individuals and legal entities, much more intensively compared to the previous years. Addiko Bank actually managed to disburse three times more loans at the end of 2016 compared to 2015. What is more important, the Bank successfully changed the quality of the balance sheet structure by conversion of the loans, with a currency clause in CHF, with new quality disbursements, and so created good bases for further growth in 2017. Despite these one-off effects the Bank had made profit from the core operating business,

With regard to capital, the Bank is one of the strongest in the market of the Republic of Srpska. Assets of the Bank amounted to BAM 717 million, while total deposits amounted to BAM 505 million. The total gross loans and advances to customers amounted to BAM 595 million.

At the end of 2016, the Bank had 35 branches and 49 ATMs. The number of employees was 424.

4. Plan and strategy

The Bank has a very clear goal – to be a straightforward, entirely client-oriented financial institution, which is able to efficiently and quickly respond to the demands and expectations of its clients. Efficiency is the key word for a bank, which aspires to be modern, innovative, and always at the service of its clients. Additional advantage of our Bank, in achieving the set goal, is the fact, that it is a member of the banking group, exclusively focused on markets and clients in this region.

With clear business strategy, excellent liquidity, and strong capital position, the Bank will in 2017 continue developing its business, by focusing on products and services, which are most important to our clients. In particular we will continue improving our digital platform and modern communication channels with our clients.

The Bank shall mainly focus on Retail and SME business, but at the same time it will keep strong presence in Corporate and Public sectors, by supporting existing clients. The Bank is in the position to plan stable growth and along with a strong capital base, being able to be the bank of choice for new clients.

The Bank plans to significantly advance digital communication channels in order to offer new possibilities of modern and innovative banking to its clients, through simplified, quicker and direct communication with the Bank. The Bank's primary goals include digitalisation of business operations and advancement of client experience and as such are in focus of Bank's investments. The existing e-banking for private individuals will soon be improved, by introducing the Addiko Chat Banking service via Viber, one of the globally most popular communication platforms for messaging.

In 2017, the Bank will continue optimizing its business operations. Systematic scanning of the entire organization will be conducted on all levels, aiming to establish a leaner, more efficient, and more agile and integrated organization. This includes human resources, where the Bank, together with the Group, is building a platform for growing and developing best talents in the business and, at the same time, attracting and retaining key specialists and high performers. The goal is to develop a working environment, in which the most talented and most devoted workers may develop their careers, because the Bank aspires to be the first-choice employer.

The Bank's activities will be focused on additional strengthening of the primary sources of funding, expanding its client base in all segments, increasing business volumes, and constantly upgrading risk management processes, with the uttermost goal, to continue to be a financially strong and profitable Bank in order to be able to serve the population of Republic of Srpska.

We are continuing the Addiko story of success in 2017, prepared to offer straightforward banking to our clients.

Separate and Consolidated Financial Statements for the Year Ended December 31, 2016 and Independent Auditors’ Report

CONTENTS

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Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' 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 79), which comprise the separate and consolidated statement of financial position as of December 31, 2016 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, 2016, 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.

Other Matter

The Bank's and the Group's financial statements as of and for the year ended December 31, 2015 were audited by another auditor, whose report dated June 15, 2016 expressed an unqualified opinion.

Other Legal and Regulatory Requirements

Pursuant to the provisions of the Law on Accounting and Auditing of the Republic of Srpska (Official Gazette of RS no, 95/15), the Bank has prepared the schedules set out on pages 80 to 93 ("the Schedules"), which comprise the balance sheet (statement of financial position) as of December 31, 2016, income statement (statement of comprehensive income), statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as off-balance sheet items as of December 31, 2016. Management of the Bank is responsible for the Schedules. The financial information provided in the Schedules is derived from the financial statements of the Bank and the Group presented on pages 2 to 79, on which we have expressed an unqualified opinion as set out above.

Banja Luka, March 23, 2017

DELOITTE D.O.O. BANJA LUKA

Certified Auditor
Mirko Ilić

(Thousands of BAM)

		GROUP		BANK	
	Note	2016	2015	2016	2015
Interest income	7	25,375	30,746	25,087	30,237
Interest expenses	7	(7,352)	(11,846)	(7,241)	(11,701)
Net interest income		**18,023**	**18,900**	**17,846**	**18,536**
Fee and commission income	8	11,636	11,178	11,606	11,129
Fee and commission expenses	8	(1,945)	(1,883)	(1,939)	(1,878)
Net fee and commission income		**9,691**	**9,295**	**9,667**	**9,251**
Net foreign exchange gains/(losses)		414	(230)	414	(230)
Net trading losses		(155)	(251)	(155)	(251)
Other operating income	9	7,435	5,745	7,416	5,726
Staff costs	10	(15,257)	(14,894)	(14,614)	(14,271)
Depreciation/amortization charge	21,22	(2,654)	(4,164)	(2,578)	(4,052)
Expenses per CHF incentives	11	(16,637)	-	(16,637)	-
Other operating expenses	12	(17,922)	(21,429)	(17,536)	(21,053)
LOSS BEFORE IMPAIRMENT LOSSES AND PROVISIONS		**(17,062)**	**(7,028)**	**(16,177)**	**(6,344)**
Provisions for potential losses, commitments and write-offs	13	7,390	(35,747)	8,975	(37,641)
Provisions for other risks and contingent liabilities	14	343	(384)	343	(384)
Impairment losses on property, equipment and intangible assets	22,23	(1,565)	(4,205)	(1,565)	(4,205)
Losses on fair value adjustment of investment property	24	-	(874)	-	(874)
Impairment losses on equity investments	21	-	-	(600)	(794)
LOSS BEFORE INCOME TAX		**(10,894)**	**(48,238)**	**(9,024)**	**(50,242)**
Income tax expense	15	9	(2,473)	9	(2,352)
NET LOSS FOR THE YEAR		**(10,885)**	**(50,711)**	**(9,015)**	**(52,594)**
Attributable to: Bank's shareholders		**(10,885)**	**(50,711)**	**(9,015)**	**(52,594)**
Earnings per share (in BAM)	34	(0.075)	(0.413)	(0.062)	(0.428)

Notes on pages 17 to 88 form an integral part of these financial statements.

(Thousands of BAM)

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
NET LOSS FOR THE YEAR	**(10,885)**	**(50,711)**	**(9,015)**	**(52,594)**
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	43	26	43	26
Income tax on items of other comprehensive income that may be reclassified to profit or loss	2	(10)	2	(10)
Items that cannot subsequently be reclassified to the statement of profit or loss:				
Losses on revaluation of property and equipment	(757)	-	(757)	-
Gains/(losses) on changes in actuarial assumptions	9	(58)	9	(58)
Income tax on items of other comprehensive income that cannot be reclassified to profit or loss	76	-	76	-
Net other comprehensive income	**(627)**	**(42)**	**(627)**	**(42)**
TOTAL NEGATIVE COMPREHENSIVE INCOME	**(11,512)**	**(50,753)**	**(9,642)**	**(52,636)**
Of which:				
Attributable to the majority shareholders	(10,865)	(50,614)	(9,003)	(52,516)
Attributable to the non-controlling interests	(20)	(97)	(12)	(78)

Notes on pages 17 to 88 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 March 13, 2017.

Signed on behalf of the Bank by:

Mario Ivanković
Chief Executive Officer

ADDIKO BANK AD
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BANJA LUKA

Boštjan Pečenko
Executive Director

(Thousands of BAM)

		GROUP		BANK	
	Note	2016	2015	2016	2015
ASSETS					
Cash and balances held with the central bank	16	107,130	223,950	107,130	223,950
Balances held with other banks	17	21,668	33,674	21,665	33,662
Loans and receivables due from banks	18	-	1,956	-	1,956
Loans and receivables due from customers	19	474,449	450,851	474,083	447,047
Derivative financial assets	20b)	66	66	66	66
Financial assets available for sale	20a)	68,421	39,641	68,421	39,641
Equity investments in subsidiaries	21	-	-	-	-
Property and equipment	22	30,342	33,216	30,246	33,018
Intangible assets	23	3,484	3,716	3,483	3,694
Investment property	24	2,554	2,490	2,554	2,490
Receivables for prepaid income taxes		1,206	1,297	1,206	1,297
Other financial assets	25	2,263	2,107	2,263	2,106
Other assets	26	4,745	6,542	4,689	6,375
Total assets		**716,328**	**799,506**	**715,806**	**795,302**
Liabilities					
Deposits due to banks	27	141,672	219,920	141,979	220,757
Deposits due to customers	28	365,114	358,761	365,114	358,761
Borrowings	29	35,788	48,352	35,788	46,283
Liabilities per derivative financial instruments	20b)	87	33	87	33
Other financial liabilities	31	8,757	7,388	8,747	6,952
Other liabilities	32	3,166	1,563	3,156	1,520
Other provisions	35,37	13,459	15,340	13,288	15,355
Deferred tax liabilities	15c)	596	683	596	683
Total liabilities		**568,639**	**652,040**	**568,755**	**650,344**
EQUITY					
Issued (share) capital	33	153,094	141,359	153,094	141,359
Regulatory reserves for credit losses	33	61,826	61,826	61,826	61,826
Revaluation reserves		2,232	2,942	2,232	2,942
Accumulated losses		(69,463)	(58,661)	(70,101)	(61,169)
Total equity		**147,689**	**147,466**	**147,051**	**144,958**
Total liabilities and equity		**716,328**	**799,506**	**715,806**	**795,302**

Notes on pages 17 to 88 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 2014	**122,859**	**12,286**	**61,826**	**-**	**3,448**	**(20,700)**	**179,719**
Net loss for 2015	-	-	-	-	-	(50,711)	**(50,711)**
Other comprehensive income							
Items that may be reclassified to the income statement:							
Net gains on the fair value adjustment of securities available for sale	-	-	-	-	26	-	**26**
Net effect of changes in the deferred taxes	-	-	-	-	(10)	-	**(10)**
Items that ca not be reclassified to the profit or loss							
Revaluation of property and investment property	-	-	-	-	(516)	516	**-**
Losses on changes in actuarial assumptions	-	-	-	-	(58)	-	**(58)**
Net effect of changes in the deferred taxes	-	-	-	-	52	(52)	**-**
Total other comprehensive income	**-**	**-**	**-**	**-**	***(506)***	***464***	***(42)***
Total comprehensive income	**-**	**-**	**-**	**-**	**(506)**	**(50,247)**	**(50,753)**
Transactions with owners							
Loss absorption	-	(12,286)	-	-	-	12,286	**-**
Share issue	18,500	-	-	-	-	-	18,500
Total transactions with owners	**18,500**	**(12,286)**	**-**	**-**	**-**	**12,286**	**18,500**
Balance as at 31 December 2015	**141,359**	**-**	**61,826**	**-**	**2,942**	**(58,661)**	**147,466**

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 ca 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 33)	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**

Notes on pages 17 to 88 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 2014	**122,859**	**12,286**	**61,826**	**-**	**3,448**	**(21,325)**	**179,094**
Net loss for 2015	-	-	-	-	-	(52,594)	**(52,594)**
Other comprehensive income							
Items that may be reclassified to the income statement:							
Net gains on the fair value adjustment of securities available for sale	-	-	-	-	26	-	**26**
Net effect of changes in the deferred taxes	-	-	-	-	(10)	-	**(10)**
Items that ca not be reclassified to the profit or loss							
Revaluation of property and investment property	-	-	-	-	(516)	516	**-**
Losses on changes in actuarial assumptions	-	-	-	-	(58)	-	**(58)**
Net effect of changes in the deferred taxes	-	-	-	-	52	(52)	**-**
Total other comprehensive income	**-**	**-**	**-**	**-**	***(506)***	***464***	***(42)***
Total comprehensive income	**-**	**-**	**-**	**-**	**(506)**	**(52,130)**	**(52,636)**
Transactions with owners							
Loss absorption	-	(12,286)	-	-	-	12,286	**-**
Share issue	18,500	-	-	-	-	-	18,500
Total transactions with owners	**18,500**	**(12,286)**	**-**	**-**	**-**	**12,286**	**18,500**
Balance as at 31 December 2015	**141,359**	**-**	**61,826**	**-**	**2,942**	**(61,169)**	**144,958**

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 ca 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 33.)	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**

Notes on pages 17 to 88 form an integral part of these financial statements.

(Thousands of BAM)

	Note	2016	GROUP 2015	2016	BANK 2015
Cash flows from operating activities					
Interest, fees and commissions received		35,353	40,376	35,119	39,856
Interest paid		(8,475)	(12,522)	(8,475)	(12,522)
Collection of loans previously written off		4,438	4,195	4,438	4,195
Cash paid to employees and suppliers		(30,018)	(32,386)	(29,119)	(31,214)
Off-balance sheet contractual payments		-	(471)	-	(471)
Receipts and payments on extraordinary items		4,124	(7,650)	4,132	(7,690)
Payment of loans extended to customers		(32,738)	76,679	(34,158)	74,674
Deposits with banks with original maturities of over 3 months		1,956	(1,956)	1,956	(1,956)
Customer deposits		(71,613)	(28,276)	(72,143)	(28,069)
Income taxes paid		(27)	(421)	(27)	(421)
Net cash (used in)/generated by operating activities		**(97,000)**	**37,568**	**(98,277)**	**36,382**
Cash flows from investing activities					
Interest received		787	121	787	121
Dividend received		8	10	8	10
Investments in securities available for sale		(29,213)	(16,658)	(29,213)	(16,658)
Purchases of intangible assets		(1,060)	(810)	(1,060)	(810)
Purchases of tangible assets		(740)	(260)	(1,010)	(404)
Acquisition of equity investment in subsidiaries		-	-	(600)	(794)
Net cash used in investing activities		**(30,218)**	**(17,597)**	**(31,088)**	**(18,535)**
Cash flows from financing activities					
Share issue proceeds		11,735	18,500	11,735	18,500
Interest paid on borrowings		(1,098)	(1,490)	(990)	(1,362)
Increase in borrowings		6,072	4,748	343	648
Repayment of borrowings		(18,596)	(83,370)	(10,819)	(77,282)
Net cash (used in)/generated by financing activities		**(1,887)**	**(61,612)**	**269**	**(59,496)**
Net decrease in cash and cash equivalents		**(129,105)**	**(41,641)**	**(129,096)**	**(41,649)**
Cash and cash equivalents at beginning of year		**257,626**	**295,854**	**257,614**	**295,850**
Foreign exchange gains		284	3,413	284	3,413
Cash and cash equivalents at end of year		**128,805**	**257,626**	**128,802**	**257,614**
Cash and cash equivalents comprise the following statement of financial position items:					
Cash and balances with the Central Bank	15	107,130	223,950	107,130	223,950
Balances held with other banks	16	21,668	33,674	21,665	33,662
Interest accrued and provisions		7	2	7	2
		128,805	**257,626**	**128,802**	**257,614**

Notes on pages 17 to 88 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, 2010, 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 Notes 2.2 and 33.

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, 2016 besides the Head Office located in Banja Luka, the Bank had 35 branch offices situated throughout Bosnia and Herzegovina (BH) (December 31, 2015: the Head Office located in Banja Luka and 36 branch offices).

The Bank is the sole (100%) owner of Hypo Alpe Adria Leasing d.o.o. Banja Luka (the "Consolidated Subsidiary"), comprising the Group along with the Bank.

As of December 31, 2016, the Bank had 424 employees (December 31, 2015: 514 employees), while the Group had 430 employees (December 31, 2015: 530 employees).

Management of the Bank	
CEO from June 21, 2012 to March 17, 2016	Goran Babić
Acting CEO from March 18, 2016 to September 16, 2016	Dragan Kovačević
Executive Director from October 17, 2012 to January 31, 2016	Martin Leberle
Executive Director from February 1, 2016 to March 17, 2016	Žaklina Dimitrijević
Acting Executive Director from March 18, 2016 to September 16, 2016	Mario Ivanković
Acting Executive Director from July 29, 2016 to September 16, 2016	Boštjan Pečenko
CEO from September 16, 2016 onward	Mario Ivanković
Executive Director from September 16, 2016 onward	Boštjan Pečenko
Supervisory Board of the Bank	
Chairman from December 30, 2015 onward	Hans-Hermann Anton Lotter
Deputy Chairman from December 30, 2015 onward	Markus Bodo Krause
Member from May 27, 2014 onward	Manfred Kohlweg
Member from May 27, 2014 onward	Rupert Schindler
Member from December 30, 2015 onward	Marko Popovič
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 May 29, 2015 to March 17, 2016	Ines Krnić
Member from March 17, 2016 to December 12, 2016	Bernard Moertll
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, and 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.

The Bank has prepared the financial statements within the prescribed deadline and in the manner stipulated by the Rules on the Content and Form of the Financial Statements for Banks and Other Organizations (Official Gazette of RS no. 62/16), as well as the Rules on the Content and Form of the Statement of Changes in Equity (Official Gazette of RS no. 63/16).

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 2016 and 2015.

The exchange rates used for translation at December 31, 2016 amounted to EUR 1 = BAM 1.9558, CHF 1 = BAM 1.8212 and USD 1 = BAM 1.8555 (December 31, 2015: EUR 1 = BAM 1.9558, CHF 1= BAM 1.8086 and USD 1 = BAM 1.7901),

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.

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)

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. 84/15), 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").

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 the 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.

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.

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 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2018);
- 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);
- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after January 1, 2018);
- IFRS 16 "Leases" (effective for annual periods beginning on or after January 1, 2019);
- 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 where IFRS 9 "Financial Instruments" is applied for the first time);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (effective for annual periods beginning on or after 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 July 1, 2017);

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)

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

- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018);
- Amendments to various standards "Improvements to IFRSs (cycle 2014 - 2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after January 1, 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2018); and
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after January 1, 2018).

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

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, 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 398 thousand (December 31, 2015: BAM 1,374 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 financial statements in accordance 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.

In spite of the numerous challenges the Bank faced in 2016, it is necessary to emphasize that neither the Bank's capital adequacy nor its liquidity were compromised primarily owning to capital increase made by the Bank's majority owner as well as due to exceptional efforts made to enable the Bank's comeback to the market with attractive mix of credit products and focus on straightforward banking.

One of the most difficult challenges faced by the Bank in 2016 was the issue of customers with CHF currency clause-indexed loans. 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 credit commitments by 50% to vulnerable groups of clients. The Bank recorded an expense of BAM 16,637 thousand in this respect (Note 11).

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

2.5 Going Concern (Continued)

During 2016 the Bank performed its operations in compliance with the effective legislation. As of December 31, 2016, the Bank reported its capital adequacy ratio as equal to 16.3%, which is above the prescribed limit of 12.0%, as disclosed in Note 6 h) to the financial statements. During the year, the Bank's liquidity ratios were within the limits prescribed by the Banking Agency of the Republic of Srpska.

Given the Bank's solid capital adequacy and its commitment to straightforward banking, with attractive credit product mix on offer, along with constant improvements in service digitalization, the Bank's management decided that these financial statements may be prepared 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). 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Interest Income and Expenses (Continued)

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).

3.4. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Current and deferred taxes are recognized as income and expense and are included in the profit or loss for the period.

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, 2016, the Group held loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

b) Classification (Continued)

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; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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 risk.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

d) Fair Value Measurement (Continued)

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.

e) 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.

f) Impairment of Financial Assets

i) Financial Assets Carried at Amortized Cost

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); 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.

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)

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.

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, 2016 and 2015 the Bank had no shortfall reserves per regulatory requirement as an equity deductible item. More detailed information in this respect is provided in Note 33.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

f) *Impairment of Financial Assets (Continued)*

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.

h) *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.

i) *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.

(Thousands of BAM)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Equity Investments

Investments in the subsidiary are initially recognized at cost less impairment losses, if any. At each statement of financial position date the Bank additionally assesses the investment for impairment. Investments in subsidiaries are consolidated using the full consolidation method 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.

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	1.25% - 3.33%	30 - 80
Computer equipment	12.5% - 33.3%	3 - 8
Furniture and other equipment	6.67% - 33.3%	3 - 15
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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Intangible Assets (Continued)

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	14.3% - 20%	3 7

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Leases (Continued)

b) Operating Leases

Entity as the Lessee

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.

3.14. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3.19. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

4. KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

a) Impairment Losses on Loans and Receivables (Continued)

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 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”).

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.

4. KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

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 35, the Bank made provisions of BAM 9,845 thousand for litigations (2015: BAM 12,657 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 2016, a certified actuary performed a new actuarial calculation as of December 31, 2016 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.

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 5 thousand for the year 2016, 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, 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 INCOME TAX	**(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)**

(Thousands of BAM)

5. SEGMENT REPORTING (Continued)

BANK	RET	COR	PUB	TRE	OTH	Total
Year Ended December 31, 2015						
Interest income	19,423	5,145	5,362	307	-	30,237
Interest expenses	(3,422)	(256)	(1,807)	(6,216)	-	(11,701)
Net interest income	**16,001**	**4,889**	**3,555**	**(5,909)**	**-**	**18,536**
Fee and commission income	9,164	1,461	295	97	112	11,129
Fee and commission expenses	(904)	(300)	(91)	(559)	(24)	(1,878)
Net fee and commission income	**8,260**	**1,161**	**204**	**(462)**	**88**	**9,251**
Net foreign exchange gains/(losses)	800	29	5	(1,064)	-	(230)
Net trading losses	-	-	-	(251)	-	(251)
Other operating income	3,206	1,588	307	-	625	5,726
Staff costs	(7,733)	(2,410)	(366)	(340)	(3,422)	(14,271)
Depreciation/amortization charge	(1,410)	(468)	(14)	(67)	(2,092)	(4,052)
Other operating expenses	(12,733)	(3,937)	2,316	(84)	(6,616)	(21,053)
PROFIT/(LOSS) BEFORE IMPAIRMENT LOSSES AND PROVISIONS	**6,391**	**853**	**6,006**	**(8,177)**	**(11,417)**	**(6,344)**
Provisions for potential losses, commitments and write-offs	(15,808)	(19,141)	(2,896)	-	204	(37,641)
Provisions for other risks and contingent liabilities	64	-	-	-	(448)	(384)
Impairment losses on property, equipment and intangible assets	-	-	-	-	(4,205)	(4,205)
Losses on fair value adjustment of investment property	-	-	-	-	(874)	(874)
Impairment losses on equity investments	-	(794)	-	-	-	(794)
(LOSS)/PROFIT BEFORE INCOME TAX	**(9,354)**	**(19,082)**	**3,110**	**(8,177)**	**(16,740)**	**(50,242)**
Income tax expense	-	-	-	-	(2,352)	(2,352)
NET (LOSS)/PROFIT FOR THE YEAR	**(9,354)**	**(19,082)**	**3,110**	**(8,177)**	**(19,092)**	**(52,594)**

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, 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
December 31, 2015						
Total assets	272,040	86,999	131,944	304,073	246	795,302
Total liabilities	298,980	48,289	80,987	220,696	1,392	650,344

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 a 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 the parent entity (Addiko Group). 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 client of the Credit Operations Department/Loan Restructuring are monitored every six months via a credit report which is submitted for approval in accordance with the respective Credit Committees' competences.

The Loan Restructuring Function is a part 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 – that are 1 or more days 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, 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 banks	-	-	-	-
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**
December 31, 2015				
Cash and balances with the Central Bank	223,950	-	-	223,950
Balances held with other banks	33,676	-	(2)	33,674
Loans and receivables due from banks	1,956	-	-	1,956
Loans and receivables due from customers(*)	611,975	(155,427)	(3,959)	452,589
Derivative financial assets	66	-	-	66
Financial assets available for sale	39,641	-	-	39,641
Other financial assets	4,075	(1,968)	-	2,107
Total financial assets	**915,339**	**(157,395)**	**(3,961)**	**753,983**
Contingent liabilities and commitments	54,087	(355)	(872)	52,860
Total credit risk exposure	**969,426**	**(157,750)**	**(4,833)**	**806,843**

BANK	Total gross carrying value	Collective and individual impairment (SRPii/ SRPci)	Portfolio provisions for losses (PRPLL)	Total net carrying value
December 31, 2015				
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 banks	-	-	-	-
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**
December 31, 2015				
Cash and balances with the Central Bank	223,950	-	-	223,950
Balances held with other banks	33,664	-	(2)	33,662
Loans and receivables due from banks	1,956	-	-	1,956
Loans and receivables due from customers(*)	610,244	(157,509)	(3,950)	448,785
Derivative financial assets	66	-	-	66
Financial assets available for sale	39,641	-	-	39,641
Other financial assets	4,074	(1,968)	-	2,106
Total financial assets	**913,595**	**(159,477)**	**(3,952)**	**750,166**
Contingent liabilities and commitments	55,482	(370)	(872)	54,240
Total credit risk exposure	**969,077**	**(159,847)**	**(4,824)**	**804,406**

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, 2016				December 31, 2015			
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	7,940	(78)	(1,797)	6,065	286	(5)	(11)	270
1A-1E	42,204	(58)	(19)	42,127	32,549	(97)	-	32,452
2A-2E	246,627	(1,517)	625	245,735	220,487	(2,505)	-	217,982
3A-3E	141,773	(935)	(146)	140,692	146,102	(1,172)	(49)	144,881
4A-4E	19,705	(377)	(56)	19,272	29,285	(179)	-	29,106
5A-5E	163,726	(112)	(119,969)	43,645	218,898	(3)	(155,367)	63,528
Total	**621,975**	**(3,077)**	**(121,362)**	**497,536**	**647,607**	**(3,961)**	**(155,427)**	**488,219**

	December 31, 2016				December 31, 2015			
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	7,940	(78)	(1,797)	6,065	202	(5)	(11)	186
1A-1E	42,164	(58)	-	42,106	32,335	(97)	-	32,238
2A-2E	247,343	(1,516)	(120)	245,707	223,818	(2,502)	(2,182)	219,134
3A-3E	141,541	(935)	(81)	140,525	144,285	(1,170)	(24)	143,091
4A-4E	19,509	(377)	(1)	19,131	27,048	(175)	-	26,873
5A-5E	163,627	(112)	(119,882)	43,633	218,176	(3)	(155,292)	62,881
Total	**622,124**	**(3,076)**	**(121,881)**	**497,167**	**645,864**	**(3,952)**	**(157,509)**	**484,403**

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit Risk Management (Continued)

Loans and Receivables Due from Customers – Performance Breakdown

GROUP	2016	2015
Neither past due nor impaired	439,493	392,121
Past due but not impaired	743	885
Impaired (non-performing)	160,064	218,969
Gross	**600,300**	**611,975**
Collective and individual impairment (SRPii/ SRPci)	(121,362)	(155,427)
Portfolio provisions for contingent losses (PRPLL)	(3,070)	(3,959)
Net	**475,868**	**452,589**

BANK	2016	2015
Neither past due nor impaired	439,089	384,247
Past due but not impaired	642	859
Impaired (non-performing)	160,721	225,138
Gross	**600,452**	**610,244**
Collective and individual impairment (SRPii/ SRPci)	(121,881)	(157,509)
Portfolio provisions for contingent losses (PRPLL)	(3,069)	(3,950)
Net	**475,502**	**448,785**

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	2016	2015
Public sector	61,567	77,168
Non-banking financial institutions	1,513	8
Corporate customers	108,137	69,073
Entrepreneurs	5,219	1,864
Retail - individuals	262,893	243,717
Other	164	291
	439,493	**392,121**

BANK	2016	2015
Public sector	61.567	247
Non-banking financial institutions	1.513	8
Corporate customers	108.025	62.771
Entrepreneurs	5.149	1.582
Retail - individuals	262.671	242.605
Other	164	247
	439,089	**384,247**

(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, 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**
December 31, 2015						
Public sector	-	122	-	-	-	122
Non-banking financial institutions	-	-	-	-	-	-
Corporate customers	14	35	-	111	-	160
Entrepreneurs	-	-	-	-	-	-
Retail - individuals	46	519	-	38	-	603
Other	-	-	-	-	-	-
	60	**676**	**-**	**149**	**-**	**885**

BANK	up to 30 days	30 - 60 days	60 - 90 days	90 - 180 days	over 180 days	Total
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**
December 31, 2015						
Public sector	-	122	-	-	-	122
Non-banking financial institutions	-	-	-	-	-	-
Corporate customers	-	30	-	111	-	141
Entrepreneurs	-	-	-	-	-	-
Retail - individuals	40	518	-	38	-	596
Other	-	-	-	-	-	-
	40	**670**	**-**	**149**	**-**	**859**

(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, 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
December 31, 2015							
Gross	5,854	-	89,453	1,717	121,821	124	218,969
Collective and individual impairment (SRPii/ SRPci)	(2,140)	-	(52,289)	(1,012)	(99,863)	(123)	(155,427)
Net	**3,714**	**-**	**37,164**	**705**	**21,958**	**1**	**63,542**
Collateral fair value	2,451	-	50,901	635	28,017	-	82,004

BANK	Public sector	Non-banking financial institutions	Corporate	Entrepreneurs	Retail	Other	Total
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
December 31, 2015							
Gross	5,854	7,067	88,627	1,717	121,749	124	225,138
Collective and individual impairment (SRPii/ SRPci)	(2,140)	(2,182)	(52,189)	(1,012)	(99,863)	(123)	(157,509)
Net	**3,714**	**4,885**	**36,438**	**705**	**21,886**	**1**	**67,629**
Collateral fair value	2,451	-	49,760	635	27,924	-	80,770

(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, 2016 and 2015 is provided below:

	Number of restructured loans	Amount
December 31, 2016		
Corporate clients	5	5,451
Retail clients - individuals and entrepreneurs	1,935	76,019
Total	1,940	81,470
December 31, 2015		
Corporate clients	20	20,379
Retail clients - individuals and entrepreneurs	356	8,764
Total	376	29,143

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	2016	%	2015	%
Retail customers	364,696	45.47%	370,273	40.45%
Trade	50,983	6.36%	53,865	5.88%
Mining and industry	85,339	10.64%	65,733	7.18%
Services, tourism and catering business	12,308	1.53%	5,836	0.64%
Transport and communications	3,591	0.45%	4,420	0.48%
Real estate	135	0.02%	158	0.02%
Agriculture, forestry and fishing	1,427	0.18%	1,579	0.17%
Construction industry	2,494	0.31%	2,946	0.32%
Financial institutions	110,180	13.74%	238,779	26.09%
Power industry	3,418	0.43%	11,951	1.31%
Administration and other public services	135,425	16.88%	122,406	13.37%
Other	32,139	4.01%	37,393	4.09%
Allowance for impairment	(126,719)		(161,356)	
	675,416		**753,983**	

BANK	2016	%	2015	%
Retail customers	364,263	45.4%	368,800	40.37%
Trade	50,871	6.3%	52,777	5.78%
Mining and industry	85,339	10.6%	65,733	7.19%
Services, tourism and catering business	12,169	1.5%	5,791	0.63%
Transport and communications	3,521	0.4%	2,769	0.30%
Real estate	135	0.0%	158	0.02%
Agriculture, forestry and fishing	1,422	0.2%	1,534	0.17%
Construction industry	2,494	0.3%	2,899	0.32%
Financial institutions	111,516	13.9%	245,835	26.91%
Power industry	3,418	0.4%	11,938	1.31%
Administration and other public services	135,410	16.9%	121,904	13.34%
Other	31,726	4.0%	33,457	3.66%
Allowance for impairment	(127,237)		(163,429)	
	675,047		**750,166**	

(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, 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**
December 31, 2015				
Irrevocable loan commitments	28,793	12,941	1,828	43,562
Payment and performance guarantees and letters of credit	9,152	877	496	10,525
	37,945	**13,818**	**2,324**	**54,087**

BANK	Up to 1 year	1 - 5 years	Over 5 years	Total
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**
December 31, 2015				
Irrevocable loan commitments	30,188	12,941	1,828	**44,957**
Payment and performance guarantees and letters of credit	9,152	877	496	**10,525**
	39,340	**13,818**	**2,324**	**55,482**

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

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.

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 2016 and 2015:

BANK	Minimum	Maximum	Monthly average	December 31
2016				
Interest rate risk	123	312	205	231
Foreign currency risk	4	18	10	9
Price risk	0	2	1	0
Credit spread risk	7	89	38	60
Total	134	421	254	301
2015				
Interest rate risk	114	230	172	202
Foreign currency risk	10	82	21	12
Price risk	1	2	1	1
Credit spread risk	2	19	9	14
Total	**127**	**333**	**203**	**229**

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

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.

Sensitivity Analysis

The following table indicates the currencies to which the Bank had significant exposures at December 31, 2016 and 2015, considering that the Bank represents the main segment of the consolidated statement of position. The position in euros was not analyzed since BAM is pegged to EUR.

Currency	FX Open position, December 31, 2016	10% increase	10% decrease	FX Open position, December 31, 2015	10% increase	10% decrease
USD	349	65	(65)	227	41	(41)
CHF	(36,954)	(6,730)	6,730	(33,870)	(6,126)	6,126

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.

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

c) Foreign Currency Risk (Continued)

The Group had the following significant currency positions:

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 banks	-	-	-	-	-	-	-
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
Receivables for 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**

GROUP	EUR	USD	CHF	Other currencies	FX Sub-total	BAM Sub-total	Total
December 31, 2015							
ASSETS							
Cash and balances held with the central bank	5,908	691	1,054	867	8,520	215,430	223,950
Balances held with other banks	17,440	5,917	7,669	2,636	33,662	12	33,674
Loans and receivables due from banks	1,956	-	-	-	1,956	-	1,956
Loans and receivables due from customers	333,578	-	75,369	-	408,947	41,904	450,851
Derivative financial assets	-	-	-	-	-	66	66
Financial assets available for sale	20,400	418	-	-	20,818	18,823	39,641
Property and equipment	-	-	-	-	-	33,216	33,216
Intangible assets	-	-	-	-	-	3,716	3,716
Investment property	-	-	-	-	-	2,490	2,490
Receivables for prepaid income taxes	-	-	-	-	-	1,297	1,297
Other financial assets	624	-	-	-	624	1,483	2,107
Other assets	19	6	2	-	27	6,515	6,542
Total assets	**379,925**	**7,032**	**84,094**	**3,503**	**474,554**	**324,952**	**799,506**
LIABILITIES							
Deposits due to banks	105,900	-	110,859	-	216,759	3,161	219,920
Deposits due to customers	160,425	6,805	6,699	2,579	176,508	182,253	358,761
Borrowings	48,352	-	-	-	48,352	-	48,352
Liabilities per derivative financial instruments	-	-	-	-	-	33	33
Other financial liabilities	4,731	-	406	-	5,137	2,251	7,388
Other liabilities	10	-	-	-	10	1,553	1,563
Other provisions	7	-	-	-	7	15,333	15,340
Deferred tax liabilities	-	-	-	-	-	683	683
Total liabilities	**319,425**	**6,805**	**117,964**	**2,579**	**446,773**	**205,267**	**652,040**
Net foreign currency position	**60,500**	**227**	**(33,870)**	**924**	**27,781**	**119,685**	**147,466**

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

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

c) Foreign Currency Risk (Continued)

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	4,357	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 banks	-	-	-	-	-	-	-
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
Receivables for 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**

BANK	EUR	USD	CHF	Other currencies	FX Sub-total	BAM Sub-total	Total
December 31, 2015							
ASSETS							
Cash and balances held with the central bank	5,908	691	1,054	867	8,520	215,430	223,950
Balances held with other banks	17,440	5,917	7,669	2,636	33,662	-	33,662
Loans and receivables due from banks	1,956	-	-	-	1,956	-	1,956
Loans and receivables due from customers	329,774	-	75,369	-	405,143	41,904	447,047
Derivative financial assets	-	-	-	-	-	66	66
Financial assets available for sale	20,400	418	-	-	20,818	18,823	39,641
Property and equipment	-	-	-	-	-	33,018	33,018
Intangible assets	-	-	-	-	-	3,694	3,694
Investment property	-	-	-	-	-	2,490	2,490
Receivables for prepaid income taxes	-	-	-	-	-	1,297	1,297
Other financial assets	624	-	-	-	624	1,482	2,106
Other assets	19	6	2	-	27	6,348	6,375
Total assets	**376,121**	**7,032**	**84,094**	**3,503**	**470,750**	**324,552**	**795,302**
LIABILITIES							
Deposits due to banks	105,911	-	110,859	-	216,770	3,987	220,757
Deposits due to customers	160,425	6,805	6,699	2,579	176,508	182,253	358,761
Borrowings	46,283	-	-	-	46,283	-	46,283
Liabilities per derivative financial instruments		-	-	-	-	33	33
Other financial liabilities	4,721	-	406	-	5,127	1,825	6,952
Other liabilities	9	-	-	-	9	1,511	1,520
Other provisions	22	-	-	-	22	15,333	15,355
Deferred tax liabilities	-	-	-	-	-	683	683
Total liabilities	**317,371**	**6,805**	**117,964**	**2,579**	**444,719**	**205,625**	**650,344**
Net foreign currency position	**58,750**	**227**	**(33,870)**	**924**	**26,031**	**118,927**	**144,958**

6. FINANCIAL RISK MANAGEMENT (Continued)

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, 2016				
BAM	+/-100 bp	4,669/(4,960)	+/-200 bp	9,069/(10,232)
EUR	+/-100 bp	(2992)/3167	+/-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)**
December 31, 2015				
BAM	+/-100 bp	2,729/(2,842)	+/-200 bp	5,351/(5,803)
EUR	+/-100 bp	129/(120)	+/-200 bp	265/(232)
CHF	+/-100 bp	176/(185)	+/-200 bp	342/(380)
USD	+/-100 bp	149/(157)	+/-200 bp	291/(232)
Other	+/-100 bp	23/(23)	+/-200 bp	45/(46)
Total		**3,206/(3,327)**		**6,294/(6,693)**

(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, 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
Receivables for 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**

(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, 2015					
ASSETS					
Cash and balances held with the central bank	223,950	-	-	-	223,950
Balances held with other banks	33,674	-	-	-	33,674
Loans and receivables due from banks	-	-	1,956	-	1,956
Loans and receivables due from customers	122,020	15,993	53,547	259,291	450,851
Derivative financial assets	66	-	-	-	66
Financial assets available for sale	6,080	-	11,453	22,108	39,641
Property and equipment	-	-	-	33,216	33,216
Intangible assets	-	-	-	3,716	3,716
Investment property	-	-	-	2,490	2,490
Receivables for prepaid income taxes	-	-	1,297	-	1,297
Other financial assets	2,107	-	-	-	2,107
Other assets	6,542	-	-	-	6,542
Total assets	**394,439**	**15,993**	**68,253**	**320,821**	**799,506**
LIABILITIES					
Deposits due to banks	2,897	650	6,375	209,998	219,920
Deposits due to customers	244,072	13,956	57,006	43,727	358,761
Borrowings	558	1,374	5,210	41,210	48,352
Liabilities per derivative financial instruments	33	-	-	-	33
Other financial liabilities	7,388	-	-	-	7,388
Other liabilities	1,563	-	-	-	1,563
Other provisions	-	-	-	15,340	15,340
Deferred tax liabilities	683	-	-	-	683
Total liabilities	**257,194**	**15,980**	**68,591**	**310,275**	**652,040**
Maturity mismatch	**137,245**	**13**	**(338)**	**10,546**	**147,466**

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, 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	-	-	-	3,483	3,483
Investment property	-	-	-	2,554	2,554
Receivables for 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**

(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, 2015					
ASSETS					
Cash and balances held with the central bank	223,950	-	-	-	223,950
Balances held with other banks	33,662	-	-	-	33,662
Loans and receivables due from banks	-	-	1,956	-	1,956
Loans and receivables due from customers	121,657	15,767	52,661	256,962	447,047
Derivative financial assets	66	-	-	-	66
Financial assets available for sale	6,080	-	11,453	22,108	39,641
Property and equipment	-	-	-	33,018	33,018
Intangible assets	-	-	-	3,694	3,694
Investment property	-	-	-	2,490	2,490
Receivables for prepaid income taxes	-	-	1,297	-	1,297
Other financial assets	2,106	-	-	-	2,106
Other assets	6,375	-	-	-	6,375
Total assets	**393,896**	**15,767**	**67,367**	**318,272**	**795,302**
LIABILITIES					
Deposits due to banks	3,734	650	6,375	209,998	220,757
Deposits due to customers	244,072	13,956	57,006	43,727	358,761
Borrowings	581	1,010	4,470	40,222	46,283
Liabilities per derivative financial instruments	33	-	-	-	33
Other financial liabilities	6,952	-	-	-	6,952
Other liabilities	1,520	-	-	-	1,520
Other provisions	-	-	-	15,355	15,355
Deferred tax liabilities	683	-	-	-	683
Total liabilities	**257,575**	**15,616**	**67,851**	**309,302**	**650,344**
Maturity mismatch	**136,321**	**151**	**(484)**	**8,970**	**144,958**

Analysis of Financial Liabilities per Remaining Contractual Maturity, Undiscounted

The table below shows the remaining undiscounted maturities of the financial liabilities as at December 31, 2016 and 2015:

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**

BANK	Up to 1 month	1-3 months	3-12 months	Over 1 year	Total	Net carrying value
December 31, 2015						
Deposits due to banks	3,734	663	10,435	212,894	227,726	220,757
Deposits due to customers	241,747	13,615	59,725	44,822	359,909	358,761
Borrowings	581	1,184	5,205	44,844	51,814	46,283
Liabilities per derivative financial instruments	33	-	-	-	33	33
Other financial liabilities	6,952	-	-	-	6,952	6,952
Total	**253,047**	**15,462**	**75,365**	**302,560**	**646,434**	**632,786**

(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, 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 banks	-	-	-	-	-
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**

(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 2
December 31, 2015					
Financial assets carried at fair value					
Derivative financial assets	66	66	-	66	-
Financial assets available for sale	39,641	39,641	38,866	127	648
Financial assets other than carried at fair value					
Cash and balances held with the central bank	223,950	223,950	-	-	223,950
Balances held with other banks	33,674	33,674	-	-	33,674
Loans and receivables due from banks	1,956	1,956	-	-	1,956
Loans and receivables due from customers	450,851	467,714	-	-	467,714
Other financial assets	2,107	2,107	-	-	2,107
Other assets for which the fair value is disclosed					
Investment property	2,490	2,490	-	-	2,490
Intangible assets	3,716	3,716	-	-	3,716
Property and equipment	33,216	33,216	-	-	33,216
Total	**791,667**	**808,530**	**38,866**	**193**	**769,471**
Financial liabilities carried at fair value					
Liabilities per derivative financial instruments	33	33	-	33	-
Financial liabilities other than carried at fair value					
Deposits due to banks	219,920	225,609	-	-	225,609
Deposits due to customers	358,761	354,900	-	-	354,900
Borrowings	48,352	48,352	-	-	48,352
Other financial liabilities	7,388	7,388	-	-	7,388
Total	**634,454**	**636,282**	**-**	**33**	**636,249**

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, 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 banks					
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**

(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 2
December 31, 2015					
Financial assets carried at fair value					
Derivative financial assets	66	66	-	66	-
Financial assets available for sale	39,641	39,641	38,866	127	648
Financial assets other than carried at fair value					
Cash and balances held with the central bank	223,950	223,950	-	-	223,950
Balances held with other banks	33,662	33,662	-	-	33,662
Loans and receivables due from banks	1,956	1,956	-	-	1,956
Loans and receivables due from customers	447,047	463,910	-	-	463,910
Other financial assets	2,106	2,106	-	-	2,106
Other assets for which the fair value is disclosed					
Investment property	2,490	2,490	-	-	2,490
Intangible assets	3,694	3,694	-	-	3,694
Property and equipment	33,018	33,018	-	-	33,018
Total	**787,630**	**804,493**	**38,866**	**193**	**765,434**
Financial liabilities carried at fair value					
Liabilities per derivative financial instruments	33	33	-	33	-
Financial liabilities other than carried at fair value					
Deposits due to banks	220,757	226,446	-	-	226,446
Deposits due to customers	358,761	354,900	-	-	354,900
Borrowings	46,283	46,283	-	-	46,283
Other financial liabilities	6,952	6,952	-	-	6,952
Total	**632,786**	**634,614**	**-**	**33**	**634,581**

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, 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**
Balance at January 1, 2015	**175**	**30**	**376**	**24**	**26**	**631**
Increase in the year	-	-	-	-	-	-
Decrease in the year	-	-	-	-	(26)	(26)
Change in revaluation reserves	-	-	42	-	-	42
Balance at December 31, 2015	**175**	**30**	**418**	**24**	**-**	**647**

During 2015, 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 122,859 thousand in line with these provisions.

Based on the new Decision on Minimum Standards for Bank Capital Management and Capital Protection issued by the Banking Agency in 2014, the Bank's capital consists of:

- Core capital (Tier I) and
- Supplementary capital (Tier II).

The core capital of the Bank consists 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, uncovered 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 are 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.

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 is under obligation to maintain the capital adequacy ratio at the minimum of 12%. Furthermore, based on the aforesaid Decision, the Bank cannot make cash dividend payments per ordinary shares, pay rewards from the part of the Bank's profit to the members of the Bank's governing bodies and key category employees whose professional activities significantly affect the risk profile of the Bank, or redeem its own shares unless the Bank's net capital amounts to at least 14.5% of the total risk-weighted assets.

In accordance with the Decision:

- Supplementary capital may not 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
- Supplementary capital may not 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 are 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 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.

(Thousands of BAM)

6. FINANCIAL RISK MANAGEMENT (Continued)

h) Capital Risk Management (Continued)

As at December 31, 2016 and 2015 all indicators of the Bank's capital were in compliance with applicable regulations.

The following table shows the capital structure of the Bank, for the purpose of calculating the capital adequacy ratio:

	2016	2015
Core capital (Tier I):		
Shareholders' equity	153,094	141,359
Legal reserves	-	-
Retained earnings	548	464
Other reserves	-	-
Uncovered and current loss	(70,649)	(61,634)
Intangible assets	(3,483)	(3,694)
Deferred tax assets	-	-
Negative revaluation reserve	(115)	(51)
Total core capital (Tier I)	**79,395**	**76,444**
Supplementary capital (Tier II):		
General reserves of category A, by BARS regulations	6,449	7,607
Positive revaluation reserves	109	2,159
Permanent deposit	-	-
Total supplementary capital (Tier II)	**6,558**	**9,766**
Deductible items		
Shortfall reserves for loan losses per BARS regulations	-	-
Net capital	**85,953**	**86,210**
Total risk-weighted assets*	429,676	383,078
Total risk weighted off-balance sheet items*	45,937	31,208
Weighted operational risk*	51,463	53,824
Total risks weighted	**527,076**	**468,110**
Capital adequacy ratio as at December 31	**16,3%**	**18,4%**
The ratio of the core capital to the total weighted risks	**15.1%**	**16.3%**

** 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 2016	GROUP 2015	BANK 2016	BANK 2015
Interest income from the retail customers	17,602	18,972	17,526	18,827
Interest income from corporate and public sector customers	7,747	11,763	7,535	11,399
Interest income from loans and receivables due from banks	-	1	-	1
Interest income from balances with other banks	26	10	26	10
	25,375	**30,746**	**25,087**	**30,237**

b) *Interest Income - Breakdown per Product*

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Balances with the Central Bank	-	-	-	-
Balances with other banks	26	11	26	11
Loans and receivables due from customers	25,023	30,442	24,735	29,933
Financial assets available for sale	326	293	326	293
	25,375	**30,746**	**25,087**	**30,237**

c) *Interest Expenses - Breakdown per Source*

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Deposits due to banks and financial institutions	3,541	7,712	3,430	7,567
Deposits due to retail customers	3,243	3,414	3,243	3,414
Deposits due to public sector	403	521	403	521
Deposits due to corporate customers	102	182	102	182
Balances with the Central Bank	42	-	42	-
Balances with other banks	3	-	3	-
Bonds	6		6	
Other deposits	12	17	12	17
	7,352	**11,846**	**7,241**	**11,701**

d) *Interest Expenses - Breakdown per Product*

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Current accounts and deposits of customers	3,918	4,361	3,918	4,361
Current accounts and deposits of banks	2,432	6,195	2,321	6,050
Negative interest per loans extended	51	-	51	-
Borrowings	951	1,290	951	1,290
	7,352	**11,846**	**7,241**	**11,701**

(Thousands of BAM)

8. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and Commission Income

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Fee income arising from domestic payment transfers	5,223	5,333	5,225	5,335
Fees earned on VISA card operations	2,856	2,212	2,856	2,212
Fee income arising from international payment transfers	1,501	1,387	1,501	1,390
Fee income from currency conversion operations	881	771	881	771
Charges for early loan repayment, reminders and other loan fees	799	1,053	767	1,033
Commission from issued guarantees, letters of credit and other sureties	177	149	177	149
Brokerage commissions	77	63	77	63
Other fee and commission income	122	210	122	176
	11,636	**11,178**	**11,606**	**11,129**

b) Fee and Commission Expenses

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Fee expenses incurred on payment card operations	1,277	892	1,277	892
Fees for loans, issued guarantees and other fees	228	575	222	570
Fee expenses incurred on domestic payment transfers	221	202	222	202
Fee expenses incurred on international payment transfers	160	144	159	144
Fee expenses incurred on stock exchange operations and Central Register fees	59	70	59	70
	1,945	**1,883**	**1,939**	**1,878**

9. OTHER OPERATING INCOME

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Collection of receivables previously written-off	3,749	4,195	3,834	4,195
Gains on the sales and value adjustments of tangible assets acquired in lieu of debt collection	2,349	79	2,319	77
Rental income	436	556	453	584
Income from closing dormant accounts	194	91	194	91
Sale of securities	82	-	82	-
Sales of consultancy services	36	76	47	110
Dividend income	8	10	8	10
Capital gains on the sales of acquired tangible assets, property and equipment	8	98	8	98
Write-off of liabilities	5	-	-	-
Other income	568	640	471	561
	7,435	**5,745**	**7,416**	**5,726**

(Thousands of BAM)

10. STAFF COSTS

	GROUP		BANK	
	2016	2015	2016	2015
Net salaries	8,603	8,804	8,332	8,440
Payroll taxes and contributions	5,486	5,731	5,258	5,473
Other employee benefits	669	315	602	314
Provisions for employee retirement benefits and unused annual leaves	134	44	57	44
Provisions for employee bonuses	365	-	365	-
	15,257	**14,894**	**14,614**	**14,271**

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 16,637 thousand in FY 2016 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 credit commitments by 50% to 25% of the clients with the lowest monthly income (for more details, please refer to Note 19).

12. OTHER OPERATING EXPENSES

	GROUP		BANK	
	2016	2015	2016	2015
Software lease costs	4,204	4,742	4,204	4,742
Property insurance and security	1,894	2,036	1,894	2,021
Telecommunications	1,390	1,355	1,373	1,330
Cost of materials, fuel, energy and services	1,350	2,023	1,338	1,994
Indirect taxes and contributions	1,174	1,321	1,165	1,311
Advertising, marketing and entertainment	1,070	838	1,067	820
Rental costs	984	1,080	961	1,022
Maintenance	953	900	911	840
Litigation costs	839	850	814	850
Losses on the sales and fair value adjustments of the tangible assets acquired in lieu of debt collection	776	2,804	774	2,783
Non-material expenses	711	519	678	461
Fees payable to the Banking Agency of the Republic of Srpska	625	706	619	698
Intellectual services rendered by related banks	-	486	-	483
Consulting services	262	322	222	295
Membership fees and commissions	220	247	220	233
Per diems and other travel costs	170	184	165	175
Sponsorship and humanitarian aid project	97	142	97	142
Losses on impairment of financial assets available for sale	79	26	79	26
Disposals and write-offs of property and equipment	41	86	40	85
Other expenses	1,083	762	915	742
	17,922	**21,429**	**17,536**	**21,053**

Losses on the sales and fair value adjustment of the tangible assets acquired in lieu of debt collection in 2016 mostly relate to the decrease in the value of acquired assets of BAM 743 thousand due to decreased net realizable value, i.e., market value of such assets. The remaining BAM 31 thousand relates to the losses on sales (2015: losses on the fair value adjustment of the tangible assets acquired in lieu of debt collection of BAM 2,783 thousand was a result of the impairment due to the lower net realizable value of the assets, i.e. the market value of assets).

(Thousands of BAM)

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

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Loans and receivables due from customers (Note 19)	7,677	(35,812)	9,247	(37,710)
Other financial assets (Note 25)	(312)	(409)	(312)	(409)
Other assets (Note 26)	-	-	-	-
Provisions for off-balance sheet exposures (Note 35)	428	1,274	443	1,278
Balances with other banks (Note 17)	(5)	20	(5)	20
Write offs	(398)	(820)	(398)	(820)
	7,390	**(35,747)**	**8,975**	**(37,641)**

14. PROVISIONS FOR OTHER RISK AND CONTINGENT LIABILITIES

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Expenses per provisions for litigations (Note 35)	2,589	(69)	2,589	(69)
Expenses per restructuring provisions (Note 35)	(2,246)	(315)	(2,246)	(315)
	343	**(384)**	**343**	**(384)**

15. INCOME TAXES

a) Components of Income Taxes

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Current income tax expense	-	-	-	-
Deferred tax (benefits)/expense	(9)	2,473	(9)	2,352
	(9)	**2,473**	**(9)**	**2,352**

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

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
(Loss)/profit before taxes	(10,894)	(48,238)	(9,024)	(50,242)
Income taxes at the statutory tax rate of 10%	(1,090)	(4,824)	(902)	(5,024)
Adjustments				
Tax effects of expenses not recognized for tax purposes	243	4,475	102	4,729
Tax effects of income not recognized for tax purposes	(39)	(39)	(39)	(31)
Tax effect of recognized provisions for potential losses representing 20% of the tax basis	(839)	-	-	-
Non-deductible entertainment costs	2	2	2	2
Non-deductible penalties	3	4	3	4
Tax effects of depreciation and amortization not recognized for tax purposes	(259)	(107)	(259)	(107)
Tax effects of provisions for employee benefits	52	33	52	33
Tax losses not recognized as deferred tax assets	1,871	538	1,032	476
Reversal of deferred tax assets	47	2,391	-	2,270
Income tax expense	**(9)**	**2,473**	**(9)**	**2,352**
Effective tax rate	0%	(5%)	0%	(5%)

(Thousands of BAM)

15. INCOME TAXES (Continued)

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

Tax effects of expenses not recognized for tax purposes in the respective amounts of BAM 4,475 thousand and BAM 4,729 thousand for the Group and the Bank represent 10% of expenses not recognized as deductible item under the Corporate Income Tax Law of the Republic of Srpska and include provisions for credit losses, other provisioning costs, revaluation losses and other miscellaneous costs.

Gross tax losses in the amount of BAM 1,032 thousand for the Group and the Bank are available for carryforward and use against future profits of the Group and the Bank. Tax losses can be carried forward for five years from the year of inception, subject to review by the Ministry of Finance of the Republic of Srpska. At the reporting date the Group and the Bank did not recognize deferred tax assets arising from losses carried forward as it was uncertain whether sufficient future taxable profits will be available against which these could be utilized prior to expiry. For the same reason, the Group and the Bank reversed deferred tax assets recognized in previous periods.

c) *Deferred Taxes*

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

	GROUP		BANK	
	2016	2015	2016	2015
Deferred tax liabilities				
Revaluation reserves from fixed assets	(255)	(340)	(255)	(340)
Changes in fair value of securities available for sale	-	(3)	-	(3)
Fixed assets - different tax and accounting depreciation rates	(341)	(340)	(341)	(340)
Deferred tax liabilities, net	**(596)**	**(683)**	**(596)**	**(683)**

Movements on deferred taxes of the Group were as follows:

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	-	-		-
Tax loss	-	-	-	-	-	
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)*

GROUP	January 1, 2015	Recognized in the profit or loss	Recognized in other comprehensive income	December 31, 2015	Deferred tax assets	Deferred tax liabilities
Retirement benefits and restructuring provisions	118	(118)	-	-	-	-
Fixed assets - different tax and accounting rates	282	(282)	-	-	-	-
Provisions for other risks and contingent liabilities	1,291	(1,291)	-	-	-	-
Impairment of fixed assets recognized in profit or loss	579	(579)	-	-	-	-
Change in fair value available-for-sale securities	7	-	(10)	(3)	-	(3)
Tax loss	121	(121)	-	-	-	-
Revaluation reserves from fixed assets	(392)	52	-	(340)	-	(340)
Fixed assets - different tax and accounting rates	(206)	(134)	-	(340)	-	(340)
	1,800	(2,473)	(10)	(683)	-	(683)

Movements on deferred taxes of the Bank were as follows:

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	-	-	-	-
Tax loss	(340)	6	78	(256)	-	(256)
Revaluation reserves from fixed assets	(340)	-	-	(340)	-	(340)
	(683)	9	78	(596)	-	(596)

BANK	January 1, 2015	Recognized in the profit or loss	Recognized in other comprehensive income	December 31, 2015	Deferred tax assets	Deferred tax liabilities
Retirement benefits and restructuring provisions	118	(118)	-	-	-	-
Fixed assets - different tax and accounting rates	282	(282)	-	-	-	-
Provisions for other risks and contingent liabilities	1,291	(1,291)	-	-	-	-
Impairment of fixed assets recognized in profit or loss	579	(579)	-	-	-	-
Change in fair value available-for-sale securities	7	-	(10)	(3)	-	(3)
Tax loss	(392)	52	-	(340)	-	(340)
Revaluation reserves from fixed assets	(206)	(134)	-	(340)	-	(340)
	1,679	(2,352)	(10)	(683)	-	(683)

(Thousands of BAM)

16. CASH AND BALANCES HELD WITH THE CENTRAL BANK

		GROUP		BANK
	2016	2015	2016	2015
Cash in hand:				
- in local currency	15,200	14,536	15,200	14,536
- in foreign currencies	6,774	8,520	6,774	8,520
Balances with the Central Bank (BAM)				
- obligatory reserve	32,608	49,678	32,608	49,678
- gyro account	52,548	151,216	52,548	151,216
	107,130	**223,950**	**107,130**	**223,950**

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.

17. ASSETS HELD WITH OTHER BANKS

		GROUP		BANK
	2016	2015	2016	2015
Foreign currency accounts with foreign and domestic banks	17,030	33,658	17,027	33,646
Up to 7 days term deposits	4,639	-	4,639	-
Foreign currency cheques in the course of collection	6	18	6	18
Total	**21,675**	**33,676**	**21,672**	**33,664**
Less: Allowance for impairment	(7)	(2)	(7)	(2)
	21,668	**33,674**	**21,665**	**33,662**

As of December 31, 2016 the amount of BAM 4,639 thousand relates to the term deposit maturing within 7 days, placed with Erste Group Bank AG Austria at an interest rate of 0.75%.

Foreign currency accounts held with foreign and domestic banks do not accrue interest.

Movements on the account of allowance for impairment are presented in the following table:

		GROUP		BANK
	2016	2015	2016	2015
Balance at January 1	2	*20*	2	*20*
Charge for the year	6	-	6	-
Reversal/decrease	(1)	(20)	(1)	(20)
(Reversal)/charge for the year, net (Note 13)	***5***	***(20)***	***5***	***(20)***
Foreign exchange effects, net	***-***	***2***	***-***	***2***
Balance at December 31	**7**	**2**	**7**	**2**

(Thousands of BAM)

18. LOANS AND RECEIVABLES DUE FROM BANKS

As of December 31, 2015 the amount of BAM 1,956 thousand pertained to a term deposit with maturity of six months, which was deposited with Addiko Bank a.d. Beograd (at that time Hypo Alpe Adria Bank a.d. Beograd) at the interest rate of 0.4%.

19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

		GROUP		BANK
	2016	2015	2016	2015
Retail customers	355,779	364,465	355,473	363,274
Private companies	154,850	137,970	154,123	130,857
Public sector (Government)	67,182	83,126	67,171	82,992
Public companies	12,453	20,752	12,445	20,718
Entrepreneurs	6,711	3,582	6,584	3,299
Non-residents	1,541	1,676	1,541	1,676
Non-banking financial institutions	1,502	-	2,841	7,067
Other organizations	282	404	274	361
Total, gross	**600,300**	**611,975**	**600,452**	**610,244**
Less: Impairment allowance	(124,432)	(159,386)	(124,950)	(161,459)
Total loans, net	**475,868**	**452,589**	**475,502**	**448,785**
Accrued fee income	(1,419)	(1,738)	(1,419)	(1,738)
Total loans and receivables due from customers	**474,449**	**450,851**	**474,083**	**447,047**
Of which:				
Loans and receivables held for sale	-	19,460	-	19,460
Less: Impairment allowance	-	(13,243)	-	(13,243)
Total net loans and receivables due from customers held for sale	**-**	**6,217**	**-**	**6,217**

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 social responsibility, in the form of additional incentive to reduce the amount of credit commitments by 50% to 25% of the clients with the lowest monthly income.

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. As of December 31, 2016 there remained 513 loan facilities of private individuals with the total balance sheet exposure of BAM 33,316 thousand.

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

Given the aforesaid and not taking the CHF conversion effect into account, the retail segment recorded evident growth in loans.

(Thousands of BAM)

19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

Furthermore, in March 2016 the Bank sold through Brush IV transaction loans due from private companies with the gross carrying value at the transaction date amounting to BAM 19,461 thousand (BAM 6,217 thousand, net).

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

		GROUP		BANK
	2016	2015	2016	2015
Investment loans	182,443	215,227	183,782	222,294
Consumer loans	179,400	136,440	179,400	136,440
Housing loans	95,600	127,875	95,508	127,606
Loans for working capital	39,734	23,386	39,734	23,386
Mortgage loans	38,816	47,562	38,816	47,562
Account overdrafts	33,101	35,333	33,101	35,333
Car loans	906	5,176	173	198
Paid guarantees	291	764	291	764
Other	30,009	20,212	29,647	16,661
Total	**600,300**	**611,975**	**600,452**	**610,244**
Less: Impairment allowance	(124,432)	(159,386)	(124,950)	(161,459)
Total loans, net	**475,868**	**452,589**	**475,502**	**448,785**
Accrued fee income	(1,419)	(1,738)	(1,419)	(1,738)
Total loans and receivables due from customers	**474,449**	**450,851**	**474,083**	**447,047**

During 2016 the Bank acquired real estates and movables used as collateral securitizing loans in the total amount of BAM 1,080 thousand (2015: BAM 1,911 thousand).

During 2016 the Bank sold assets acquired in lieu of debt collection with the carrying value of BAM 1,398 thousand (2015: BAM 43 thousand) of which assets with the carrying value of BAM 1,169 thousand were sold through Brush IV transaction.

The total amount of foreclosed tangible assets is shown in Note 26,

Movements on provisions for loans were as follows:

		GROUP		BANK
	2016	2015	2016	2015
Balance at January 1	***159,386***	***120,249***	***161,459***	***120,221***
Charge for the year	21,410	96,314	19,679	98,129
Reversal/release	(26,339)	(56,776)	(26,178)	(56,693)
Decrease - unwinding (interest income on impaired receivables)	(2,748)	(3,726)	(2,748)	(3,726)
Charge for the year, net (Note 13)	***(7,677)***	***35,812***	***(9,247)***	***37,710***
Foreign exchange effects, net	29	3,890	29	3,890
Sales	(13,243)	-	(13,243)	-
Write-offs	(14,063)	(565)	(14,048)	(362)
Balance at December 31	**124,432**	**159,386**	**124,950**	**161,459**

(Thousands of BAM)

20. FINANCIAL ASSETS

a) Securities available for sale

		GROUP		BANK
	2016	2015	2016	2015
Debt securities - listed, marketable				
Kingdom of Spain Government bonds	17,620	20,376	17,620	20,376
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	2,030	2,031	2,030	2,031
Total listed securities	**68,192**	**22,407**	**68,192**	**22,407**
Debt securities - unlisted, marketable				
RS Ministry of Finance treasury bills	-	16,460	-	16,460
Investment funds - unlisted, marketable				
Mutual Fund Hypo BH Equity	-	55	-	55
Kristal Kapital OIF	-	72	-	72
Equity securities - unlisted				
Banja Luka Stock Exchange	175	175	175	175
Central Register of Securities,	30	30	30	30
Euro Axis Bank	-	418	-	418
SWIFT	24	24	24	24
Total unlisted securities	**229**	**17,234**	**229**	**17,234**
Total securities available for sale	**68,421**	**39,641**	**68,421**	**39,641**

In March 2016, the Bank sold to third parties as part of Brush IV transaction securities of the issuers Mutual Fund Hypo BH Equity, Kristal Kapital OIF and Euro Axis Bank,

Investments in debt securities totaling BAM 68,192 thousand as of December 31, 2016 refer to the long-term debt securities issued by the Ministry of Finance of Republic of Srpska and Governments of certain European countries (Italy, Spain, Poland, Hungary and Bulgaria) at interest rates ranging from 0.1% to 6%.

(Thousands of BAM)

20. FINANCIAL ASSETS (Continued)

a) Derivative financial assets and liabilities

Derivatives held for trading

GROUP I BANK	2016	2015
Assets		
Fair value:		
Currency forwards and currency swaps	66	66
Notional amount:		
Currency forwards and currency swaps	191,651	61,642
Liabilities		
Fair value:		
Currency forwards and currency swaps	87	33
Notional amount:		
Currency forwards and currency swaps	191,671	61,609

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.

21. 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 2016. Thereby the value of the equity investment in the subsidiary was decreased to zero,

Movements on equity investments are provided below:

	2016	2015
January 1	-	-
Increase	600	794
Impairment	(600)	(794)
December 31	-	-

(Thousands of BAM)

22. PROPERTY AND EQUIPMENT

	GROUP				BANK			
	Land and buildings	Other equipment	Investments in progress	Total	Land and buildings	Other equipment	Investments in progress	Total
Cost								
Balance, January 1, 2015	39,271	12,246	232	51,749	39,271	11,731	232	51,234
Additions	23	240	344	607	23	240	344	607
Transfers	-	436	(436)	-	-	436	(436)	-
Retirement and disposal	-	(1,389)	-	(1,389)		(1,389)	-	(1,389)
Reclassifications	(1,247)	(68)	-	(1,315)	(1,247)	2		(1,245)
Sales	-	(276)	-	(276)	-	(217)		(217)
Balance, December 31, 2015	38,047	11,189	140	49,376	38,047	10,803	140	48,990
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)	-	-	-	-
Reclassifications	(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**
Accumulated depreciation				-				-
Balance, January 1, 2015	7,544	8,267	-	15,811	7,544	8,084	-	15,628
Charge for the year	603	1,515	-	2,118	603	1,432	-	2,035
Transfers	-	-	-	-			-	
Retirement and disposal	-	(1,305)	-	(1,305)		(1,305)	-	(1,305)
Reclassifications	(200)	(41)	-	(241)	(200)	2	-	(198)
Sales	-	(223)	-	(223)	-	(188)	-	(188)
Balance, December 31, 2015	**7,947**	**8,213**	**-**	**16,160**	**7,947**	**8,025**	**-**	**15,972**
Balance, January 1, 2016	7,947	8,213	-	16,160	7,947	8,025	-	15,972
Charge for the year	587	933	-	1,520	587	878	-	1,465
Retirement and disposal	-	(114)	-	(114)	-	(114)	-	(114)
Impairment	1,757	454	-	2,211	1,757	454		2,211
Write-offs	-	(7)	-	(7)	-	-	-	-
Reclassifications	(18)	-	-	(18)	(18)	-	-	(18)
Sales	-	(172)	-	(172)	-	(18)	-	(18)
Balance, December 31, 2016	**10,273**	**9,307**	**-**	**19,580**	**10,273**	**9,225**	**-**	**19,498**
Net book value:								
at December 31, 2016	**27,692**	**2,591**	**59**	**30,342**	**27,692**	**2,495**	**59**	**30,246**
at December 31, 2015	**30,100**	**2,976**	**140**	**33,216**	**30,100**	**2,778**	**140**	**33,018**

The Group's and the Bank's property as of December 31, 2016 included land and buildings with carrying value of BAM 746 thousand for which the Bank did not possess appropriate title deeds (2015: BAM 826 thousand).

The total amount of fees that the Group and the Bank have received from insurance companies for damaged properties amounted to BAM 24 thousand.

As of December 31, 2016, neither the Group nor the Bank had mortgage or pledge liens assigned over their property and equipment.

As of December 31, 2016, the Group and the Bank recorded impairment in the amount of BAM 2,211 thousand, of which the amount of BAM 757 thousand was recorded as a decrease of previously recognized revaluation reserve while BAM 1,454 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	2016	2015
Cost	51,940	51,231
Accumulated depreciation	(24,525)	(21,737)
Net book value	**27,415**	**29,494**

(Thousands of BAM)

23. INTANGIBLE ASSETS

	GROUP Licenses and software	BANK Licenses and software
Cost		
Balance at January 1, 2015	*16,585*	*16,440*
Additions	806	806
Retirement and disposal	(12)	(12)
Balance at December 31, 2015	**17,379**	**17,234**
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**
Accumulated amortization		
Balance at January 1, 2015	*7,424*	*7,330*
Charge for the year	2,046	2,017
Impairment	4,205	4,205
Retirement and disposal	(12)	(12)
Balance at December 31, 2015	**13,663**	**13,540**
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**
Net book value:		
at December 31, 2016	**3,484**	**3,483**
at December 31, 2015	**3,716**	**3,694**

As of December 31, 2015, a certified appraiser assessed the value of the intangible assets, after which the assets were reduced by BAM 4,205 thousand, which was recorded as an impairment loss charged to the profit or loss statement.

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

BANK	2016	2015
Cost	17,943	16,930
Accumulated amortization	(14,460)	(13,236)
Net book value	**3,483**	**3,694**

24. INVESTMENT PROPERTY

	GROUP	BANK
Cost		
Balance at December 31, 2014	**2,531**	**2,531**
Balance at January 1, 2015	2,531	2,531
Reclassifications	1,047	1,047
Sales	(214)	(214)
Change in fair value	(874)	(874)
Balance at December 31, 2015	**2,490**	**2,490**
Balance at January 1, 2016	2,490	2,490
Reclassifications	64	64
Balance at December 31, 2016	**2,554**	**2,554**

(Thousands of BAM)

25. OTHER FINANCIAL ASSETS

		GROUP		BANK
	2016	2015	2016	2015
Other financial assets				
In local currency:				
- Receivables from customers arising from litigations	1,522	1,522	1,522	1,522
- Credit card operations	728	963	728	963
- Advances paid	486	368	486	368
- Receivables on behalf of and for the account of third parties	401	43	401	43
- Receivables from the sales of collaterals	195	45	195	45
- Rental receivables from customers	82	85	82	85
- Receivables for consultant fees	16	49	16	50
- Receivables for assets sold	-	1	-	1
- Other receivables	362	337	362	335
In foreign currencies:				
- Credit card operations	661	596	661	596
- Prepaid interest	1	1	1	1
- Other receivables	89	65	89	65
Total:	**4,543**	**4,075**	**4,543**	**4,074**
Less: Impairment allowance	(2,280)	(1,968)	(2,280)	(1,968)
	2,263	**2,107**	**2,263**	**2,106**

Movements on provisions are provided in the table below:

		GROUP		BANK
	2016	2015	2016	2015
Balance at January 1	***1,968***	***1,559***	***1,968***	***1,559***
Charge for the year	312	409	312	409
Reversal of provisions	-	-	-	-
Charge for the year, net (Note 13)	**312**	**409**	**312**	**409**
Balance at December 31	**2,280**	**1,968**	2,280	**1,968**

26. OTHER ASSETS

		GROUP		BANK
	2016	2015	2016	2015
Other non-financial assets				
In local currency:				
- Tangible assets received in lieu of debt collection	1,486	2,864	1,486	2,864
- Receivables for deposited funds	634	600	634	600
- Receivables for assets in acquisition	398	398	398	398
- Receivables from investment funds	240	217	234	217
- Prepaid expenses	221	267	208	246
- Consumables, tools and fixtures	121	248	121	102
- Receivables for prepaid income taxes in Brčko District	-	-	-	-
- Other receivables	1,616	1,921	1,579	1,921
In foreign currencies:				
- Prepaid expenses	9	18	9	18
- Other receivables	20	9	20	9
Total:	**4,745**	**6,542**	**4,689**	**6,375**
Less: Impairment allowance	-	-	-	-
	4,745	**6,542**	**4,689**	**6,375**
Thereof:				
Assets held for sale	**-**	**1,169**	**-**	**1,169**

In March 2016, the Bank sold to third parties through Brush IV transaction foreclosed tangible assets with net carrying value at the transaction date of BAM 1,169 thousand.

(Thousands of BAM)

27. 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	
	2016	2015	2016	2015
Demand deposits	3,610	2,897	3,917	3,734
Short-term deposits	32,864	-	32,864	-
Long-term deposits	105,198	217,023	105,198	217,023
	141,672	**219,920**	**141,979**	**220,757**

Within the total long-term deposits, foreign currency long-term deposits of BAM 101,093 thousand represent deposits of Addiko Bank AG Austria placed for periods from 6 to 12 months at interest rates linked to EURIBOR/LIBOR (1-month and 6-month) increased by markup of 0.9% to 2.13%.

As of December 31, 2016 the Bank had a registered pledge lien over refinancing lines in the amount of BAM 101,093 thousand obtained from Addiko Bank AG, Vienna, Austria. As of December 31, 2016, the Bank's pledged assets comprised securities available for sale in the amount of BAM 64,668 thousand (Note 20.a)) and loans due from customers in the amount of BAM 70,271 thousand (Note 19).

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

	GROUP		BANK	
	2016	2015	2016	2015
Local currency	4,331	3,162	4,637	3,988
Foreign currency	137,341	216,758	137,342	216,769
	141,672	**219,920**	**141,979**	**220,757**

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

28. DEPOSITS DUE TO CUSTOMERS

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

	GROUP		BANK	
	2016	2015	2016	2015
Demand deposits	253,921	235,573	253,921	235,573
Short-term deposits	9,289	28,869	9,289	28,869
Long-term deposits	101,904	94,319	101,904	94,319
	365,114	**358,761**	**365,114**	**358,761**

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

	GROUP		BANK	
	2016	2015	2016	2015
Retail customers	252,413	244,830	252,413	244,830
Private companies	56,028	55,628	56,028	55,628
Public sector	20,680	19,535	20,680	19,535
Non-residents	15,554	15,569	15,554	15,569
Public companies	9,643	12,514	9,643	12,514
Entrepreneurs	5,968	5,991	5,968	5,991
Other organizations	4,828	4,694	4,828	4,694
	365,114	**358,761**	**365,114**	**358,761**

(Thousands of BAM)

28. DEPOSITS DUE TO CUSTOMERS (Continued)

Deposits due to customers classified per currency are presented below:

		GROUP		BANK
	2016	2015	2016	2015
Local currency	190,479	182,252	190,479	182,252
Foreign currency	174,635	176,509	174,635	176,509
	365,114	**358,761**	**365,114**	**358,761**

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

29. BORROWINGS

		GROUP		BANK
	2016	2015	2016	2015
Long-term foreign currency borrowings:				
- ADDIKO BANK AG, Vienna, Austria	-	122	-	-
- ADDIKO BANK d.d., Sarajevo	-	1,947	-	-
	-	**2,069**	**-**	**-**
Long-term local currency borrowings:				
- RS Development and Employment Fund	5,183	11,451	5,183	11,451
- Fund for Development of Eastern Region of the Republic of Srpska	3,134	3,617	3,134	3,617
- RS Housing Fund	27,471	31,215	27,471	31,215
	35,788	**46,283**	**35,788**	**46,283**
	35,788	**48,352**	**35,788**	**46,283**

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,

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.

30. SUBORDINATED LIABILITIES

As of December 31, 2016, the Bank had no subordinated liabilities.

(Thousands of BAM)

31. OTHER FINANCIAL LIABILITIES

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Local currency liabilities:				
- Accounts payable	1,222	883	1,212	874
- Liabilities arising from credit card operations	462	371	462	371
- Liabilities per advances received	400	-	400	-
- Early loan repayments	275	284	275	284
- Blocked customer accounts	213	4	213	4
- Unrealized payments for foundation of entities	119	103	119	103
- Dividend payment liabilities	70	70	70	70
- Other liabilities	114	536	114	119
Foreign currency liabilities:				
- Early loan repayments	5,170	4,365	5,170	4,365
- Accounts payable	458	552	458	542
- Liabilities arising from credit card operations	245	215	245	215
- PTA liabilities	8	-	8	-
- Blocked customer accounts	-	-	-	-
- Other liabilities	1	5	1	5
	8,757	**7,388**	**8,747**	**6,952**

32. OTHER LIABILITIES

The breakdown of Group's and Bank's non-financial liabilities is provided below:

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Local currency liabilities:				
- Liabilities to employees	1,297	117	1,297	117
- Liabilities for taxes and contributions	1,007	521	1,007	520
- Liabilities to employees for unused annual leaves	366	312	366	312
- Deferred interest income	100	100	100	100
- Other accrued fees	62	64	62	64
- Accrued expenses	57	320	50	279
- Other liabilities	129	119	126	119
Foreign currency liabilities:				
- Other accrued fees	-	1	-	-
- Other liabilities	148	9	148	9
	3,166	**1,563**	**3,156**	**1,520**

Movements on provisions for unused annual leaves are presented below:

	2016	2015
Balance at January 1	**312**	**275**
Charge for the year	57	37
Release of provisions	(3)	-
Reversal of provisions	-	-
Charge for the year, net	***54***	***37***
Balance at December 31	**366**	**312**

(Thousands of BAM)

33. 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.

At its session held on July 27, 2016 the Shareholder Assembly of the Bank enacted decision on the increase of the Bank's share capital by the amount of BAM 11,735 thousand. The capital increase was carried out by the 16th ordinary /common stock share issue offered to the qualifying investor.

On July 29, 2016 the Bank submitted an application to the Securities Commission of the Republic of Srpska for entry of the capital increase in the Register of Issuers, based on which, on August 11, 2016, the Commission issued a Decision on the change of data for the Bank within the Register of Issuers, which confirmed the capital increase to BAM 153,094 thousand. Registration of the share capital increase with the competent court is underway.

Accordingly, the Bank's share capital consists of 153,094,205 ordinary shares with a nominal value of BAM 1.

On November 6, 2016 the Bank submitted the application to the District Commercial Court of Banja Luka for registration of the 16th share issue and capital increase.

As of December 31, 2016, the Bank's majority shareholder was Addiko Bank AG with a 99.86% equity interest (December 31, 2015: equity interest of the majority shareholder was 99.83%).

Reserves

The Bank's reserves as of December 31, 2015 are provided in the following table:

	2016	2015
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.

(Thousands of BAM)

33. EQUITY (Continued)

Reserves (Continued)

As of December 31, 2016 and 2015, the Group and the Bank had no recorded shortfall reserves as per BRAS regulations.

		GROUP		BANK
	2016	2015	2016	2015
Total reserves per regulatory requirements for balance sheet assets and off-balance sheet items	139,847	169,418	140,236	173,359
Total impairment allowance as per IAS 39 and IAS 37 (for balance sheet assets and off-balance sheet items)	127,925	162,882	128,037	164,670
Special reserves for regulatory losses per BARS regulations	61,826	61,826	61,826	61,826
The excess amount of loan loss reserves according to BARS regulations	(49,904)	(55,290)	(49,627)	(53,137)

34. EARNINGS PER SHARE

		GROUP		BANK
	2016	2015	2016	2015
Net loss for the year	(10,888)	(50,711)	(9,015)	(52,594)
Weighted average number of shares outstanding	145,912,141	122,909,910	145,912,141	122,909,910
Basic earnings per share (in BAM)	(0,075)	(0,413)	(0,062)	(0,428)

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

35. OTHER PROVISIONS

Other provisions as of December 31, 2016 are presented below:

		GROUP		BANK
	2016	2015	2016	2015
Litigation	9,846	12,657	9,846	12,657
Restructuring	1,282	1,092	1,282	1,092
Other provisions	1,143	44	1,049	44
Retirement benefits	389	320	312	320
	12,660	***14,113***	***12,489***	***14,113***
Provisions for contingent liabilities	799	1,227	799	1,242
	13,459	**15,340**	**13,288**	**15,355**

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

	Restructuring	Retirement Benefits	Litigations	Other	Total
January 1, 2015	**911**	**264**	**12,716**	**193**	**14,084**
Charge for the year	315	63	301	44	723
Reversal	-	-	(276)	-	(276)
Charge for the year, net	***315***	***63***	***25***	***44***	***447***
Release	(134)	(7)	(84)	(193)	(418)
December 31, 2015	**1,092**	**320**	**12,657**	**44**	**14,113**
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, 2015	**1,282**	**312**	**9,846**	**1,049**	**12,489**

(Thousands of BAM)

35. OTHER PROVISIONS (Continued)

Movements on off-balance sheet provisions are shown below:

		GROUP		BANK
	2016	2015	2016	2015
Balance at January 1	1,227	2,501	1,242	2,520
Charge for the year	484	785	469	781
Reversal	(912)	(2,059)	(912)	(2,059)
(Decrease)/increase, net (Note 13)	(428)	***(1,274)***	(443)	***(1,278)***
Balance at December 31	**799**	**1,227**	**799**	**1,242**

Restructuring

At the end of 2016 the Decision on Approval of Creation of Reserves for Employee Severance and Other Benefit Pays was enacted. Accordingly, additional provisions for restructuring were made in the amount of BAM 1,213 thousand.

The table below presents the expected maturities of restructuring provisions:

	2016	2015
Within a year	1,282	1,092
From 1 to 5 years	-	-
Total	**1,282**	**1,092**

Retirement Benefits

From the total increase in the amount of provisions for retirement benefits in the amount of BAM 24 thousand, BAM 9 thousand relates to actuarial losses based on the demographic assumptions and BAM 15 thousand relate to actuarial gains based on financial assumptions, More details on the actuarial assumptions, used in the calculation are provided in Note 37 – Retirement Benefits.

Litigation and Other Provisions

As of December 31, 2016 there were execution, civil lawsuit and bankruptcy proceedings instigated by the Bank for collection of its receivables and exercise of its other rights and interests. There were also instances where the Bank initiated administrative proceedings for annulment of decisions enacted in administrative procedures. As of the same date, there were certain lawsuits involving the Bank as a defendant, filed by legal entities and individuals.

In an attempt to collect receivables arising from loans, guarantees, letters of credit or other grounds, as at December 31, 2016 the Bank was involved in the total of 4,858 court cases with the aggregate value of BAM133,600 thousand.

As of December 31, 2016 the value of lawsuits filed against the Bank amounted to BAM 273,624 thousand. This amount does not include penalty interest since the Bank's management was unable to determine their potential effects up to the issue date of these financial statements Management believes that the largest number of disputes will be resolved in favor of the Bank, and there will not be materially significant losses in this respect. Accordingly, as of December 31, 2016, the Bank had provisions made for contingent litigation losses in the amount of BAM 9,845 thousand (December 31, 2015: BAM 7,728 thousand).

The Bank monitors all legal risks on an ongoing basis, estimates expected costs of legal proceedings, and makes adequate provisions.

(Thousands of BAM)

36. COMMITMENTS AND CONTINGENT LIABILITIES

Loans, Payment Guarantees, Performance Guarantees and Letters of Credit

		GROUP		BANK
	2016	2015	2016	2015
Loan commitments	57,074	43,002	57,074	44,957
Payment guarantees	15,188	8,398	15,188	8,398
Performance guarantees	4,412	2,127	4,412	2,127
Letters of credit and other sureties	897	560	897	-
	77,571	**54,087**	**77,571**	**55,482**

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 35,

37. 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	6%	5.50%	6.50%
Present value of the liabilities (in BAM)	311,901	324,792	300,013
% of variance		4.13%	(3.81%)

If the interest rate used for discounting were 0.5% lower, the present value of the liabilities would increase by 4.13%. On the other hand, if the discount rate were by 0.5% higher, the present value of the liabilities would decrease by 3.81%,

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)	311,901	310,342	313,460
% 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)	311,901	300,758	322,803
% of variance		(3.57%)	3.50%

If the employees were a year older on average, the present value of retirement benefits would increase by 3.50%, and if they were a year younger on average, the average retirement benefit would decrease by 3.57%.

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

	2016	2015
Within the ensuing 12 months	79	56
From 1 to 5 years	78	70
From 5 and 10 years	53	86
Over 10 years	102	108
Total:	**312**	**320**

38. 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)

38. RELATED PARTY TRANSACTIONS (Continued)

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

		GROUP		BANK
	2016	2015	2016	2015
Assets:				
Foreign currency accounts:				
ADDIKO BANK d.d., Ljubljana, Republic of Slovenia	393	736	393	736
ADDIKO BANK d.d., Zagreb, Republic of Croatia	506	522	506	522
ADDIKO BANK d.d., Sarajevo	472	495	469	483
ADDIKO BANK a.d., Beograd, Serbia	154	207	154	207
ADDIKO BANK AG, Vienna, Austria	2,286	3,891	2,286	3,891
Investment in the subsidiary:				
Hypo Alpe-Adria-Leasing d.o.o., Banja Luka	-	-		-
Other assets, net				
Hypo Alpe-Adria-Leasing d.o.o., Banja Luka	(2)	-	370	4,886
ADDIKO BANK d.d., Zagreb, Republic of Croatia	2	5	2	5
ADDIKO BANK d.d., Sarajevo	54	48	54	48
ADDIKO BANK a.d., Podgorica, Montenegro	17	9	17	9
ADDIKO BANK a.d., Beograd, Serbia	12	1,963	12	1,963
ADDIKO BANK AG, Vienna, Austria	71	75	71	75
ADDIKO BANK d.d., Ljubljana, Republic of Slovenia	-	-	-	-
	3,965	**7,951**	**4,334**	**12,825**
Liabilities:				
Demand deposits:				
ADDIKO BANK a.d., Beograd, Serbia	11	-	11	-
Hypo Alpe-Adria-Leasing d.o.o., Banja Luka	-	-	307	837
ADDIKO BANK a.d., Podgorica, Montenegro	40	48	40	48
Short-term deposits:				
ADDIKO BANK d.d., Sarajevo	14,689	-	14,689	-
ADDIKO BANK a.d., Beograd, Serbia	16,625	-	16,625	-
Long-term deposits:				
ADDIKO BANK AG, Vienna, Austria	101,098	211,393	101,098	211,393
Borrowings:				
ADDIKO BANK AG, Vienna, Austria	-	122	-	-
ADDIKO BANK d.d., Sarajevo	-	1,947	-	-
Other liabilities:				
ADDIKO BANK a.d., Beograd, Serbia	225	176	225	176
ADDIKO BANK d.d., Sarajevo	169	74	169	74
ADDIKO BANK d.d., Zagreb, Republic of Croatia	76	81	76	81
Hypo Alpe-Adria-Leasing d.o.o., Banja Luka	-	-	-	15
ADDIKO BANK a.d., Podgorica, Montenegro	11	5	11	5
ADDIKO BANK AG, Vienna, Austria	383	361	374	352
	133,327	**214,207**	**133,625**	**212,981**

The Bank has received significant funding sources from the parent entity in the form of long-term deposits, which represent 14.12% of the total liabilities (2015: long-term deposits and subordinated liabilities which represented 26.58% of the total liabilities).

(Thousands of BAM)

38. RELATED PARTY TRANSACTIONS (Continued)

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

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Interest income:				
Hypo Alpe-Adria-Leasing d.o.o., Banja Luka	-	-	30	235
ADDIKO BANK a.d., Beograd, Serbia	4	1	4	1
Fee and commission income:				
ADDIKO BANK d.d., Sarajevo	21	46	21	46
Hypo Alpe-Adria-Leasing d.o.o., Banja Luka	-	-	2	5
Other operating income:				
ADDIKO BANK d.d., Sarajevo	44	82	44	82
Hypo Alpe-Adria-Leasing d.o.o., Banja Luka	-	-	1,341	62
	69	**129**	**1,442**	**431**
Interest expenses:				
ADDIKO BANK AG, Vienna, Austria	(2,291)	(6,078)	(2,290)	(6,050)
ADDIKO BANK d.d., Sarajevo	(42)	(117)	(20)	-
ADDIKO BANK a.d., Beograd, Serbia	(11)	-	(11)	-
Fee and commission expenses:				
ADDIKO BANK d.d., Sarajevo	(448)	(211)	(448)	(210)
ADDIKO BANK d.d., Zagreb, Republic of Croatia	(5)	(6)	(5)	(6)
ADDIKO BANK a.d., Beograd, Serbia	(3)	(1)	(3)	(1)
ADDIKO BANK AG, Vienna, Austria	(80)	(253)	(80)	(253)
Other operating expenses:				
ADDIKO BANK AG, Vienna, Austria	(276)	(1,166)	(268)	(1,149)
ADDIKO BANK d.d., Zagreb, Republic of Croatia	(417)	(455)	(417)	(455)
ADDIKO BANK d.d., Sarajevo	(98)	(241)	(79)	(192)
Hypo Alpe-Adria-Leasing d.o.o., Banja Luka	-	-	(600)	(2,754)
ADDIKO BANK d.d., Ljubljana, Republic of Slovenia	(1)	-	(1)	-
	(3,672)	**(8,528)**	**(4,222)**	**(11,070)**
	(3,603)	**(8,399)**	**(2,780)**	**(10,639)**

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

	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Net salaries	672	243	557	176
Payroll taxes and contributions	441	162	367	117
Severance pays and retirement benefits	211	156	156	156
Taxes and contributions payable on severance pays and retirement benefits	92	55	55	55
	1,416	**616**	**1,135**	**504**

(Thousands of BAM)

38. RELATED PARTY TRANSACTIONS (Continued)

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

	GROUP		BANK	
	2016	2015	2016	2015
Assets :				
Supervisory Board	-	-	-	-
Management				
Loans	3	2	3	2
Impairment allowances	-	-	-	-
Total assets	**3**	**2**	**3**	**2**
Liabilities:				
Management				
Deposits	40	293	40	293
Provisions for contingent liabilities	1	-	1	-
Family members of the key management personnel				
Deposits	-	531	-	531
Total liabilities	**41**	**824**	**41**	**824**
Irrevocable crediting commitments				
Management	17	3	17	3
Family members of the key management personnel	-	4	-	4
Total irrevocable crediting commitments	**17**	**7**	**17**	**7**

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

	2016	2015	2016	2015
Supervisory Board	-	-	-	-
Management				
Interest income	-	-	-	-
Interest expenses	-	(3)	-	(3)
Fee and commission income	-	1	-	1
Fee and commission expenses	-	-	-	-
Family members of the key management personnel				
Interest income	-	-	-	-
Interest expenses	-	(12)	-	(12)
Fee and commission income	-	2	-	2
Fee and commission expenses	-	-	-	-
Total income and expenses	**-**	**(12)**	**-**	**(12)**

39. IMPACT OF THE FINANCIAL CRISIS

Effects of the Financial Crisis

After a disappointing GDP growth of merely 1.8% year on year for the first nine months of 2016, the latest data published for Q4 2016 suggest a slight growth acceleration. To be precise, industrial production growth was 4.8% on average for the period October - November 2016 (against the rate of 3.9% for the first nine months) mostly triggered by intensified power generation. The aforesaid gave rise to exports, which accelerated to 9.7% for the period October - November 2016 (against the growth rate of 2.5% for the first nine months), whereas imports grew at the rate of 3.0% (compared to stagnation during the first nine months), due to which exports-to-imports coverage increased by 304 bp year on year, reaching the level of 60.0% in November 2016 (based on the 3-month shifting average) suggesting positive contribution of the net exports to the growth achieved in Q4 2016. Further, increasing employment along with a solid salary growth in real terms supported the improved retail, which recorded a growth of 7.2% for the period October - November 2016 (against the growth rate of 6.6% for the first nine months).

Given the slower pace of growth than expected during the first nine months of 2016, we lowered our expectations by 0.5 bp to 2.4% in 2016. Moreover, political turmoil and postponed disbursement of IMF tranche led to what we had feared – delays in planned investments, evident in construction activity's decline by 1.6% for the first nine months of 2016, while foreign direct investments dropped by as much as 64% in the same period. Despite the foregoing, we still expect increase in private spending due to improved employment, salary growth and higher remittances, as well as accelerated lending activity. We raised our expectations for 2017 by 0.2 bp to the level of 3.2% due to anticipated realization of investments put on hold in the previous year and financing by international financial institutions, including an EBRD loan of EUR 90 million intended for highway construction. Risks of lowering our expectations arise from the complex and slow decision making process and divided interests slowing down implementation of the reforms, as well as from the high unemployment of the young that gives rise to emigration and brain-drain, putting huge pressures on the pension system.

The Federation of Bosnia and Herzegovina was forced to rebalance the 2016 budget by 3.0%, i.e., reduce it by EUR 42 million to meet the restrictive IMF's fiscal expectations in the context of only one tranche disbursed rather than two and lack of funds from the World Bank. The lack of funds was compensated by issue of 5-year and 3-year bonds in the domestic market, at somewhat higher costs. Both state entities based their 2017 budgets on disbursement of the three IMF tranches planned, increase in expenditures for capital investments and cut-down of current expenses at the same time, all in accordance with IMF expectations. We anticipate a budget deficit for 2016 of 0.7% of GDP due to improved tax collection and cut down public spending. In the current year we see the deficit at a similar level given that more robust capital investments will be offset by reduced current expenses. The risk of lowering our expectations stems from the strong dependence on IMF as the set prerequisites must be fulfilled for each tranche disbursement.

The past year was filled with political turbulence that have recently calmed down have not entirely disappeared due to the complex political and legal situation in the country hindering its economic progress, Many believe that Bosnia and Herzegovina accession to the European Union would be a solution; however, little progress has been made toward this goal achievement. In July 2016, Bosnia and Herzegovina signed a request for accession yet experiences of other countries suggest that it will not be granted the candidate status for EU membership before 2018. Accession of Bosnia and Herzegovina to EU is a necessity yet a question remains whether this will be enough for the economic convergence with the other countries. Motivation for better and more efficient cooperation between the state entities was received from S&P, which would consider increasing the country's rating if the aforesaid goals are achieved. Yet high risks affecting the rating are still predominant, where any delay in payment of the matured debt could result in further credit rating lowering.

As for the foreign imbalance, we expect narrowing of the current account deficit to 5.4% of GDP due to the recovery of the merchandise trade deficit, while the current deficit increase to 6.1% of GDP resulted from the intensified imports fueled by the recovery of private spending and normalization of raw materials prices. With regard to prices, lower oil and food prices created average deflation of -1.2% for the first eleven months of 2016, which was in line with our expected deflation of about -1%, Administrative increase in prices of fuels, tobacco products and road tolls as well as expected growth in global oil and food prices will push inflation into the positive band with expected annual average of 1.6%.

39. IMPACT OF THE FINANCIAL CRISIS (Continued)

Impact on Liquidity

Throughout 2016, the Bank's liquidity was stable. Foreign debt gradually decreased while the local sources of funding remained at approximately the same level. On the other hand, there was no significant credit activity, so the Bank's liquidity position was satisfactory during the year.

Impact on Customers/Borrowers

Global financial crisis from 2009 affected great many companies that had remarkably high levels of investment activities, which was followed by high levels of borrowings. Decline in the sales markets, particularly foreign markets, and deterioration of the purchasing power of the population hence forward along with significant trade payables arisen from the aforesaid investments resulted in decreased revenues, liquidity, efficiency and profitability, creating difficult circumstances for a number of companies. A lot of the investment projects remained unfinished, while bank loan funds could not support further investments because of the decreased business activity, which is why some of the aforesaid investments are facing problems regarding low capacity usage rates.

Depending on the extent of the recovery of their operating segments and complexity of the problems facing them, the companies attempted recovery through business restructuring, debt restructuring, and sales of non-core assets or finding new investors.

At the same time recovery was attempted in various manners, demand for commercial real estate dropped due to decline in foreign investment and decreased lending support of banks, which over the years deteriorated the business environment and led to the crush of a number of companies.

Impact of this crisis is evident nowadays as well in the fall of the values of all types of real estate, in poor liquidity of the economy, heavy load of interest expenses on the businesses, indirectly affecting event those companies that were well positioned at the time of the crisis or those that have even increased or improved their business operations.

For a portion of the Bank's corporate non-performing loans where the Bank was unable to find a successful model of recovery and restructuring, after cancellation of the relevant loan contracts, the Bank undertook measures of enforced collection. In the process of portfolio consolidation, such loans were sold to third parties at fair market values. The Bank approached the remaining portion of NPL portfolio prudently in order to find the best possible solutions both for the customers and for the Bank.

In order to stabilize the Bank's operations and resolve receivables from non-performing corporate and public sector customers from the remit of the Credit Operations Department/Restructuring Function, following activities were undertaken in 2016:

- agreed and realized sales of loans and receivables due from 12 corporate customers with the gross carrying value of BAM 19,461 thousand at the transaction date (BAM 6,217 thousand) at the net fair value, where the loan contracts were cancelled, business operations discontinued or where collection was only possible by enforcement;
- approval of loan restructuring in order to adapt loan repayment to the actual customer sources of payments, particularly for those that have shown recovery of business operations or would recover through debt restructuring;
- approval of certain concessions and discounts to borrowers that have obtained refinancing funds from other creditors;
- approved conversion of CHF currency clause indexed loans to EUR currency clause indexed loans to borrowers who expressed interest in such conversion, along with granted discounts for easier future loan repayment;
- decrease of interest rates; and
- regular annual monitoring of real estate values for the purpose of making adequate decisions.

Impact on Collaterals (especially real estate)

During 2016, in the process of regular monitoring of real estate as collaterals, there has been a slight decrease in their values and virtual absence of market parameters at higher property values such as production and industrial facilities, agricultural land, commercial and shopping centers, so that the estimated values of these properties, used in the calculation of provisions, had to be further reduced below their internally acceptable values for realistic estimates of the costs to be incurred by the Bank.

(Thousands of BAM)

39. IMPACT OF THE FINANCIAL CRISIS (Continued)

Impact on Collaterals (especially real estate) (Continued)

In addition, based on the analysis of movements in real estate sales, in 2016 the Bank applied a conservative approach in the valuation of collateral for SME and RET segment exposures, so that the percentage of recognition was defined depending on the location and city, all in accordance with the estimated sales trends, where for certain portion of the portfolio (SME and RET) conservative haircuts were applied (a weight used to decrease the value of collateral), which was reflected in the calculation of the provision for loan losses.

40. OPERATING LEASE

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
	2016	2015	2016	2015
Up to 1 year	135	545	141	500
From 1 to 5 years	94	424	94	256
Over 5 years	-	-	-	-
	229	**969**	**235**	**756**

Operating lease expenses in the financial year 2016 amounted to BAM 984 thousand for the Group and BAM 961 thousand for the Bank, while in the financial year 2015, the amounts were BAM 1,080 thousand and BAM 1,022 thousand, respectively.

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

		GROUP		BANK
	2016	2015	2016	2015
Up to 1 year	378	561	331	524
From 1 to 5 years	10	367	-	306
Over 5 years	-	-	-	-
	388	**928**	**331**	**830**

Operating lease income in the financial year 2016 amounted to BAM 436 thousand for the Group and BAM 453 thousand for the Bank, while in the financial year 2015, the amounts were BAM 556 thousand and BAM 584 thousand, respectively.

41. EVENTS AFTER THE REPORTING PERIOD

On January 25, 2017 the capital increase registration process was completed with the District Commercial Court of Banja Luka. The increase was made through the 16th share issue totaling BAM 11,735 thousand.

On February 24, 2017 the pledged assets for refinancing lines of credit of Addiko Bank AG, Vienna, Austria decreased so that the pledged items, after the new registration of the pledge lien with the Pledge Register maintained by the Ministry of Justice of Bosnia and Herzegovina, comprised securities available for sales amounting to BAM 64,354 thousand and loans de from customers in the amount of BAM 37,542 thousand (Notes 19, 20.a) and 27).

Apart from the above described, there have been no other events until these financial statements issue date that would significantly affect the Group's and the Bank's financial statements or require additional disclosures or adjustments.

(Thousands of BAM)

42. 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) taxes, among others. Following their introduction, the regulations governing these taxes were not enforced for substantial periods of time; in contrast to similar legislation in more developed market economies. Moreover, the regulations defining the implementation of these laws are often unclear or non-existent. Hence, few precedents with regard to tax issues have been established in the Republic of Srpska. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, thus creating uncertainties and areas of legal contention.

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

The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Bank and the Company may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Bank and the Company 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 practically 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.

43. 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, 2016	December 31, 2015
USD	1.855450	1.790070
CHF	1.821240	1.808609
EUR	1.955830	1.955830

SCHEDULE 1: SEPARATE FINANCIAL STATEMENTS OF THE BANK PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING AND AUDITING OF THE REPUBLIC OF SRPSKA

The Bank's financial statements prepared in accordance with the Law on Accounting and Auditing of the Republic of Srpska are presented below:

Balance sheet (statement of the financial position) as of December 31, 2016 – Bank's Assets

BALANCE SHEET
(Statement of financial position)
As of December 31, 2016

In BAM

Acc. group account	I T E M	ADP designation			Current year: Gross	Current year: Impairment allowance	Current year: Net (4-5)	Previous year Restated (opening balance)
1	2	3			4	5	6	7
	ASSETS							
	A. CURRENT ASSETS (002+008+011+014+018+022+030+031+032+ 033+034)	0	0	1	812,121,765	131,179,615	680,942,150	757,838,662
00,03,05,07 and 09	1. Cash, cash equivalents, gold and receivables from operating activities (003 do 007)	0	0	2	47,424,742	2,240,418	45,184,324	63,264,881
000 to 009	a) Cash and cash equivalents in domestic currency	0	0	3	15,200,127	0	15,200,127	14,536,213
030 to 039	b) Other receivables in domestic currency	0	0	4	7,644,622	2,191,988	5,452,634	5,920,837
050 to 059	v) Cash and cash equivalents in foreign currency	0	0	5	23,807,558	6,960	23,800,598	42,181,629
070 and 071	g) Gold and other precious metals	0	0	6	0	0	0	0
090 to 099	d) Other receivables in foreign currency	0	0	7	772,435	41,470	730,965	626,202
01 and 06	2. Deposits and loans in domestic and foreign currency (009+010)	0	0	8	85,155,367	0	85,155,367	200,894,298
010 to 019	a) Deposits and loans in domestic currency	0	0	9	85,155,367	0	85,155,367	200,894,298
060 to 069	b) Deposits and loans in foreign currency	0	1	0	0	0	0	0
02 and 08	3. Interest and fee receivables, trade and other receivables (012 + 013)	0	1	1	6,564,911	5,891,489	673,422	563,796
020 to 029	a) Interest and fee receivables, trade and other receivables in domestic currency	0	1	2	4,847,397	4,218,061	629,336	517,153
080 to 089	b) Interest and fee receivables, trade and other receivables in foreign currency	0	1	3	1,717,514	1,673,428	44,086	46,643
10, 11 and 20	4. Loans and deposits (015 to 017)	0	1	4	400,908,846	29,994,325	370,914,521	337,604,378
100 to 109	a) Loans and deposits in domestic currency	0	1	5	46,375,435	950,093	45,425,342	32,362,206
112 to 119	b) Loans and deposits with contractual risk protection in domestic currency	0	1	6	348,929,385	28,680,252	320,249,133	302,543,242
200 to 209	v) Loans and deposits in foreign currency	0	1	7	5,604,026	363,980	5,240,046	2,698,930
12,13 and 22	5. Financial assets (019 do 021)	0	1	8	66,908,219	0	66,908,219	39,327,902
120 to 129	a) Financial assets in domestic currency	0	1	9	2,215,916	0	2,215,916	18,786,701
130 to 139	b) Financial assets with contractual risk protection in domestic currency	0	2	0	0	0	0	0
220 do 229	v) Financial assets in foreign currency	0	2	1	64,692,303	0	64,692,303	20,541,201
15 to 19,28 and 29	6. Other placements and accruals (023 do 029)	0	2	2	199,610,796	89,111,453	110,499,343	113,218,030
150 to 159	a) Other placements in domestic currency	0	2	3	290,583	284,276	6,307	29,244
160 to 169	b)Other derivatives in domestic currency	0	2	4	0	0	0	0
180 to 189	v) Due placements and current due of long term placements in domestic currency	0	2	5	191,252,256	84,928,198	106,324,058	110,017,920
190 to 199	g) Accruals in domestic currency	0	2	6	2,307,945	41,534	2,266,411	2,404,902
250 to 259	d) Other placements in foreign currency	0	2	7	1	0	1	1
280 to 289	đ) Due placements and current due of long term placements in foreign currency	0	2	8	4,251,231	3,857,415	393,816	465,455
290 to 299	e) Accruals in foreign currency	0	2	9	1,508,780	30	1,508,750	300,508
320 to 325, part of 329	7. Inventory	0	3	0	5,548,884	3,941,930	1,606,954	2,965,377
350	8. Held for sale assets	0	3	1	0	0	0	0
351	9. Operating assets under suspension	0	3	2	0	0	0	0
352 and 359	10. Other assets	0	3	3	0	0	0	0
360 and 369	11. VAT receivables	0	3	4	0	0	0	0
	B. FIXED ASSETS (036+041+047)	0	3	5	71,907,276	35,624,191	36,283,085	39,202,534
30	1. Fixed assets and investment property (037 to 040)	0	3	6	53,658,524	20,858,746	32,799,778	35,508,380
300 to 303,306, part of 309	a) Fixed assets	0	3	7	49,683,593	19,497,023	30,186,570	32,877,308
304, part of 309	b) Investment property	0	3	8	3,915,559	1,361,723	2,553,836	2,490,177
305, part of 309	v) Fixed assets under financial leasing	0	3	9	0	0	0	0
307 and 308	g) Advances and investments in progress	0	4	0	59,372	0	59,372	140,895
31	2. Intangible assets (042 to 046)	0	4	1	18,248,752	14,765,445	3,483,307	3,694,154
310	a) Goodwill	0	4	2	0	0	0	0
311, part of 319	b) Research	0	4	3	0	0	0	0
314, part of 319	v) Intangible assets under financial leasing	0	4	4	0	0	0	0
312,313, part of 319	g) Other intangible assets	0	4	5	18,227,870	14,765,445	3,462,425	3,656,313
317 and 318	d) Advances and investments in progress	0	4	6	20,882	0	20,882	37,841
37	3. Deferred tax assets	0	4	7	0	0	0	0
	V. OPERATING ASSETS	0	4	8	884,029,041	166,803,806	717,225,235	797,041,196
90 to 93	G. OFF BALANCE SHEET ASSETS	0	4	9	77,570,837	0	77,570,837	55,481,579
	D. TOTAL ASSETS (048+049)	0	5	0	961,599,878	166,803,806	794,796,072	852,522,775

SCHEDULE 1: SEPARATE FINANCIAL STATEMENTS OF THE BANK PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING AND AUDITING OF THE REPUBLIC OF SRPSKA (Continued)

Balance sheet (statement of the financial position) as of December 31, 2016 – Bank's Equity and Liabilities

In BAM

Acc. group account	I T E M	ADP Designation			Current year December 31, 2016	Previous year Restated (opening balance)
1	2	3			4	5
	EQUITY AND LIABILITIES:					
	A. LIABILITIES (102+106+109+113)	1	0	1	570,173,503	652,083,412
40, 41 and 50	1. Liabilities for loans and deposits (103 to 105)	1	0	2	381,461,475	561,459,397
400 to 409	a) Liabilities for loans and deposits in domestic currency	1	0	3	184,327,786	178,952,623
411 to 419	b) Liabilities for loans and deposits with contractual risk protection in domestic currency	1	0	4	37,584,300	42,362,286
500 to 509	b) Liabilities for loans and deposits in foreign currency	1	0	5	159,549,389	340,144,488
42 and 52	2. Liabilities for interests and fees (107+108)	1	0	6	387,872	414,722
420 to 422	a) Liabilities for loan interests and fees in domestic currency	1	0	7	55,254	60,948
520 and 522	b) Liabilities for interests and fees in foreign currency	1	0	8	332,618	353,774
43, 44 and 53	3.Liabilities for financial assets (110 to12)	1	0	9	0	0
430 to 433	a) Liabilities for financial assets in domestic currency	1	1	0	0	0
440 to 442	b) Liabilities for financial assets with contractual risk protection in domestic currency	1	1	1	0	0
530 to 532	v) Liabilities for financial assets in foreign currency	1	1	2	0	0
45 do 49, 55, 58 and 59	4. Other liabilities and accruals (114 to 124)	1	1	3	188,324,156	90,209,293
450 and 451	a) Other liabilities for salaries and remunerations	1	1	4	754,683	75,813
454, 455, 460 to 464, 466 to 469	b) Other liabilities in domestic currency, except taxes and contributions	1	1	5	8,675,281	6,913,107
452 and 453, 476, 477	v) Liabilities for taxes and contributions, except current and deferred income tax	1	1	6	981,992	495,054
475	g) Income tax liability	1	1	7	0	0
465	d) Deferred tax liability	1	1	8	595,554	683,196
470 to 474	d) Provisions	1	1	9	12,975,641	15,034,538
480 to 486	e) Accruals in domestic currency	1	2	0	1,959,100	2,447,754
490 to 499	ž) Liabilities for managed funds, assets held for sale, operating assets which are suspended, subordinated liabilities and current dues	1	2	1	17,753,206	22,404,466
550 to 559	z)Other liabilities in foreign currency	1	2	2	734,972	790,680
580 to 585	i) Accruals in foreign currency	1	2	3	2,396,947	2,107,430
590 to 599	j) Liabilities for managed funds, due and subordinated liabilities and current dues in foreign currency	1	2	4	141,496,780	39,257,255
	B. EQUITY (126+132+138+142-148)	1	2	5	147,051,732	144,957,784
80	1. Share capital (127+128+129-130-131)	1	2	6	153,094,205	141,359,225
800	a) Ordinary shares	1	2	7	153,094,205	141,359,225
801	b) Other capital	1	2	8	0	0
802	v) Share premium	1	2	9	0	0
803	g) Subscribed, unpaid capital	1	3	0	0	0
804	d) Repurchased own shares	1	3	1	0	0
81	g) Reserves for general bank risk	1	3	2	61,826,170	61,826,170
810	d) Transferred reserves (FX differences)	1	3	3	0	0
811	g) Reserves for general bank risk	1	3	4	0	0
812	v) Special reserves for estimated losses	1	3	5	61,826,170	61,826,170
814	g) Reserves for general bank risk	1	3	6	0	0
818	d) Transferred reserves (FX differences)	1	3	7	0	0
82	3. Revaluation reserve (139 to 141)	1	3	8	2,232,356	2,942,030
820	a) Revaluation reserves arising from changes in value of fixed assets and investments in intangible assets	1	3	9	2,295,430	3,059,366
821	b) Revaluation reserves arising from changes in value of financial assets	1	4	0	-5,841	-51,511
822	v) Other revalorization reserve	1	4	1		
83	4. Income (143 to 147)	1	4	2	-57,233	-65,825
830	a) Income for the year	1	4	3	547,790	464,264
831	b) Unallocated income from previous years	1	4	4	0	0
832	v) Excess of income over expense for the year	1	4	5	547,790	464,264
833	g) Unallocated excess of income over expense for the year	1	4	6	0	0
834	d) Retained earnings	1	4	7	0	0
84	5. Loss (149 + 159)	1	4	8	0	0
840	a) Loss for the year	1	4	9	70,648,789	61,633,905
841	b) Loss from previous years	1	5	0	9,014,884	52,593,839
	V. OPERATING EQUITY AND LIABILITIES (101+125)	1	5	1	61,633,905	9,040,066
95 to 98	**G. OFF BALANCE SHEET EQUITY AND LIABILITIES**	1	5	2	717,225,235	797,041,196
	D. TOTAL EQUITY AND LIABILITIES (152+152)	1	5	3	77,570,837	55,481,579
	EQUITY AND LIABILITIES:	1	5	4	794,796,072	852,522,775

SCHEDULE 1: SEPARATE FINANCIAL STATEMENTS OF THE BANK PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING AND AUDITING OF THE REPUBLIC OF SRPSKA (Continued)

The Bank's income statement (statement of comprehensive income) for the year ended December 31, 2016:

INCOME STATEMENT
(STATEMENT OF COMPREHENSIVE INCOME)
Year Ended December 31, 2016

In BAM

Account group, account	I T E M	ADP design	AMOUNT Current year	Previous year, restated
1	2	3	4	5
	A.INCOME AND EXPENSE FROM FINANCING ACTIVITIES			
70	1. Interest income (202 to 204)	*201*	*23,985,711*	*29,094,697*
700,701 and 702	a) Interest income from loans, deposits and financial assets in domestic currency	202	4,201,537	5,147,370
703,704 and 705	b) Interest income from loans, deposits and financial assets with contractual risk protection	203	19,654,044	23,843,023
706,707 and 708	v) Interest income from loans, deposits and financial assets in foreign currency	204	130,130	104,304
60	2. Interest expense (206 to 208)	205	7,237,350	11,701,170
600,601 and 602	a) Interest expense from loans, deposits and financial assets in domestic currency	206	1,111,820	1,099,706
603,604 and 605	b) Interest expense from loans, deposits and financial assets with contractual risk protection	207	1,189,818	2,628,063
606,607 and 608	v) Interest expense from loans, deposits and financial assets in foreign currency	208	4,935,712	7,973,401
	3. Net interest income (201 to 205)	209	16,748,361	17,393,527
	4. Net interest expense (205 to 201)	*210*	*0*	*0*
71	5. Fee and commission income (212 to 214)	*211*	*12,241,325*	*11,673,823*
710 and 711	a) Income from payment services	212	6,725,987	6,725,081
712 and 713	b) Commission income	213	4,489,073	4,049,214
718 and 719	v) Other fee and commission income	214	1,026,265	899,528
61	6. Fee and commission expense (216 to 218)	215	1,939,386	1,878,470
610 and 611	a) Fee and commission expense in domestic currency	216	247,929	204,195
615 and 616	b)Fee and commission expense in foreign currency	217	355,686	711,617
617	v) Other fee and commission expense	218	1,335,771	962,658
	7. Net fee and commission income (211 to 215)	219	10,301,939	9,795,353
	8, Net fee and commission expense (215 to 211)	220	0	0
72	9. Gains from sale of financial assets and shares (222 to 225)	221	82,463	418
720	a) Gains from sale of financial assets valued at fair value through profit or loss	222	0	0
721	b) Gains from sale of available for sale financial assets	223	82,463	418
722	v) Gains from sale of held to maturity financial assets	224	0	0
723	g) Gains from sale of investments	225	0	0
62	10. Losses from sale of financial assets and investments (227 to 230)	226	*78,716*	*0*
620	a) Losses from sale of financial assets valued at fair value through profit or loss	227	0	0
621	b) Losses from sale of available for sale financial assets	228	78,716	0
622	v) Losses from sale of held to maturity financial assets	229	0	0
623	g) Losses from sale of investments	230	0	0
	11. Net gains from sale of financial assets and investments (221 to 226)	*231*	*3,747*	*418*
	12. Net losses from sale of financial assets and investments (226 do 221)	232	0	0
	13. GAIN FROM FINANCING ACTIVITIES (201+211+221-205-215-226)	233	27,054,047	27,189,298
	14. LOSS FROM FINANCING ACTIVITIES (205+215+226-201-211-221)	234	0	0
	B. OPERATING INCOME AND EXPENSE			
74 and 76	1. Operating income (236 to 240)	235	66,256,681	30,206,778
740	a) Income from reversal of write-offs of indirect investments	236	59,831,210	26,477,669
741	b) Income from reversal of provisions for off-balance sheet items	237	2,615,790	2,160,843
742	v) Income from reversal of provisions for liabilities	238	2,846,966	276,039
743	g) Income from reversal of other provisions	239	0	0
760	d) Income from leasing	240	453,158	584,372
761	đ) Other income	241	509,557	707,855
64,65, 66	2. Operating expense (242 to 255)	242	89,047,955	102,468,230
640	a)Impairment expenses	243	50,902,401	64,576,507
641	b)Provisions for off balance sheet items	244	2,172,664	882,278
642	v) Expenses from provisions for liabilities	245	2,503,845	660,058
643	g) Expenses for other provisions	246	56,583	37,053
650 to 653	d) Salaries and remunerations gross expense	247	13,888,576	13,567,048
654	đ) Remuneration expenses for temporary and occasional jobs	248	52,393	18,954
655	e) Other personal expenses	249	662,517	393,565
660	ž) Cost of materials	250	1,035,385	1,122,562
661	z) Cost of production services	251	7,673,258	8,183,736
662	i) Amortization costs	252	2,578,369	4,066,567
663	j) Expenses from leasing	253	1,027,850	1,022,174
664	k) Intangible costs (without taxes and contributions)	254	5,279,731	6,459,332
665	l) Costs for taxes and contributions	255	1,197,531	1,471,118
666	lj) Other expenses	256	16,852	7,278
	3. GAIN FROM OPERATING ACTIVITIES (235-241)	257	0	0
	4. LOSS FROM OPERATING ACTIVITIES (241-235)	258	22,791,274	72,261,452

SCHEDULE 1: SEPARATE FINANCIAL STATEMENTS OF THE BANK PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING AND AUDITING OF THE REPUBLIC OF SRPSKA (Continued)

The Bank's income statement (statement of comprehensive income) for the year ended December 31, 2016 (Continued):

	V. OTHER INCOME AND EXPENSES			
77	1. Other income (259 to 265)	259	6,833,305	5,031,192
770	a) Income from collection of written off receivables	260	3,833,760	4,194,933
771	b) Income from sale of fixed assets and intangible investments	261	7,857	97,523
772	v) Income from reduction of liabilities	262	38,847	46,093
776	g) Income from dividends and investments	263	7,788	9,576
777	d) Surpluses	264	2,876	3,227
778	đ) Other income	265	2,942,177	679,840
779	e) Income from discontinued operations	266	0	0
67	2. Other expenses (267 do 273)	267	18,214,581	3,837,603
670	a) Losses from the direct receivable write-offs	268	397,416	820,586
671	b) Losses from sale of fixed assets and intangible investments	269	5,957	0
672	v) Losses from disposal and write-off of fixed assets and intangible assets	270	33,923	85,323
676	g) Shortages	271	395	552
677	d) Writing off inventories	272	2,055	8,400
678	đ) Other expenses	273	17,774,835	2,922,742
679	e) Expense from discontinued operations	274	0	0
	3. GAIN FROM OTHER INCOME AND EXPENSES (258-266)	275	0	1,193,589
	4. LOSS FROM OTHER INCOME AND EXPENSES (266-258)	276	11,381,276	0
	G. OPERATING INCOME (233+256+274-234-257-275)	277	0	0
	D. OPERATING LOSS (234+257+275-233-256-274)	278	7,118,503	43,878,565
73, 78	Đ. INCOME AND EXPENSE FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES	279		
	1. Income from changes in value of assets and liabilities (279 to 283)		114,830,369	57,188,150
730	a) Income from changes in value of placements and receivables	280	0	0
731	b) Income from changes in value of financial assets	281	0	0
732	v) Income from changes in value of liabilities	282	0	0
733	g) Income from changes in value of fixed assets and intangible investments	283	0	0
780	d) Positive FX differences	284	114,830,369	57,188,150
63, 68	2. Expense from changes in value of assets and liabilities (258 to 289)	285	116,736,054	63,552,740
630	a) Expense from changes in value of placements and receivables	286	0	0
631	b) Expense from changes in value of financial assets	287	600,000	819,546
632	v) Expense from changes in value of liabilities	288	0	0
633	g) Expense from changes in value of fixed assets, investment property and intangible investments	289	1,565,103	5,064,823
680	d) Negative FX differences	290	114,570,951	57,668,371
	E. INCOME FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES (278-284)	291	0	0
	Ž. LOSS FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES (284-278)	292	1,905,685	6,364,590
	I. INCOME AND EXPENSE BEFORE TAX	293		
	1. Income before tax (276+290-277-291)		0	0
	2. Loss before tax (277+291-276-290)	294	9,024,188	50,243,155
850	J. CURRENT AND DEFERRED INCOME TAX	295		
	1. Income tax		0	0
851	2. Income from increase of Deferred tax assets and decrease of Deferred tax liabilities	296	9,304	88,052
852	3. Loss from decrease of Deferred tax assets and increase of Deferred tax liabilities	297	0	2,438,736
83	K. NET INCOME AND EXPENSE	298		
	1. Net income for the year		0	0
84	(292+295-294-295) or (295-293-294-296)	299	9,014,884	52,593,839
84	2. Net loss for the year	300		
	(293+294+296-295) or (294+296-292-295)		139,144	25,830
	L. OTHER INCOME AND EXPENSE FOR THE PERIOD	301		0
	1. Gains determined directly in equity (300 do 305)	302	42,933	25,830
	a) Gains from revaluation reserve reduction of fixed assets and intangible assets	303	0	0
	b) Gains from changes in fair value of financial assets available for sale	304	8,591	0
	v) Gains arising from translation of financial statements in foreign operations	305	0	0
	g) Actuarial gains on defined benefit plans	306	87,620	0
	d) Effective portion of gains arising from hedging of cash flows	307	765,292	67,134
	đ) Other gains determined directly in equity	308	0	0
	2. Losses determined directly in equity (307 to 311)	309	0	0
	a) Losses from changes in fair value of financial assets available for sale	310	0	56,936
	b) Losses arising from translating financial statements in foreign operations	311	0	0
	v) Actuarial losses on defined benefit plans	312	765,292	10,198
	g) Effective portion of losses arising from hedging of cash flows	313	626,148	-41,304
	d) Other losses determined directly in equity	314	0	0
	LJ. NET GAINS OR NET LOSSES FROM OTHER TOTAL RESULT FOR THE PERIOD	315	626,148	-41,304
	(299-306) OR (306-299)	316		
	N. INCOME TAX RELATING TO OTHER TOTAL RESULT		0	0
	N. INCOME TAX RELATING TO OTHER TOTAL RESULT (312 ± 313)	317	9,641,032	52,635,143
	O. OVERALL RESULT FOR THE PERIOD	318	-9,002,539	-52,515,836
	1. Total net income for the accounting period (297 ± 314)	319	-12,345	-78,003
	2. Total net income for the accounting period (298 ± 314)	320	-0,062	-0,428
	Share of net profit / loss attributable to majority owners	321	-0,062	-0,428
	Share of net profit / loss attributable to minority owners	322	464	514
	Earnings per share	323	460	512

SCHEDULE 1: SEPARATE FINANCIAL STATEMENTS OF THE BANK PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING AND AUDITING OF THE REPUBLIC OF SRPSKA (Continued)

The Bank's statement of changes in equity for the year ended December 31, 2016:

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2016

In BAM

	TYPE OF CHANGE IN EQUITY	ATTRIBUTABLE TO THE OWNERS OF THE PARENT ENTITY							NON-CONTROLLING INTERESTS	TOTAL EQUITY
		ADP design.	Share capital and permanent investments held in limited liability company	Revaluation reserve (IAS 16,IAS 21 and IAS 38)	Other reserves (issuance premium, legislative and statutory reserves, cash flow hedging)	Other reserves (issuance premium, legislative and statutory reserves, cash flow hedging)	Retained earnings/ Uncovered loss	TOTAL		
	1	2	3	4	5	6	7	8	9	10
1 .	Balance as at 1 January 2014	901	122,859,225	3,448,487	0	74,112,384	-21,325,988	179,094,108		
2 .	Effect of changes in accounting policies	902	0					0		
3 .	Effect of correction of errors	903	0					0		
	Restated balance as at 1 January 2014 (901 ±902±903)	904	122,859,225	3,448,487	0	74,112,384	-21,325,988	179,094,108		
4 .	Effects of revaluation of tangible and intangible assets	905	0	-515,849	0	0	464,264	-51,585		
5 .	Unrealised gains/losses from available- for- sale financial assets	906	0	25,830	0	0	0	25,830		
6 .	FX differences arising from translation of financial statements in other currency	907	0	0	0	0	0	0		
7 .	Net gain/loss reported in income statement	908	0	0	0	0	-52,593,839	-52,593,839		
8 .	Net gain/loss for the period reported directly in equity	909	0	-16,438	0	-292	0	-16,730		
9 .	Declared dividends and other distributions of income and coverage of loss	910	0	0	0	12,285,922	-12,285,922	0		
10 .	Emission of equity and other increases or reductions of capital	911	18,500,000	0	0	0	0	18,500,000		
11 .	Balance as at 31 December 2014 / 1 January 2015 (904±905±906±907±908±909-910+911)	912	141,359,225	2,942,030	0	61,826,170	-61,169,641	144,957,784		
12 .	Effect of changes in accounting policies	913	0					0		
13 .	Effect of correction of errors	914	0					0		
14 .	Restated balance as at 1 January 2015 (912±913±914)	915	141,359,225	2,942,030	0	61,826,170	-61,169,641	144,957,784		
15 .	Effects of revaluation of tangible and intangible assets	916	0	-848,818	0	0	83,526	-765,292		
16 .	Unrealised gains/losses from available- for- sale financial assets	917	0	42,933	0	0	0	42,933		
17 .	FX differences arising from translation of financial statements in other currency	918	0	0	0	0	0	0		
18 .	Net gain/loss reported in income statement	919	0	0	0	0	-9,014,884	-9,014,884		
19 .	Net gain/loss reported in income statement	920	0	96,211	0	0	0	96,211		
20 .	Declared dividends and other distributions of income and coverage of loss	921	0	0	0	0	0	0		
21 .	Emission of equity and other increases or reductions of capital	922	11,734,980	0	0	0	0	11,734,980		
22 .	Balance as at 31 December 2015 (915±916±917±918±919±920-921+922)	923	153,094,205	2,232,356	0	61,826,170	-70,100,999	147,051,732		

SCHEDULE 1: SEPARATE FINANCIAL STATEMENTS OF THE BANK PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING AND AUDITING OF THE REPUBLIC OF SRPSKA (Continued)

The Bank's statement of cash flows for the year ended December 31, 2016:

STATEMENT OF CASH FLOWS
(cash flow statements)
Year Ended December 31, 2016

In BAM '000

No.	I T E M		ADP Design.	A M O U N T Current year	Previous year, restated
1	2		3	4	5
1	CASH FLOWS FROM OPERATING ACTIVITIES				
1.1.	Interest, fee and provision income from loans and leasing	(+)	401	35,119	39,856
1.2.	Interest payment	(-)	402	8,475	12,522
1.3.	Collection of loans that were previously written off (principal and interest)	(+)	403	4,438	4,195
1.4.	Cash payments to employees and suppliers	(-)	404	29,119	31,214
1.5.	Payments araising from off-balance sheet contracts	(-)	405	0	471
1.6.	Receipts and payments from/for extraordinary items	(+) (-)	406	4,132	-7,690
	(Increase) decrease in operating assets		407		
1.7.	Cash loans and loans to customers and charging them	(+) (-)	408	-34,157	74,675
1.8.	Deposit accounts with state institutions - regulation and monetary requirements	(+) (-)	409	1,956	-1,956
1.9.	Deposits from customers	(+) (-)	410	-72,143	-28,069
1.10.	Income tax played	(-)	411	27	422
A	**Net cash assets from operating activities**	(+) (-)	412	-98,276	36,382
2	**CASH FLOWS FROM INVESTING ACTIVITIES**				
2.1.	Short term placements to Financial institutions	(+) (-)	413	0	0
2.2.	Interest received	(+)	414	787	121
2.3.	Dividend received	(+)	415	8	10
2.4.	Investments in securities held to maturity	(-)	416	0	0
2.5.	Recoverable due securities held to maturity			0	0
		(+)	417	0	
2.6.	Purchase (sale) of intangible assets	(+) (-)	418	-1,060	-810
2.7.	Purchase (sale) of tangible assets	(+) (-)	419	-1,010	-405
2.8.	Acquisition (Sales) of participation in subsidiaries	(+) (-)	420	-600	-793
2.9.	Acquisition (sales) of participation in other related companies	(+) (-)	421	0	
2.10.	Loans (loan repayment) to subsidiaries	(+) (-)	422	0	
2.11.	Loans (repayment of loans) to other affiliated companies	(+) (-)	423	0	
2.12.	Purchase (sale) of other investments	(+) (-)	424	-29,213	
2.13.	Payments related to off-balance sheet contracts	(-)	425	0	-16,658
2.14.	Receipts and payments related to extraordinary items	(+) (-)	426	0	
B	Net cash assets from investing activities	(+) (-)	427	-31,088	-18,535
3	**CASH FLOW FROM FINANCING ACTIVITIES**				
3.1.	Proceeds from issue of shares	(+)	428	11,735	18,500
3.2.	Repurchase of shares	(-)	429	0	0
3.3.	Purchase of own shares	(-)	430	0	0
3.4.	Interest paid on borrowings	(-)	431	990	1,362
3.5.	Borrowings	(+)	432	343	648
3.6.	Returning of borrowings	(-)	433	10,819	77,282
3.7.	Dividend payment	(-)	434	0	0
3.8.	Payment related to the off-balance sheet contracts	(-)	435	0	0
3.9.	Receipts and payments related to the off-balance sheet contracts	(+) (-)	436	0	0
V	**Net cash assets from financing activities**	(+) (-)	437	269	-59,496
4	**NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+V)**	(+) (-)	438	-129,095	-41,649
5	**CS AND CE AT THE BEGINNING OF THE PERIOD**	(+) (-)	439	257,614	295,850
6	**EFFECTS OF THE CHANGES OF EXCHANGE RATES CS AND CE**	(+) (-)	440	284	3,413
7	**CS AND CE AT THE END OF THE PERIOD**	(+) (-)	441	128,803	257,614

SCHEDULE 1: SEPARATE FINANCIAL STATEMENTS OF THE BANK PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING AND AUDITING OF THE REPUBLIC OF SRPSKA (Continued)

The Bank's off-balance sheet items as of December 31, 2016:

OFF-BALANCE SHEET ITEMS
Aa of December 31, 2016

In BAM '000

No.		I T E M	Current year	Previous year, restated
1		2	3	4
1.		Irrevocable commitments to grant loans	57,073	44,957
	1.1.	The original obligation to grant loans		
	1.2.	Current unused amount of approved loans	57,073	44,957
2.		Purchased receivables from loans given	0	0
3.*		Loans secured by a collateral*	544,417	554,277
	3.1.	Loans secured by special deposit	526	867
	3.2.	Loans secured by real estate	244,029	232,283
	3.3.	Loans secured by other collaterals	299,862	321,127
4.		Treasury Securities	0	0
	4.1.	Securities held for the account of reporting bank		
	4.2.	Securities held for the account of others		
5.		Values in treasury	0	0
	5.1.	Values in treasury as collateral		
	5.2.	Other values in treasury		
6.		Foreign cheques sent to the billing		
7.		Irrevocable documents, letters of credit issued for payments abroad		
8.		Other letters of credit issued for payments abroad	897	
9.		Guarantees issued	19,601	10,525
	9.1.	Payable guarantees issued	15,188	8,398
	9.2.	Issued performance guarantees	4,413	2,127
	9.3.	Other types of guarantees		
10.		Issued promissory notes and given acceptances	0	0
	10.1.	Promissory notes issued		
	10.2.	Sureties		
11.		Financial activities related to billing process	0	0
	11.1.	Billing of financial instruments		
	11.2.	Other current billing activities		
12.		Current contracts for transactions with foreign currencies	0	0
	12.1.	Prompt sale of foreign currency		
	12.2.	Prompt buying of foreign currencies		
	12.3.	Forward sale of foreign currency		
	12.4.	Forward purchase of foreign currency		
13.		Other off-balance sheet exposure items of bank	0	0
		TOTAL (1 to 13)*	621,988	609,759

SCHEDULE 2: CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING AND AUDITING OF THE REPUBLIC OF SRPSKA

The Group's consolidated financial statements prepared in accordance with the Law on Accounting and Auditing of the Republic of Srpska are presented below:

CONSOLIDATED BALANCE SHEET
(Statement of the financial position)
As of December 31, 2016

In BAM

Account group Account	ITEM	ADP	Current year Gross	Current year Impairment allowance	Current year Net (4-5)	Previous year, restated (opening balance)
1	2	3	4	5	6	7
	ASSETS					
	A. CURRENT ASSETS (002+008+011+014+018+022+030+031+032+033+034)	001	812,031,779	130,662,031	681,369,748	761,822,960
00,03,05,07 and 09	**1. Cash, cash equivalents, gold and receivables from operating activities (003 do 007)**	002	47,433,905	2,240,129	45,193,776	63,276,542
000 to 009	a) Cash and cash equivalents in domestic currency	003	15,203,295	0	15,203,295	14,548,439
030 to 039	b) Other receivables in domestic currency	004	7,650,618	2,191,699	5,458,919	5,920,273
050 to 059	v) Cash and cash equivalents in foreign currency	005	23,807,557	6,960	23,800,597	42,181,629
070 and 071	g) Gold and other precious metals	006	0	0	0	0
090 to 099	d) Other receivables in foreign currency	007	772,435	41,470	730,965	626,201
01 and 06	2. Deposits and loans in domestic and foreign currency (009+010)	008	85,155,367	0	85,155,367	200,894,298
010 to 019	a) Deposits and loans in domestic currency	009	85,155,367	0	85,155,367	200,894,298
060 to 069	b) Deposits and loans in foreign currency	010	0	0	0	0
02 and 08	3. Interest and fee receivables, trade and other receivables (012 + 013)	011	6,573,110	5,897,883	675,227	581,894
020 to 029	a) Interest and fee receivables, trade and other receivables in domestic currency	012	4,855,604	4,224,455	631,149	535,259
080 to 089	b) Interest and fee receivables, trade and other receivables in foreign currency	013	1,717,506	1,673,428	44,078	46,635
10, 11 and 20	4. Loans and deposits (015 to 017)	014	400,289,571	29,027,172	371,262,399	332,719,315
100 to 109	a) Loans and deposits in domestic currency	015	46,375,435	950,093	45,425,342	32,362,206
112 to 119	b) Loans and deposits with contractual risk protection in domestic currency	016	348,310,110	27,713,099	320,597,011	297,658,179
200 to 209	v) Loans and deposits in foreign currency	017	5,604,026	363,980	5,240,046	2,698,930
12,13 and 22	5. Financial assets (019 do 021)	018	66,908,219	0	66,908,219	39,327,902
120 to 129	a) Financial assets in domestic currency	019	2,215,916	0	2,215,916	18,786,701
130 to 139	b) Financial assets with contractual risk protection in domestic currency	020	0	0	0	0
220 to 229	v) Financial assets in foreign currency	021	64,692,303	0	64,692,303	20,541,201
15 to 19,28 and 29	6. Other placements and accruals (023 to 029)	022	200,085,404	89,554,917	110,530,487	121,910,256
150 to 159	a) Other placements in domestic currency	023	290,583	284,276	6,307	29,244
160 to 169	Other derivatives in domestic currency	024	454,015	96,722	357,293	4,699,318
180 to 189	v) Due placements and current due of long term placements in domestic currency	025	191,977,485	85,274,940	106,702,545	113,989,320
190 to 199	g) Accruals in domestic currency	026	2,320,682	41,534	2,279,148	2,426,411
250 to 259	d) Other placements in foreign currency	027	1	0	1	1
280 to 289	đ) Due placements and current due of long term placements in foreign currency	028	3,533,858	3,857,415	-323,557	465,454
290 to 299	e) Accruals in foreign currency	029	1,508,780	30	1,508,750	300,508
320 to 325, part of 329	7. Inventory	030	5,548,884	3,941,930	1,606,954	3,111,146
350	8. Held for sale assets	031	0	0	0	0
351	9. Operating assets under suspension	032	0	0	0	0
352 and 359	10. Other assets	033	0	0	0	0
360 and 369	11. VAT receivables	034	37,319	0	37,319	1,607
	B. FIXED ASSETS (036+041+047)	035	72,230,797	35,850,434	36,380,363	39,422,923
30	1. Fixed assets and investment property (037 to 040)	036	53,836,669	20,940,351	32,896,318	35,706,509
300 to 303,306, part of 309	a) Fixed assets	037	49,861,738	19,578,628	30,283,110	33,075,437
304, part of 309	b) Investment property	038	3,915,559	1,361,723	2,553,836	2,490,177
305, part of 309	v) Fixed assets under financial leasing	039	0	0	0	0
307 and 308	g) Advances and investments in progress	040	59,372	0	59,372	140,895
31	2. Intangible assets (042 to 046)	041	18,394,128	14,910,083	3,484,045	3,716,414
310	a) Goodwill	042	0	0	0	0
311, part of 319	b) Research	043	0	0	0	0
314, part of 319	v) Intangible assets under financial leasing	044	0	0	0	0
312,313, part of 319	g) Other intangible assets	045	18,373,246	14,910,083	3,463,163	3,678,573
317 and 318	d) Advances and investments in progress	046	20,882	0	20,882	37,841
37	3. Deferred tax assets	047	0	0	0	0
	V. OPERATING ASSETS	048	884,262,576	166,512,465	717,750,111	801,245,883
90 to 93	**G. OFF BALANCE SHEET ASSETS**	049	78,292,436	0	78,292,436	54,087,057
	D. TOTAL ASSETS (048+049)	050	962,555,012	166,512,465	796,042,547	855,332,940

SCHEDULE 2: CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING AND AUDITING OF THE REPUBLIC OF SRPSKA (Continued)

Account group Account	I T E M	ADP design.			Current year December 31, 2016	Previous year, restated (opening balance)
1	2	3			4	5
	EQUITY AND LIABILITIES:					
	A. LIABILITIES (102+106+109+113)	1	0	1	570,060,192	653,779,349
40, 41 i 50	1. Liabilities for loans and deposits (103 to 105)	1	0	2	381,154,418	557,913,725
400 to 409	a) Liabilities for loans and deposits in domestic currency	1	0	3	184,021,487	175,417,461
411 to 419	b) Liabilities for loans and deposits with contractual risk protection in domestic currency	1	0	4	37,584,300	42,362,286
500 to 509	b) Liabilities for loans and deposits in foreign currency	1	0	5	159,548,631	340,133,978
42 and 52	2. Liabilities for interests and fees (107+108)	1	0	6	387,872	414,722
420 to 422	a) Liabilities for loan interests and fees in domestic currency	1	0	7	55,254	60,948
520 and 522	b) Liabilities for interests and fees in foreign currency	1	0	8	332,618	353,774
43, 44 to 53	3.Liabilities for financial assets (110 to12)	1	0	9	0	0
430 to 433	a) Liabilities for financial assets in domestic currency	1	1	0	0	0
440 to 442	b) Liabilities for financial assets with contractual risk protection in domestic currency	1	1	1	0	0
530 to 532	v) Liabilities for financial assets in foreign currency	1	1	2	0	0
45 to 49, 55, 58 and 59	4. Other liabilities and accruals (114 to 124)	1	1	3	188,517,902	95,450,902
450 and 451	a) Other liabilities for salaries and remunerations	1	1	4	754,683	75,813
454, 455, 460 to 464, 466 to 469	b) Other liabilities in domestic currency, except taxes and contributions	1	1	5	8,683,065	7,284,997
452 and 453, 476, 477	v) Liabilities for taxes and contributions, except current and deferred income tax	1	1	6	985,005	495,301
475	g) Income tax liability	1	1	7	0	0
465	d) Deferred tax liability	1	1	8	595,554	683,196
470 to 474	đ) Provisions	1	1	9	13,146,300	15,074,183
480 to 486	e) Accruals in domestic currency	1	2	0	1,969,840	2,488,554
490 to 499	ž) Liabilities for managed funds, assets held for sale, operating assets which are suspended, subordinated liabilities and current dues	1	2	1	17,753,206	27,060,123
550 to 559	z)Other liabilities in foreign currency	1	2	2	736,522	801,812
580 to 585	i) Accruals in foreign currency	1	2	3	2,396,947	2,107,430
590 to 599	j) Liabilities for managed funds, due and subordinated liabilities and current dues in foreign currency	1	2	4	141,496,780	39,379,493
	B. EQUITY (126+132+138+142-148)	1	2	5	147,689,919	147,466,534
80	1. Share capital (127+128+129-130-131)	1	2	6	153,094,205	141,359,225
800	a) Ordinary shares	1	2	7	153,094,205	141,359,225
801	b) Other capital	1	2	8	0	0
802	v) Share premium	1	2	9	0	0
803	g) Subscribed, unpaid capital	1	3	0	0	0
804	d) Repurchased own shares	1	3	1	0	0
81	g) Reserves for general bank risk	1	3	2	61,826,170	61,826,170
810	d) Transferred reserves (FX differences)	1	3	3	0	0
811	g) Reserves for general bank risk	1	3	4	0	0
812	v) Special reserves for estimated losses	1	3	5	61,826,170	61,826,170
814	g) Reserves for general bank risk	1	3	6	0	0
818	d) Transferred reserves (FX differences)	1	3	7	0	0
82	3. Revaluation reserve (139 to 141)	1	3	8	2,232,356	2,942,030
820	a) Revaluation reserves arising from changes in value of fixed assets and investments in intangible assets	1	3	9	2,295,430	3,059,366
821	b) Revaluation reserves arising from changes in value of financial assets	1	4	0	-5,841	-51,511
822	v) Other revalorization reserve	1	4	1	0	
83	4. Income (143 to 147)	1	4	2	-57,233	-65,825
830	a) Income for the year	1	4	3	547,790	464,264
831	b) Unallocated income from previous years	1	4	4	0	0
832	v) Excess of income over expense for the year	1	4	5	547,790	464,264
833	g) Unallocated excess of income over expense for the year	1	4	6	0	0
834	d) Retained earnings	1	4	7	0	0
84	5. Loss (149 + 159)	1	4	8	0	0
840	a) Loss for the year	1	4	9	70,010,602	59,125,155
841	b) Loss from previous years	1	5	0	10,885,447	50,710,121
	V. OPERATING EQUITY AND LIABILITIES (101+125)	1	5	1	59,125,155	8,415,034
95 to 98	**G. OFF BALANCE SHEET EQUITY AND LIABILITIES**	1	5	2	717,750,111	801,245,883
	D. TOTAL EQUITY AND LIABILITIES (151+152)	1	5	3	78,292,436	54,087,057
	EQUITY AND LIABILITIES:	1	5	4	796,042,547	855,332,940

SCHEDULE 2: CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING AND AUDITING OF THE REPUBLIC OF SRPSKA (Continued)

CONSOLIDATED INCOME STATEMENT
(Statement of comprehensive income)
Year Ended December 31, 2016

In BAM

Account group, account	I T E M	ADP desig.	A M O U N T	
			Current year	Previous year, restated
1	2	3	4	5
	A.INCOME AND EXPENSE FROM FINANCING ACTIVITIES			
70	1. Interest income (202 to 204)	*201*	*24,273,286*	*29,603,604*
700,701 and 702	a) Interest income from loans, deposits and financial assets in domestic currency	202	4,185,920	4,936,364
703,704 and 705	b) Interest income from loans, deposits and financial assets with contractual risk protection	203	19,957,236	24,562,937
706,707 and 708	v) Interest income from loans, deposits and financial assets in foreign currency	204	130,130	104,303
60	2. Interest expense (206 to 208)	205	7,262,813	11,845,812
600,601 and 602	a) Interest expense from loans, deposits and financial assets in domestic currency	206	1,136,035	1,216,446
603,604 and 605	b) Interest expense from loans, deposits and financial assets with contractual risk protection	207	1,189,818	2,628,063
606,607 and 608	v) Interest expense from loans, deposits and financial assets in foreign currency	208	4,936,960	8,001,303
	3. Net interest income (201 to 205)	209	17,010,473	17,757,792
	4. Net interest expense (205 to 201)	*210*	*0*	*0*
71	5. Fee and commission income (212 to 214)	*211*	*12,266,851*	*11,714,960*
710 and 711	a) Income from payment services	212	6,723,690	6,720,331
712 and 713	b) Commission income	213	4,516,456	4,083,889
718 and 719	v) Other fee and commission income	214	1,026,705	910,740
61	6. Fee and commission expense (216 to 218)	215	1,944,681	1,883,845
610 and 611	a) Fee and commission expense in domestic currency	216	252,383	206,617
615 and 616	b)Fee and commission expense in foreign currency	217	356,527	714,570
617	v) Other fee and commission expense	218	1,335,771	962,658
	7. Net fee and commission income (211 to 215)	219	10,322,170	9,831,115
	8. Net fee and commission expense (215 to 211)	220	0	0
72	9. Gains from sale of financial assets and shares (222 to 225)	221	82,463	418
720	a) Gains from sale of financial assets valued at fair value through profit or loss	222	0	0
721	b) Gains from sale of available for sale financial assets	223	82,463	418
722	v) Gains from sale of held to maturity financial assets	224	0	0
723	g) Gains from sale of investments	225	0	0
62	10. Losses from sale of financial assets and investments (227 to 230)	226	*78,716*	*0*
620	a) Losses from sale of financial assets valued at fair value through profit or loss	227	0	0
621	b) Losses from sale of available for sale financial assets	228	78,716	0
622	v) Losses from sale of held to maturity financial assets	229	0	0
623	g) Losses from sale of investments	230	0	0
	11. Net gains from sale of financial assets and investments (221 to 226)	*231*	*3,747*	*418*
	12. Net losses from sale of financial assets and investments (226 to 221)	232	0	0
	13. GAIN FROM FINANCING ACTIVITIES (201+211+221-205-215-226)	233	27,336,390	27,589,325
	14 LOSS FROM FINANCING ACTIVITIES (205+215+226-201-211-221)	234	0	0
	B. OPERATING INCOME AND EXPENSE			
74 and 76	1. Operating income (236 to 240)	235	65,193,860	30,416,942
740	a) Income from reversal of write-offs of indirect investments	236	58,736,174	26,560,860
741	b) Income from reversal of provisions for off-balance sheet items	237	2,601,086	2,160,843
742	v) Income from reversal of provisions for liabilities	238	2,846,966	276,038
743	g) Income from reversal of other provisions	239	0	0
760	d) Salaries and remunerations gross expense	240	480,255	674,888
761	đ) Remuneration expenses for temporary and occasional jobs	241	529,379	744,313
64,65 and 66	2. Operating expense (242 to 255)	242	90,589,330	101,865,644
640	a)Impairment expenses	243	51,376,500	62,765,381
641	b)Provisions for off balance sheet items	244	2,172,623	882,278
642	v) Expenses from provisions for liabilities	245	2,679,429	660,058
643	g) Expenses for other provisions	246	56,583	37,053
650 do 653	d) Salaries and remunerations gross expense	247	14,395,154	14,186,058
654	đ) Remuneration expenses for temporary and occasional jobs	248	52,426	19,264
655	e) Other personal expenses	249	746,614	395,630
660	ž) Cost of materials	250	1,048,803	1,150,931
661	z) Cost of production services	251	7,804,280	8,375,043
662	i) Amortization costs	252	2,654,292	4,178,869
663	j) Expenses from leasing	253	1,011,475	1,050,054
664	k) Intangible costs (without taxes and contributions)	254	5,367,577	6,639,895
665	l) Costs for taxes and contributions	255	1,206,442	1,482,760
666	lj) Other expenses	256	17,132	42,370
	3. GAIN FROM OPERATING ACTIVITIES (235-241)	257	0	0
	4. LOSS FROM OPERATING ACTIVITIES (241-235)	258	25,395,470	71,448,702

SCHEDULE 2: CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING AND AUDITING OF THE REPUBLIC OF SRPSKA (Continued)

	V. OTHER INCOME AND EXPENSES			
77	1. Other income (259 to 265)	258	5,055,571	6,621,861
770	a) Income from collection of written off receivables	259	4,194,933	5,621,443
771	b) Income from sale of fixed assets and intangible investments	260	108,643	22,689
772	v) Income from reduction of liabilities	261	46,180	221,544
776	g) Income from dividends and investments	262	9,576	7,347
777	d) Surpluses	263	3,227	11,084
778	đ) Other income	264	693,012	737,754
779	e) Income from discontinued operations	265	0	0
67	2. Other expenses (267 to 273)	266	3,863,416	1,230,876
670	a) Losses from the direct receivable write-offs	267	839,412	179,597
671	b) Losses from sale of fixed assets and intangible investments	268	471	13,674
672	v) Losses from disposal and write-off of fixed assets and intangible assets	269	85,382	404,647
676	g) Shortages	270	552	17,934
677	d) Writing off inventories	271	8,400	959
678	đ) Other expenses	272	2,929,199	614,065
679	e) Expense from discontinued operations	273	0	0
	3. GAIN FROM OTHER INCOME AND EXPENSES (258-266)	274	1,192,155	5,390,985
	4. LOSS FROM OTHER INCOME AND EXPENSES (266-258)	275	0	0
	G. OPERATING INCOME (233+256+274-234-257-275)	277	0	0
	D. OPERATING LOSS (234+257+275-233-256-274)	278	9,589,066	42,667,222
73 and 78	Đ. INCOME AND EXPENSE FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES	279		
	1. Income from changes in value of assets and liabilities (279 to 283)		114,830,373	57,188,157
730	a) Income from changes in value of placements and receivables	280	0	0
731	b) Income from changes in value of financial assets	281	0	0
732	v) Income from changes in value of liabilities	282	0	0
733	g) Income from changes in value of fixed assets and intangible investments	283	0	0
780	d) Positive FX differences	284	114,830,373	57,188,157
63 and 68	2. Expense from changes in value of assets and liabilities (258 to 289)	285	116,136,058	62,759,372
630	a) Expense from changes in value of placements and receivables	286	0	0
631	b) Expense from changes in value of financial assets	287	0	26,171
632	v) Expense from changes in value of liabilities	288	0	0
633	g) Expense from changes in value of fixed assets, investment property and intangible investments	289	1,565,103	5,064,823
680	d) Negative FX differences	290	114,570,955	57,668,378
	E. INCOME FROM CHANGES IN VALUE OF	291	0	0
	ASSETS AND LIABILITIES (278-284)	292	1,305,685	5,571,215
	Ž. LOSS FROM CHANGES IN VALUE OF	293		
	ASSETS AND LIABILITIES (284-278)		0	0
	I.INCOME AND EXPENSE BEFORE TAX	294	10,894,751	48,238,437
850	1. Income before tax (276+290-277-291)	295		
	2. Loss before tax (277+291-276-290)		0	0
850	J. CURRENT AND DEFERRED INCOME TAX	296	9,304	88,052
852	1. Income tax	297	0	2,559,736
851	2. Income from increase of Deferred tax assets and decrease of Deferred tax liabilities	298		
852	3. Loss from decrease of Deferred tax assets and increase of Deferred tax liabilities			
83	K. NET INCOME AND EXPENSE		0	0
84	1. Net income for the year	299		
	(292+295-294-295) or (295-293-294-296)		10,885,447	50,710,121
84	2. Net loss for the year	300		
	(293+294+296-295) or (294+296-292-295)		139,144	0
	L. OTHER INCOME AND EXPENSE FOR THE PERIOD	301	0	0
	1. Gains determined directly in equity (300 do 305)	302	42,933	0
	a) Gains from revaluation reserve reduction of fixed assets and intangible assets	303	0	0
	b) Gains from changes in fair value of financial assets available for sale	304	8,591	0
	v) Gains arising from translation of financial statements in foreign operations	305	0	0
	g) Actuarial gains on defined benefit plans	306	87,620	0
	d) Effective portion of gains arising from hedging of cash flows	307	765,292	41,304
	đ) Other gains determined directly in equity	308	0	-25,830
	2. Losses determined directly in equity (307 to 311)	309	0	0
	a) Losses from changes in fair value of financial assets available for sale	310	0	56,936
	b) Losses arising from translating financial statements in foreign operations	311	0	0
	v) Actuarial losses on defined benefit plans	312	765,292	10,198
	g) Effective portion of losses arising from hedging of cash flows	313		
	d) Other losses determined directly in equity		-626,148	-41,304
	LJ. NET GAINS OR NET LOSSES FROM OTHER TOTAL RESULT FOR THE PERIOD	314	0	0
	(299-306) OR (306-299)	315	-626,148	-41,304
	N. INCOME TAX RELATING TO OTHER TOTAL RESULT	316		
	N. INCOME TAX RELATING TO OTHER TOTAL RESULT (312 ± 313)		0	0
	O. OVERALL RESULT FOR THE PERIOD	317	11,511,595	50,751,425
	1. Total net income for the accounting period (297 ± 314)	318	10,864,765	50,613,772
	2. Total net income for the accounting period (298 ± 314)	319	20,682	96,349
	Share of net profit / loss attributable to majority owners	320	-0,075	-0,413
	Share of net profit / loss attributable to minority owners	321	-0,075	-0,413
	Earnings per share	322	471	528
	Diluted earnings per share	323	466	526

SCHEDULE 2: CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING AND AUDITING OF THE REPUBLIC OF SRPSKA (Continued)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2016

IN BAM

	TYPE OF CHANGE IN EQUITY	ATTRIBUTABLE TO MAJORITY OWNERS OF THE PARENT ENTITY							NON-CONTROLLING INTERESTS	TOTAL EQUITY
		ADP design.	Share capital and permanent investments held in limited liability company	Revaluation reserve (IAS 16,IAS 21 and IAS 38)	Other reserves (issuance premium, legislative and statutory reserves, cash flow hedging)	Other reserves (issuance premium, legislative and statutory reserves, cash flow hedging)	Retained earnings/ Uncovered loss	TOTAL		
1		2	3	4	5	6	7	8	9	10
1 .	Balance as at 1 January	901	122,859,225	3,448,487	0	74,112,384	-20,700,956	179,719,140		
2 .	Effect of changes in accounting policies	902	0	0	0	0	0	0		
3 .	Effect of correction of errors	903	0	0	0	0	0	0		
	Restated balance as at 1 January 2014 (901 ±902±903)	904	122,859,225	3,448,487	0	74,112,384	-20,700,956	179,719,140		
4 .	Effects of revaluation of tangible and intangible assets	905	0	-515,849	0	0	515,849	0		
5 .	Unrealised gains/losses from available- for- sale financial assets	906	0	25,830	0	0	0	25,830		
6 .	FX differences arising from translation of financial statements in other currency	907	0	0	0	0	0	0		
7 .	Net gain/loss reported in income statement	908	0	0	0	0	-50,710,121	-50,710,121		
8 .	Net gain/loss for the period reported directly in equity	909	0	-16,438	0	-292	-51,585	-68,315		
9 .	Declared dividends and other distributions of income and coverage of loss	910	0	0	0	12,285,922	-12,285,922	0		
10 .	Emission of equity and other increases or reductions of capital	911	18,500,000	0	0	0	0	18,500,000		
11 .	Balance as at 31 December 2014 / 1 January 2014 (904±905±906±907±908±909-910+911)	912	141,359,225	2,942,030	0	61,826,170	-58,660,891	147,466,534		
12 .	Effect of changes in accounting policies	913	0	0	0	0	0	0		
13 .	Effect of correction of errors	914	0	0	0	0	0	0		
14 .	Restated balance as at 1 January 2014 (912±913±914)	915	141,359,225	2,942,030	0	61,826,170	-58,660,891	147,466,534		
15 .	Effects of revaluation of tangible and intangible assets	916	0	-848,818	0	0	83,526	-765,292		
16 .	Unrealised gains/losses from available- for- sale financial assets	917	0	42,933	0	0	0	42,933		
17 .	FX differences arising from translation of financial statements in other currency	918	0	0	0	0	0	0		
18 .	Net gain/loss reported in income statement	919	0	0	0	0	-10,885,447	-10,885,447		
19 .	Net gain/loss reported in income statement	920	0	96,211	0	0	0	96,211		
20 .	Declared dividends and other distributions of income and coverage of loss	921	0	0	0	0	0	0		
21 .	Emission of equity and other increases or reductions of capital	922	11,734,980	0	0	0	0	11,734,980		
22 .	Balance as at 31 December 2014 (915±916±917±918±919±920-921+922)	923	153,094,205	2,232,356	0	61,826,170	-69,462,812	147,689,919		

SCHEDULE 2: CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING AND AUDITING OF THE REPUBLIC OF SRPSKA (Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS
(Cash flow statement)
Year Ended December 31, 2016

In BAM '000

No.	I T E M		ADP Desig.	A M O U N T Current year	Previous year, restated
1	2		3	4	5
1	CASH FLOWS FROM OPERATING ACTIVITIES				
1.1.	Interest, fee and provision income from loans and leasing	(+)	401	35,353	40,376
1.2.	Interest payment	(-)	402	8,475	12,522
1.3.	Collection of loans that were previously written off (principal and interest)	(+)	403	4,438	4,195
1.4.	Cash payments to employees and suppliers	(-)	404	30,018	32,386
1.5.	Payments arising from off-balance sheet contracts	(-)	405		471
1.6.	Receipts and payments from/for extraordinary items	(+) (-)	406	4,124	-7,647
	(Increase) decrease in operating assets		407		
1.7.	Cash loans and loans to customers and charging them	(+) (-)	408	-30,782	76,679
1.8.	Deposit accounts with state institutions - regulation and monetary requirements	(+) (-)	409		-1,956
1.9.	Deposits from customers	(+) (-)	410	-71,613	-28,276
1.10.	Income tax paid	(-)	411	27	424
A	**Net cash assets from operating activities**	(+) (-)	412	-97,000	37,568
2	**CASH FLOWS FROM INVESTING ACTIVITIES**				
2.1.	Short term placements to Financial institutions	(+) (-)	413		0
2.2.	Interest received	(+)	414	787	121
2.3.	Dividend received	(+)	415	8	10
2.4.	Investments in securities held to maturity	(-)	416		0
2.5.	Recoverable due securities held to maturity	(+)	417		-16,658
2.6.	Purchase (sale) of intangible assets	(+) (-)	418	-1,060	-810
2.7.	Purchase (sale) of tangible assets	(+) (-)	419	-740	-260
2.8.	Acquisition (Sales) of participation in subsidiaries	(+) (-)	420		0
2.9.	Acquisition (sales) of participation in other related companies	(+) (-)	421		
2.10.	Loans (loan repayment) to subsidiaries	(+) (-)	422		
2.11.	Loans (repayment of loans) to other affiliated companies	(+) (-)	423		
2.12.	Purchase (sale) of other investments	(+) (-)	424	-29,213	
2.13.	Payments related to off-balance sheet contracts	(-)	425		
2.14.	Receipts and payments related to extraordinary items	(+) (-)	426		
B	**Net cash assets from investing activities**	(+) (-)	427	-30,218	-17,597
3	**CASH FLOW FROM FINANCING ACTIVITIES**				
3.1.	Proceeds from issue of shares	(+)	428	11,735	18,500
3.2.	Repurchase of shares	(-)	429		0
3.3.	Purchase of own shares	(-)	430		0
3.4.	Interest paid on borrowings	(-)	431	1,098	1,490
3.5.	Borrowings	(+)	432	6,072	4,748
3.6.	Returning of borrowings	(-)	433	18,596	83,370
3.7.	Dividend payment	(-)	434		0
3.8.	Payment related to the off-balance sheet contracts	(-)	435		0
3.9.	Receipts and payments related to the off-balance sheet contracts	(+) (-)	436		0
V	**Net cash assets from financing activities**	(+) (-)	437	-1,887	-61,612
4	**NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+V)**	(+) (-)	438	-129,105	-41,641
5	**CS AND CE AT THE BEGINNING OF THE PERIOD**	(+) (-)	439	257,626	295,854
6	**EFFECTS OF THE CHANGES OF EXCHANGE RATES CS AND CE**	(+) (-)	440	284	3,413
7	**CS AND CE AT THE END OF THE PERIOD**	(+) (-)	441	128,805	257,626

SCHEDULE 2: CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING AND AUDITING OF THE REPUBLIC OF SRPSKA (Continued)

CONSOLIDATED OFF-BALANCE SHEET ITEMS
As of December 31, 2016

(in BAM '000)

No.		ITEM	Current year	Previous year, restated
1		2	3	4
1.		Irrevocable commitments to grant loans	57,073	43,002
	1.1.	The original obligation to grant loans		
	1.2.	Current unused amount of approved loans	57,073	43,002
2.		Purchased receivables from loans given		
3.*		Loans secured by a collateral*	544,417	554,277
	3.1.	Loans secured by special deposit	526	867
	3.2.	Loans secured by real estate	244,029	232,283
	3.3.	Loans secured by other collaterals	299,862	321,127
4.		Treasury Securities	0	0
	4.1.	Securities held for the account of reporting bank		
	4.2.	Securities held for the account of others		
5.		Values in treasury	0	0
	5.1.	Values in treasury as collateral		
	5.2.	Other values in treasury		
6.		Foreign cheques sent to the billing		
7.		Irrevocable documents, letters of credit issued for payments abroad		
8.		Other letters of credit issued for payments abroad		
9.		Guarantees issued	19,601	10,525
	9.1.	Payable guarantees issued	15,188	8,398
	9.2.	Issued performance guarantees	4,413	2,127
	9.3.	Other types of guarantees		
10.		Issued promissory notes and given acceptances	0	0
	10.1.	Promissory notes issued		
	10.2.	Sureties		
11.		Financial activities related to billing process	0	0
	11.1.	Billing of financial instruments		
	11.2.	Other current billing activities		
12.		Current contracts for transactions with foreign currencies	0	0
	12.1.	Prompt sale of foreign currency	0	0
	12.2.	Prompt buying of foreign currencies	0	0
	12.3.	Forward sale of foreign currency	0	0
	12.4.	Forward purchase of foreign currency	0	0
13.		Other off-balance sheet exposure items of bank	0	560
		TOTAL (1 to 13)*	621,091	608,364

Bodies of the Bank
On December 31, 2016

Supervisory board

Hans-Hermann Anton Lotter	Chairman
Markus Bodo Krause	Vice-Chairman
Marko Popovic	Member
Rupert Schindler	Member
Manfred Kohlweg	Member

Audit Committee

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

Management Board

Mario Ivanković	Director
Boštjan Pečenko	Executive Director

Internal Auditor: Slavica Vukelić

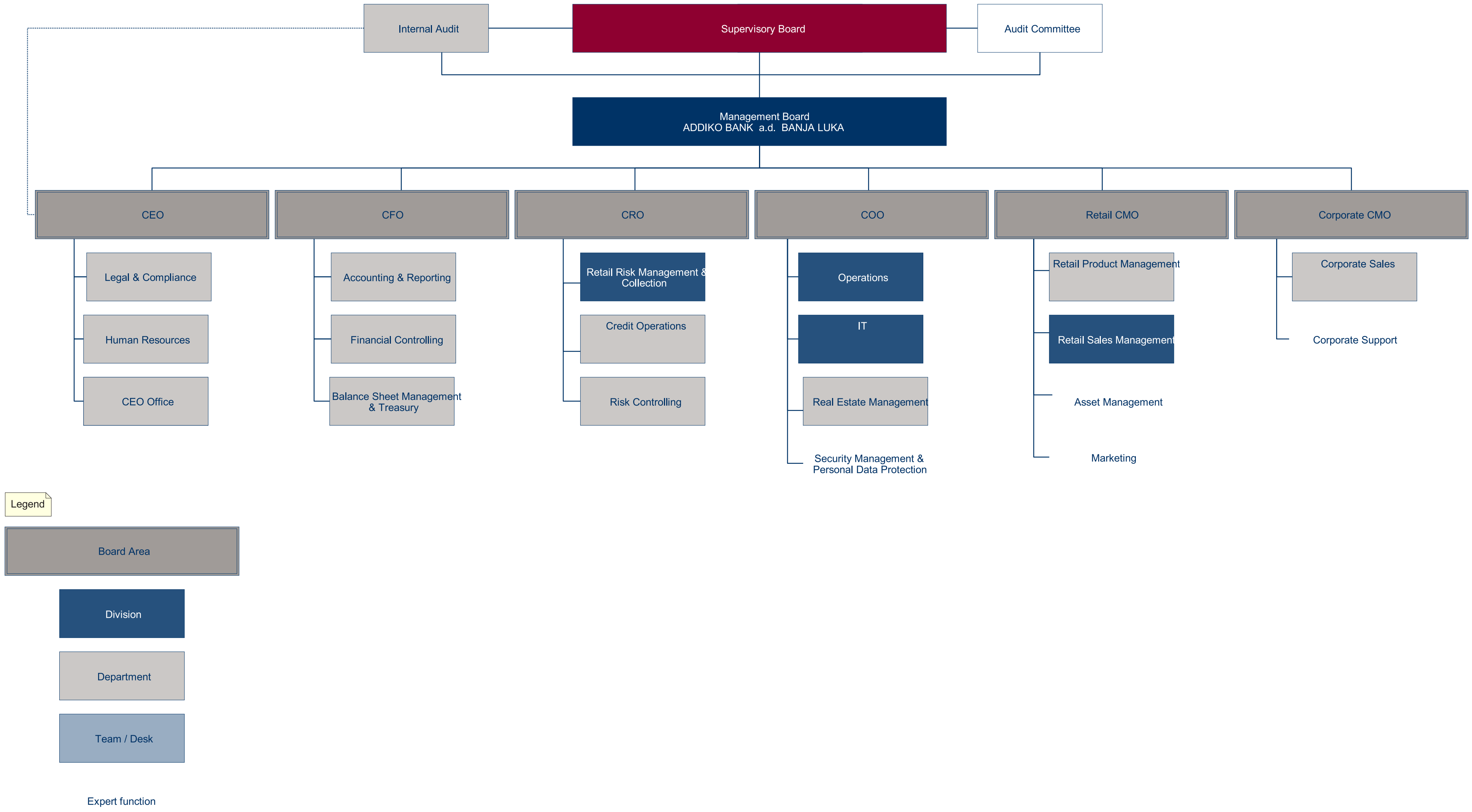
Shareholders with 5% or more shares with voting rights:
Addiko Bank AG

Organizational Structure
On 31 December, 2016

Addiko Bank

ADDIKO BANK a.d.
Aleja Svetog Save 13.
78 000 Banja Luka
Bosnia i Herzegovina

Valid as of 31.12.2016.



Bank headquarters

Addiko Bank a.d. Banja Luka

78000 Banja Luka
Aleja Svetog Save 13
Tel. +387 (0)51 336 511
Fax +387 (0)51 336 518
addiko-rs.ba
E-mail: info.rs.ba@addiko.com

Business units

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241-897, 241-873, 244-916, 244-919
fax: +387 51 244-996

Banja Luka
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78 000 Banja Luka,
telefon: +387 51 336-515, 336-517,
336-513, 336-514
fax:+ 387 51 336-516

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78 000 Banja Luka,
telefon: +387 51 228-730,
fax:+ 387 51 218-637

Banja Luka
Cara Lazara 21b, Obilićevo,
78 000 Banja Luka,
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fax:+ 387 51 432-931

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Banja Luka
Majke Jugovića,
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fax:+ 387 435-932

Bijeljina
Trg kralja Petra I Karađorđevića 1,
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fax:+387 55 225-437

Bijeljina
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fax:+387 55 292-361

Bileća
Kralja Aleksandra 15,
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fax: +387 59 381-051

Bratunac
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fax: +387 56 420-317

Brčko
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76 000 Brčko,
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fax: +387 49 235-420, 235-421

Brod
Trg Patrijarha Pavla bb,
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fax: +387 53 621-392

Čelinac,
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Derventa,
Jovana Dučića i Čika Jove Zmaja,
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telefon: +387 53 333-303, 334-103,
fax: +387 53 312-420

Doboj,
Kralja Dragutina 13,
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I. Sarajevo
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fax: +387 57 316-717

Kostajnica
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telefon: +387 52 663-940,
fax:+387 52 663-900

Kotor Varoš
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Kozarska Dubica
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Nevesinje
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Novi Grad
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Pale
Nikole Tesle 12
71 420 Pale,
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79 101 Prijedor,
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fax: +387 51 655-496

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Svetog Save bb
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fax: +387 53 410-010

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fax: +387 58 631-132

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Svetog Save bb
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Responsible for content:

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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