

## **UNION BANKA D.D. SARAJEVO**

Financial statements for the year ended  
31 December 2017 prepared in accordance  
with International Financial Reporting  
Standards and Independent Auditor's Report

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



## Contents

---

	<i><b>Page</b></i>
Responsibility for the financial statements	1
Independent Auditor's report	2 – 6
Statement of profit or loss and other comprehensive income	7
Statement of financial position	8
Statement of cash flows	9
Statement of changes in equity	10
Notes to the financial statements	11 – 52

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

## Responsibility for the financial statements

---

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

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

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

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

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

Signed on behalf of the Management Board:



  
Vedran Hadžiahmetović, President of the Management Board

Union banka d.d.  
Hamdije Kreševljakovića 19  
71000 Sarajevo  
Bosnia and Herzegovina

21 February 2018

## Independent Auditor's Report

### To the shareholders of Union banka d.d. Sarajevo:

#### Opinion

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

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

#### Basis for opinion

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

#### Key audit matters

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

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL" or "Deloitte Global"), its network of member firms, and their related entities (collectively, the "Deloitte Network"). DTTL and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see [www.deloitte.com/ba/about](http://www.deloitte.com/ba/about) for a more detailed description of DTTL and its member firms.

In Bosnia and Herzegovina, the services are provided by Deloitte Ltd. and Deloitte Advisory Services Ltd. (jointly referred to as "Deloitte Bosnia and Herzegovina") which are affiliates of Deloitte Central Europe Holdings Limited. Deloitte Bosnia and Herzegovina is one of the leading professional services organizations in the country providing services in audit, tax, consulting, financial advisory and legal services through over 60 national and specialized expatriate professionals.

## **Key audit matters (continued)**

### ***Impairment losses on loans to clients***

*Refer to Note 3.a on pages 16 to 19 of the financial statements for the accounting policies, and Note 4 on pages 23 to 25 and page 30 for the additional information respectively.*

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

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

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

### ***How our audit addressed the key audit matter***

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

Our audit procedures were focused on and included the following:

#### *Operating effectiveness of controls*

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

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

#### *Automatic controls*

We tested the design and implementation and tested operating efficiency of automatic controls identified as significant for our evidence procedures and testing impairment losses. Testing of these controls created a basis for selecting a sample and further testing of impairment of individual loans to clients.

## **Key audit matters (continued)**

### *Individual assessment of impairment losses*

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

We performed our detailed testing on the selected sample to assess and determine the existence of potential indicators of the fact that certain loans are inadequately or redundantly provisioned. In this process, we used our judgement to determine parameters for calculation of impairment losses on loans and compared our own calculation with the impairment losses on loans calculated by the Bank. We have analysed the financial positions of the clients, adequacy of the forecasted cash flows compared to actual ones and historical data, the quality of collateral and the adequacy of its assessment, all in accordance with stipulated internal procedures and Bank’s methodology. We enquired any breaches of contracts and/or changes from the original terms and conditions of the contract. We additionally considered the impact of the current local and global economic conditions, as well as the group of related parties, and other facts that may affect the recoverability of the loans in the sample.

For the same sample of loans, we assessed loan loss provisions that the Bank calculates in accordance with regulations of the Banking Agency of Federation of BiH (“FBA”) depending on days overdue, financial position of a debtor and collateral, following the percentages of provisions for the purpose of their adequacy assessment.

### *Collective assessment of impairment losses*

During our audit, we have gained an understanding of the Bank’s provisioning process, methodology and parameters used in the calculation of collective impairment losses on loans in order to evaluate the overall adequacy of the collective impairment level.

In accordance with internal methodology, we selected a sample of clients, for which we tested the adequacy of recognized impairment losses on a group basis following the requirements of the Bank’s methodological framework and testing the Bank’s internal model in assessing the parameters for Incurred But Not Reported (IBNR) provisioning. The model was tested by a retrospective review.

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

## **Responsibilities of the Management and Supervisory Boards for the Financial Statements**

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

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

Supervisory Board is responsible for overseeing the Bank's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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



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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

### Deloitte d.o.o.

Sead Bahtanović, director and licensed auditor



Sarajevo, Bosnia and Herzegovina

21 February 2018



Sabina Softić, partner and licensed auditor



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

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

	Notes	2017	2016
Interest income	5	10,141	10,322
Interest expense	6	(2,654)	(2,674)
<b>Net interest income</b>		<b>7,487</b>	<b>7,648</b>
Fee and commission income	7	2,925	2,971
Fee and commission expense	8	(972)	(881)
<b>Net fee and commission income</b>		<b>1,953</b>	<b>2,090</b>
Other gains, net	9	10,713	275
Other operating income	10	674	1,155
<b>Operating income</b>		<b>20,827</b>	<b>11,168</b>
Personnel expenses	11	(5,800)	(5,694)
Depreciation and amortization	24, 25	(637)	(1,001)
Other administrative expenses	12	(4,918)	(3,758)
<b>Operating expenses</b>		<b>(11,355)</b>	<b>(10,453)</b>
<b>Profit before impairment losses, provisions and income tax</b>		<b>9,472</b>	<b>715</b>
Impairment losses and provisions, net	13	(8,031)	(1,191)
Recovered written off receivables	14	350	982
<b>PROFIT BEFORE TAXATION</b>		<b>1,791</b>	<b>506</b>
Income tax	15	(788)	(109)
<b>NET PROFIT FOR THE YEAR</b>		<b>1,003</b>	<b>397</b>
<b>Other comprehensive income</b>			
<i>Items that will be subsequently reclassified in the statement of profit or loss when specific conditions are met:</i>			
Effects of changes in fair value of financial assets available-for-sale, net	21	5	(217)
		<b>5</b>	<b>(217)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>1,008</b>	<b>180</b>
<b>Earnings per share (in KM)</b>	16	<b>0.59</b>	<b>0.23</b>

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

Statement of financial position  
as at 31 December 2017

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

	Notes	31 December 2017	31 December 2016
<b>ASSETS</b>			
Cash and accounts in banks	17	291,954	87,292
Obligatory reserve with the Central Bank of BiH	18	63,045	148,133
Loans to customers, net	19	163,950	144,909
Financial assets at FVTPL	20	362	222
Financial assets available-for-sale	21	97,504	107,152
Financial assets held-to-maturity	22	-	41
Other assets and receivables	23	14,629	531
Tangible and intangible assets	24	21,191	30,203
Investment property	25	1,155	1,406
<b>TOTAL ASSETS</b>		<b>653,790</b>	<b>519,889</b>
<b>LIABILITIES</b>			
Liabilities to other banks and financial institutions	26	542	3,814
Liabilities to customers	27	585,296	450,846
Subordinated debt	28	10,000	10,100
Provisions	29	890	643
Other liabilities	30	3,555	1,987
<b>TOTAL LIABILITIES</b>		<b>600,283</b>	<b>467,390</b>
<b>EQUITY</b>			
Share capital	31	34,098	34,098
Regulatory reserves		3,347	3,347
Revaluation reserves for investments		196	191
Retained earnings		15,866	14,863
<b>TOTAL EQUITY</b>		<b>53,507</b>	<b>52,499</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>653,790</b>	<b>519,889</b>

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

Signed on behalf of the Bank on 21 February 2018:



Vedran Hadžiahmetović

President of the Management  
Board



Lejla Nurko

Head of Accounting and  
Controlling department

Statement of cash flows  
for the year ended 31 December 2017

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

	2017	2016
<b>Operating activities</b>		
Profit before taxation	1,791	506
<i>Adjustments for:</i>		
Depreciation and amortization	637	1,001
Gains on sale of tangible assets, net	(10,363)	(20)
Impairment losses and provisions, net	8,031	1,191
Inventories write-off	8	-
FV adjustments of financial assets at FVTPL	(140)	13
Interest income from financial assets held-to-maturity recognized in the statement of profit or loss and other comprehensive income	(1)	(3)
Interest income from financial assets available for sale recognized in the statement of profit or loss and other comprehensive income	(2,470)	(2,309)
Dividend income recognized in the statement of profit or loss and other comprehensive income	(196)	(22)
<i>Cash flow before changes in operating assets and liabilities:</i>	(2,703)	357
Decrease / (increase) in obligatory reserve with the Central Bank of BiH, net	85,091	(2,160)
Decrease in placements with other banks, net	-	1,969
Increase in loans to customers, before allowance, net	(24,962)	(17,340)
Increase in other assets, before allowance, net	(906)	(29)
Decrease in liabilities to other banks and financial institutions, net	(3,272)	(991)
Increase in liabilities to customers, net	134,450	44,114
Increase in other liabilities, net	780	42
	188,478	25,962
<i>Income tax paid</i>	(112)	(51)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>188,366</b>	<b>25,911</b>
<b>Investing activities</b>		
Proceeds from financial assets held-to-maturity, net	41	41
Interest received from financial assets held-to-maturity	1	3
Purchase of financial assets available-for-sale	(33,425)	(63,436)
Interest received from financial assets available-for-sale	44,574	13,720
Purchase of tangible assets	(4,091)	(11,340)
Proceeds from sale of tangible assets	9,000	25
Dividend received	196	22
<b>NET CASH FROM / (USED IN) INVESTING ACTIVITIES</b>	<b>16,296</b>	<b>(60,965)</b>
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>204,662</b>	<b>(35,054)</b>
<b>CASH AND CASH EQUIVALENTS AS AT 1 JANUARY</b>	<b>87,292</b>	<b>122,346</b>
<b>CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER</b>	<b>291,954</b>	<b>87,292</b>

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

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

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

	Share capital	Regulatory reserves	Revaluation reserves for investments	Retained earnings	Total
<b>31 December 2015</b>	<b>34,098</b>	<b>3,347</b>	<b>408</b>	<b>14,466</b>	<b>52,319</b>
Net profit	-	-	-	397	397
Other comprehensive loss	-	-	(217)	-	(217)
<i>Total comprehensive income</i>	-	-	(217)	397	180
<b>31 December 2016</b>	<b>34,098</b>	<b>3,347</b>	<b>191</b>	<b>14,863</b>	<b>52,499</b>
Net profit	-	-	-	1,003	1,003
Other comprehensive income	-	-	5	-	5
<i>Total comprehensive income</i>	-	-	5	1,003	1,008
<b>31 December 2017</b>	<b>34,098</b>	<b>3,347</b>	<b>196</b>	<b>15,866</b>	<b>53,507</b>

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

# Notes to the financial statements for the year ended 31 December 2017

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

---

## 1. GENERAL

### History and incorporation

Union banka d.d. Sarajevo (the "Bank") was established in 1955 as branch of Jugoslovenska banka for foreign trade. By the end of 1989, the Bank was operating under Jugobanka d.d. Belgrade. In 1990, the Bank has been transformed into individual financial institution under name Jugobanka Jubbanka d.d. Sarajevo. At the end of 1992, the Bank changes its name into Union banka d.d. Sarajevo. At the end of 1997, the Bank was registered as legal successor of Jugobanka Jubbanka d.d. Sarajevo for territory of the Federation of Bosnia and Herzegovina (the "FBiH").

In January 2018, the Bank changed its head office to the address Hamdije Kreševljakovića 19, Sarajevo, Bosnia and Herzegovina. As of 31 December 2017, the Bank was operating through 5 branch offices: Sarajevo, Mostar, Zenica, Bihać, Tuzla, and 9 offices: Goražde, Bugojno, Zavidovići, Stari Grad – Sarajevo, Novi Grad – Sarajevo, Novo Sarajevo – Sarajevo, Ilidža, Konjic and Travnik.

### Principal activities of the Bank

The Bank's main operations are as follows:

- Accepting and placing deposits;
- Accepting demand and term deposits;
- Granting short and long-term loans and guarantees;
- Transactions on the interbank money market;
- Performing local and international payments;
- Debit and credit card operations;
- Providing banking services through a branch network in the FBiH.

### Managing bodies of the Bank

#### **Supervisory Board:**

Tihomir Ćurak	President
Damir Morić	Member
Alija Aljović	Member
Maja Letica	Member
Haris Jahić	Member

#### **Management Board:**

Vedran Hadžiahmetović	President of the Management Board
Admil Nukić	Member of the Management Board for Risks
Leon Begić	Member of the Management Board for Operations

#### **Audit Committee:**

Muniba Eminović	President
Munib Ovčina	Member
Nermin Šahinović	Member
Adnan Rovčanin	Member
Kenan Kapetanović	Member

## Notes to the financial statements for the year ended 31 December 2017

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

---

### **2. ADOPTION OF NEW AND REVISED STANDARDS**

#### **2.1 Standards and Interpretations effective in current period**

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

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

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

#### **2.2 Standards and Interpretations in issue not yet adopted**

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018);
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019);
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time);
- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 - 2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);

Notes to the financial statements  
for the year ended 31 December 2017

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

---

**2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)**

**2.2 Standards and Interpretations in issue not yet adopted (continued)**

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

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application, except for IFRS 9, which is presented in Note 2.3.

**2.3 IFRS 9: "Financial Instruments"**

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

- a) business model is holding financial assets exclusively for obtaining contractual cash flows,
- b) contractual cash flows exclusively maintain payments of principal and interest.

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

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

The Bank is in the process of performing a review of the contractual characteristics of the portfolio, and determined that the entire portfolio of loans to clients will be measured at amortized cost, and the portfolio of securities at fair value. Estimates demonstrate that the transition to the new standard does not have significant effects on the impairment losses in the Bank's balance (the estimated amount is KM 1,327 thousand, or 2.48% of total share capital as at 31 December 2017).

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



## Notes to the financial statements for the year ended 31 December 2017

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

---

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

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

#### Going concern

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

#### Basis for preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

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

Fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for measurement that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

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

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

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that effect the reported amounts of assets and liabilities, revenues and expenses. Actual results could differ from those estimates.

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

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

Notes to the financial statements  
for the year ended 31 December 2017

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

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Interest income and expense**

Interest income / expense is recognized in the statement of profit or loss for the period that it belongs to, at the applicable effective interest rate, which is the rate that exactly discounts estimated future cash flows (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset / liability, or, where appropriate, a shorter period.

**Fee and commission income and expense**

Fees and commissions consist mainly of fees earned on domestic and foreign payment transactions, and fees for loans and other credit instruments issued by the Bank.

Fees for payment transactions are recognized in the period when services are rendered.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

***Current income tax***

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the statement of profit or loss and other comprehensive income because it includes items of income or expense that are taxable or deductible in other years and it further includes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting period date.

***Deferred income tax***

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting period date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis.

Notes to the financial statements  
for the year ended 31 December 2017

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

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and cash equivalents**

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Central Bank of Bosnia and Herzegovina (the "CBBH") and current accounts with other banks.

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

**Financial instruments**

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

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

**a) Financial assets**

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

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

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

***Effective interest rate method***

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

Financial instruments designated as "at fair value through profit or loss" (FVTPL), "held-to-maturity", "available-for-sale" and "loans and receivables" recognize income based on effective interest rate.

***Loans and receivables***

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

Notes to the financial statements  
for the year ended 31 December 2017

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

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

**a) Financial assets (continued)**

***Loans and receivables (continued)***

Loans and receivables are initially recognized at fair value plus incremental costs. After initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

***Financial assets at FVTPL***

The Bank classifies a financial asset as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in the statement of profit or loss and other comprehensive income. The net gain or loss recognized in the statement of profit or loss and other comprehensive income incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 35.

***Financial assets held-to-maturity***

Bonds and treasury bills with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity financial instruments. Held-to-maturity financial instruments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Notes to the financial statements  
for the year ended 31 December 2017

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

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

**a) Financial assets (continued)**

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

Certain shares and the government's bonds and treasury bills held by the Bank are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in the Note 35. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognized in profit or loss when the Bank's right to receive payments is established.

***Impairment of financial assets***

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the statement of financial position date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively. Those individually significant assets which are not identified as impaired are subsequently included in the basis for collective impairment assessment. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of profit or loss and other comprehensive income.

Notes to the financial statements  
for the year ended 31 December 2017

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

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

**a) Financial assets (continued)**

***Impairment of financial assets (continued)***

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss and other comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

**b) Financial liabilities and equity instruments issued by the Bank**

***Derecognition of financial assets***

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank continues to recognize the financial asset.

***Classification as debt or equity***

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

***Equity instruments***

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

***Financial guarantee contract liabilities***

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

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

***Financial liabilities***

Financial liabilities are classified either as "financial liabilities at FVTPL" or "other financial liabilities". The Bank has no financial liabilities at FVTPL.

Notes to the financial statements  
for the year ended 31 December 2017

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

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

***Financial liabilities (continued)***

**Other financial liabilities**

Other financial liabilities, including due to banks, due to customers and subordinated debt, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

**Derecognition of financial liabilities**

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

**Tangible assets**

Property and equipment are stated at cost, less accumulated depreciation and any recognized accumulated impairment losses. The purchase cost includes the purchase price and all costs directly related to bringing the asset into operating condition for its intended use. The cost of ongoing maintenance and repairs, replacements and investment maintenance are recorded as a cost when incurred.

Properties in the course of construction for supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Bank's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use.

Depreciation is charged from the moment the tangible asset is ready for its intended use. It is calculated in the basis of the estimated useful life of the asset, using the straight-line method.

Estimated depreciation and amortization rates were as follows:

	<b>2017</b>	<b>2016</b>
Buildings	1.3%	1.3%
Computer equipment	20%	20%
Vehicles and equipment	10%-15%	10%-15%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss and other comprehensive income in the period in which they occur.

***Impairment***

At each reporting period date, the Bank reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Notes to the financial statements  
for the year ended 31 December 2017

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

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Tangible assets (continued)**

***Impairment (continued)***

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Investment property**

Investment property, which is property held to earn rental income and / or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost, less accumulated depreciation and any recognized accumulated impairment losses. Depreciation commences when the assets are ready for their intended use and is calculated in the basis of the estimated useful life of the asset, using the straight-line method as follows:

Buildings	1.3%
-----------	------

**Intangible assets**

Intangible assets are measured initially at purchase cost and are amortized on a straight-line basis over their estimated useful lives.

**Employee benefits**

On behalf of its employees, the Bank pays personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set legal rates during the course of the year on the gross salary. The Bank pays those tax and contributions in the favor of the institutions of the FBiH (on federal and cantonal levels).

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

***Retirement severance payments***

The Bank makes provision for retirement severance payments in the amount of either 6 average net salaries of the employee disbursed by the Bank or 6 average salaries of the FB&H as in the most recent published report by the Federal Statistics Bureau, depending on what is more favorable to the employee. The cost of retirement severance payments are recognized when earned.



Notes to the financial statements  
for the year ended 31 December 2017

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

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Foreign currency translation**

Transactions in currencies other than Bosnia and Herzegovina KM are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the statement of profit or loss and other comprehensive income for the period.

The Bank values its assets and liabilities by middle rate of the CBBH valid at the date of balance sheet. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Bank's balance sheet at the reporting dates were as follows:

<b>31 December 2017</b>	EUR 1 = KM 1.95583	USD 1 = KM 1.630810
<b>31 December 2016</b>	EUR 1 = KM 1.95583	USD 1 = KM 1.855450

**Provisions**

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Provisions are released only for such expenditure in respect of which provisions are recognized at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

**Equity and reserves**

***Share capital***

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

***Regulatory reserves for credit losses***

Regulatory reserves for credit losses are recognized in accordance with regulations of the Banking Agency of the FBiH ("FBA"). Regulatory reserves for credit losses are non-distributable.

***Regulatory reserves calculated in accordance with FBA regulations***

For the purposes of assessing capital adequacy and recognizing reserves for credit losses formed from profit in equity and reserves, in accordance with local regulations and relevant FBA rules, the Bank also calculates provisions in accordance with those regulations. In accordance with the regulations, the relevant placements are classified into appropriate risk groups, depending on the past due days, the financial position of the borrower and collateral; and are provided for at prescribed rates.

The regulatory provisions include both specific and general provisions. The general provision is added back as Tier 2 capital in the computation of capital adequacy under FBA rules.

Notes to the financial statements  
for the year ended 31 December 2017

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

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Equity and reserves (continued)**

***Investments revaluation reserve***

Investments revaluation reserve comprises changes in fair value of financial assets available-for-sale.

***Retained earnings***

Profit for the year after appropriations to owners are transferred to retained earnings.

***Dividends***

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

**Earnings per share**

The Bank publishes basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss of the current period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

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

In the application of the Bank's accounting policies, which are described in Note 3, the Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**Key sources of estimation uncertainty**

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

***Useful lives of property and equipment, and investment property***

As described in Note 3 above, the Bank reviews the estimated useful lives of property and equipment, and investment property at the end of each annual reporting period.

***Impairment losses on loans and receivables***

As described in Note 3 above, at each reporting period date, the Bank assessed indicators for impairment of loans and receivables and their impact on the estimated future cash flows from the loans and receivables.

Notes to the financial statements  
for the year ended 31 December 2017

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

---

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

**Key sources of estimation uncertainty (continued)**

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

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

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 credit risk exposures 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-sheet risk exposure to customers, mainly in the form of unused loan facilities and guarantees.

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. With regard to the financial assets carried at amortized cost, 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.

In assessing collective impairment the following guidelines are used:

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

The Bank adopted the version 1.14 of the Internal Impairment Methodology under IAS 39 in October 2017. By the new version of the Methodology, corporate loan portfolio is segmented in groups of short-term loans and long-term loans, and accordingly the calculation of PD and CR parameters for each of the stated categories has been done accordingly.

Upon adoption of the stated methodology, the Methodology from June 2017 ceased to be in effect, according to which PD and CR parameters were calculated for the total corporate loans portfolio.

The changes in the method of segmentation and calculation of parameters for exposures classified in the corporate segment ultimately resulted in increased impairment allowance for given loans and decrease in net result as at and for the year ended 31 December 2017 for the estimated amount of KM 1,588 thousand.

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

Notes to the financial statements  
for the year ended 31 December 2017

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

---

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

**Key sources of estimation uncertainty (continued)**

***Impairment losses on financial assets available-for-sale***

The Bank assess the financial situation and payment capability of debtors based on their financial assets. The basis for determination of expected losses is an external rating assigned by an external independent institution for credit risk assessment, and the rate of annual probability of default assigned by individual levels of rating, adjusted for the life of a financial instrument.

***Fair value of financial instruments***

As described in Note 35, the Management use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments, other than loans and receivables, are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

Notes to the financial statements  
for the year ended 31 December 2017

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

**5. INTEREST INCOME**

	<b>2017</b>	<b>2016</b>
Interest on corporate loans	5,442	5,944
Interest on financial assets available for sale (Note 21)	2,470	2,309
Interest on retail loans	2,227	2,064
Interest on financial assets held-to-maturity (Note 22)	1	3
Placements with other banks	1	2
	<u>10,141</u>	<u>10,322</u>

**6. INTEREST EXPENSE**

	<b>2017</b>	<b>2016</b>
Interest on corporate deposits	1,215	1,265
Interest on retail deposits	760	1,055
Interest on assets exceeding the obligatory reserve with CBBH	462	121
Interest on borrowings	211	233
Negative interest on placements with other banks	6	-
	<u>2,654</u>	<u>2,674</u>

**7. FEE AND COMMISSION INCOME**

	<b>2017</b>	<b>2016</b>
Fees from payment transactions	2,267	2,239
Fees from off-balance sheet transactions	249	215
Fees from conversion transactions	230	251
Other fee and commission income	179	266
	<u>2,925</u>	<u>2,971</u>

**8. FEE AND COMMISSION EXPENSE**

	<b>2017</b>	<b>2016</b>
E-banking and SWIFT	661	655
Internal payment transactions	311	226
	<u>972</u>	<u>881</u>

**9. OTHER GAINS, NET**

	<b>2017</b>	<b>2016</b>
Gain on sale of tangible assets (Notes 23 and 24)	10,363	20
Net gain on foreign exchange transactions	210	268
Fair value adjustment on financial assets at FVTPL (Note 20)	140	(13)
	<u>10,713</u>	<u>275</u>

Notes to the financial statements  
for the year ended 31 December 2017

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

**10. OTHER OPERATING INCOME**

	<b>2017</b>	<b>2016</b>
Rent income	252	322
Dividends	196	22
Other	226	811
	<u>674</u>	<u>1,155</u>

**11. PERSONNEL EXPENSES**

	<b>2017</b>	<b>2016</b>
Net salaries	2,892	2,914
Taxes and contributions	2,113	2,108
Other	795	672
	<u>5,800</u>	<u>5,694</u>

The average number of personnel employed as of 31 December 2017 and 31 December 2016 was 192 and 194, respectively.

**12. ADMINISTRATIVE EXPENSES**

	<b>2017</b>	<b>2016</b>
Services	1,296	1,173
Other taxes and contributions	786	165
Maintenance	741	543
Insurance	443	415
Advertising and entertainment	354	394
Material	326	191
Energy	324	269
Telecommunication	228	230
Rent	180	154
Travel expenses	10	9
Inventories write-off	8	-
Other expenses	222	215
	<u>4,918</u>	<u>3,758</u>

Notes to the financial statements  
for the year ended 31 December 2017

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

**13. IMPAIRMENT LOSSES AND PROVISIONS, NET**

	<b>2017</b>	<b>2016</b>
Additional impairment allowance for loans to clients (Note 19)	5,921	1,241
Additional impairment allowance for AFS assets (Note 21)	974	-
Additional impairment allowance for tangible and intangible assets (Note 24)	508	-
Additional impairment allowance for investment property (Note 25)	226	-
Additional provisions for commitments and contingencies, net (Note 29)	141	7
Additional / (release of) impairment allowance for other assets (Note 23)	146	(111)
Additional provisions for employee benefits, net (Note 29)	118	45
(Release of) / additional impairment allowance for cash assets (Note 17)	(3)	22
Release of provisions for legal proceedings (Note 29)	-	(13)
	<b>8,031</b>	<b>1,191</b>

**14. RECOVERED WRITTEN-OFF RECEIVABLES**

	<b>2017</b>	<b>2016</b>
Interest	319	945
Commissions and fees	31	37
	<b>350</b>	<b>982</b>

**15. INCOME TAX**

	<b>2017</b>	<b>2016</b>
<b>Profit before income tax</b>	<b>1,791</b>	<b>506</b>
Income tax expense at 10%	179	51
Effects of non-deductible expenses	609	58
<b>Current income tax</b>	<b>788</b>	<b>109</b>
<b>Effective income tax rate</b>	<b>44%</b>	<b>21.5%</b>

**16. EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by weighted average number of ordinary shares in issue during the year.

	<b>2017</b>	<b>2016</b>
Profit attributable to ordinary shareholders (KM '000)	1,003	397
Weighted average number of regular shares for the year	1,704,921	1,704,921
<b>Basic earnings per share (KM)</b>	<b>0.59</b>	<b>0.23</b>

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

Notes to the financial statements  
for the year ended 31 December 2017

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

**17. CASH AND ACCOUNTS IN BANKS**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Account with the CBBH	267,483	58,659
Correspondent accounts with other banks	17,027	20,155
Cash at the Bank's treasury	5,919	6,627
Cash at ATMs	1,544	1,873
	<b>291,973</b>	<b>87,314</b>
Less: Impairment allowance	(19)	(22)
	<b>291,954</b>	<b>87,292</b>

Changes in impairment allowance can be presented as follows:

	<b>2017</b>	<b>2016</b>
<b>Balance at the beginning of the year</b>	<b>22</b>	<b>-</b>
Net (decrease) / increase in impairment allowance (Note 13)	(3)	22
<b>Balance at the end of the year</b>	<b>19</b>	<b>22</b>

**18. OBLIGATORY RESERVE WITH THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Obligatory reserve with the CBBH	63,045	41,753
Specific reserve pursuant to the Law on Banks, article 42a	-	106,380
	<b>63,045</b>	<b>148,133</b>

As at 31 December 2016, and in accordance with Law on Banks (article 42 a), the Bank was obligated to hold 50% of daily balance of received payments from public funds, deposits and transactions for budgetary and off budgetary funds in cash as specific reserve in the CBBH. Furthermore, if the Bank receives cash from any one source that exceeds 20% of its total daily deposits then the bank shall, in accordance with article 42 b, by the next business day, maintain the total excess amount in cash to the special reserve account established at the CBBH. Pursuant to the new Law on Banks, which entered into force on 24 April 2017 ("Official Gazette of Federation of BiH", no. 27/17), this article ceased to be in effect.

Minimum obligatory reserve was calculated as a percentage of the average amount of total deposits and borrowings for each working day during 10 calendar days following the period of maintaining the obligatory reserve. The rates of minimum obligatory reserve were 10% of total deposits and borrowings.



Notes to the financial statements  
for the year ended 31 December 2017

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

**19. LOANS TO CUSTOMERS, NET**

	<b>31 December 2017</b>	<b>31 December 2016</b>
<i>Long-term loans:</i>		
Corporate	94,773	78,161
Retail	34,922	29,455
Less: Current portion of long-term loans	<u>(34,779)</u>	<u>(21,901)</u>
	<b>94,916</b>	<b>85,715</b>
<i>Short-term loans:</i>		
Corporate	49,210	45,714
Retail	4,001	4,614
Add: Current portion of long-term loans	<u>34,779</u>	<u>21,901</u>
	<b>87,990</b>	<b>72,229</b>
<b>Total loans before allowance for impairment losses</b>	<b>182,906</b>	<b>157,944</b>
Less: Impairment allowance based on individual assessment	(9,288)	(7,703)
Less: Impairment allowance based on group assessment	<u>(9,668)</u>	<u>(5,332)</u>
	<b>163,950</b>	<b>144,909</b>

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

	<b>2017</b>	<b>2016</b>
<b>Balance at beginning of the year</b>	<b>13,035</b>	<b>12,307</b>
Addition impairment allowance, net (Note 13)	5,921	1,241
Write-offs	<u>-</u>	<u>(513)</u>
<b>Balance at end of the year</b>	<b>18,956</b>	<b>13,035</b>

An industry analysis of the gross loan portfolio before allowance for impairment losses was as follows:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Mining and industry	66,427	63,513
Individuals	38,933	34,070
Trade	26,760	17,085
Construction	16,592	9,293
Administration and other public services	13,802	10,229
Restaurants and tourism	12,500	14,882
Real estates	4,094	3,996
Transportation and communications	1,007	668
Financial services	859	675
Agriculture	412	585
Energy	313	1,715
Other	<u>1,207</u>	<u>1,233</u>
	<b>182,906</b>	<b>157,944</b>

Notes to the financial statements  
for the year ended 31 December 2017

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

**19. LOANS TO CUSTOMERS, NET (CONTINUED)**

The amounts presented in table above include loan principal increased by interest receivables and decreased for prepaid loan fees as of 31 December 2017 and 31 December 2016.

Total amount of non-performing loans was KM 16,250 thousand and KM 14,307 thousand as at 31 December 2017 and 31 December 2016, respectively.

Weighted average interest rate can be presented as follows:

	<b>2017</b>	<b>2016</b>
Corporate	3.45%	5.17%
Retail	7.17%	7.52%

In December 2017, the Bank acquired the undue loan portfolio of commissioned loans of the Ministry of Energy, Mining and Industry of Federation of Bosnia and Herzegovina.

On 26 December 2017, the Management of the Bank adopted the Decision on acquisition of undue receivables through the implementation of this program in the period from 2013 to 22 December 2017. The Bank received the approval of the Government of Federation of BIH for this acquisition on 21 December 2017. The amount of acquired receivables is KM 27,900, and the Bank calculated VAT on the fee for this Contract (Note 30).

**20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>31 December 2017</b>	<b>31 December 2016</b>
JUBMES banka d.d. Belgrade, Serbia	362	222
	<b>362</b>	<b>222</b>

Movements in the fair value of shares were as follows:

	<b>2017</b>	<b>2016</b>
<b>Balance at beginning of the year</b>	<b>222</b>	<b>235</b>
Fair value adjustments gain / (loss) (Note 9)	140	(13)
<b>Balance at end of the year</b>	<b>362</b>	<b>222</b>

Notes to the financial statements  
for the year ended 31 December 2017

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

**21. FINANCIAL ASSETS AVAILABLE-FOR-SALE**

	31 December 2017	31 December 2016
<b>Debt securities:</b>		
Ministry of Finance of FBiH	97,372	106,387
Sarajevo Canton	499	-
	<u>97,871</u>	<u>106,387</u>
<i>Less: Impairment allowance</i>	<i>(974)</i>	<i>-</i>
	<b>96,897</b>	<b>106,387</b>
Accrued interest	213	379
	<u>97,110</u>	<u>106,766</u>
<b>Equity securities:</b>		
Bosna reosiguranje d.d. Sarajevo	373	362
Sarajevo-Osiguranje d.d. Sarajevo	11	14
S.W.I.F.T. Belgium	10	10
	<u>394</u>	<u>386</u>
	<u>97,504</u>	<u>107,152</u>

Movements in the fair value of these assets were as follows:

	2017	2016
<b>Balance at beginning of the year</b>	<b>107,152</b>	<b>55,344</b>
Purchase during the year	33,425	63,436
Interest (Note 5)	2,470	2,309
Unrealized gain from fair value adjustments (through Other comprehensive income)	5	(217)
Collected principal and interest	(44,574)	(13,720)
Increase in impairment allowance (Note 13)	(974)	-
	<u>97,504</u>	<u>107,152</u>

During 2017, the Bank has purchased:

- 15,000 bonds from the Ministry of Finance of FBiH with nominal value of KM 15 million; annual interest of 1.8205% and maturity date as of 28 December 2022;
- 500 bonds from the Sarajevo Canton with nominal value of KM 500 thousand; annual interest of 2.85% and maturity date as of 29 June 2020;
- 500 treasury notes from the Ministry of Finance of FBiH with nominal value of KM 5 million; annual interest on treasury notes amounts to 0.19%, maturity date as of 9 August 2017;
- 600 treasury notes from the Ministry of Finance of FBiH with nominal value of KM 6 million; annual interest on treasury notes amounts to 0.25%, maturity date as of 6 December 2017;
- 540 treasury notes from the Ministry of Finance of FBiH with nominal value of KM 5.4 million; annual interest on treasury notes amounts to 0.27%, maturity date as of 13 December 2017;

Notes to the financial statements  
for the year ended 31 December 2017

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

**22. FINANCIAL ASSETS HELD-TO-MATURITY**

	31 December 2017	31 December 20156
<b>Bonds:</b>		
Municipality Cazin	-	40
Accrued interest	-	1
	<u>-</u>	<u>41</u>

Changes in financial assets held-to-maturity were as follows:

	2016	2015
<b>Balance at beginning of the year</b>	<b>41</b>	<b>82</b>
Interest income (Note 5)	1	3
Collected principal and interest	<u>(42)</u>	<u>(44)</u>
<b>Balance at end of the year</b>	<b><u>-</u></b>	<b><u>41</u></b>

**23. OTHER ASSETS AND RECEIVABLES**

	31 December 2017	31 December 2016
Receivables from the Government	13,347	-
Restricted deposit	1,079	137
Fees receivables	293	284
Prepaid expenses	156	124
Inventories	14	82
Acquired tangible assets (collateral)	5	5
Other receivables	<u>685</u>	<u>703</u>
	<b>15,579</b>	<b>1,335</b>
Less: Impairment allowance	<u>(950)</u>	<u>(804)</u>
	<b><u>14,629</u></b>	<b><u>531</u></b>

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

	2017	2016
<b>Balance at beginning of the year</b>	<b>804</b>	<b>915</b>
Increase / (release) of impairment losses due to collection (Note 13)	<u>146</u>	<u>(111)</u>
<b>Balance at end of the year</b>	<b><u>950</u></b>	<b><u>804</u></b>

Receivables from the Government are related to the outstanding portion of the contractual price for sale of the building to the Council of Ministers of Bosnia and Herzegovina, represented by the Service for Common Affairs of the Institutions of Bosnia and Herzegovina, and collection is expected in four lump-sum annual instalments (see Notes 9 and 24), and the first instalment was due on 31 December 2017.

Notes to the financial statements  
for the year ended 31 December 2017

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

24. TANGIBLE AND INTANGIBLE ASSETS

	Land and buildings	Furniture and equipment	Vehicles	Computer equipment	Leasehold improvements	Intangible assets	Investment in progress	Total
<b>COST</b>								
<b>At 31 December 2015</b>	38,797	1,893	378	722	260	477	641	43,168
Additions	-	-	-	-	-	-	11,340	11,340
Transfer to investment property (Note 25)	(1,088)	-	-	-	-	-	-	(1,088)
Transfer (from) / to	144	241	37	87	-	164	(673)	-
Write-offs	-	(8)	(17)	(3)	-	-	-	(28)
<b>At 31 December 2016</b>	37,853	2,126	398	806	260	641	11,308	53,392
Additions	-	-	-	-	-	-	4,091	4,091
Transfer (from) / to	-	67	-	58	16	96	(237)	-
Impairment allowance (Note 13)	(591)	-	-	-	-	-	(207)	(798)
Write-offs / sale	(28,893)	(535)	-	(45)	-	-	-	(29,473)
<b>At 31 December 2016</b>	8,369	1,658	398	819	276	737	14,955	27,212
<b>ACCUMULATED DEPRECIATION</b>								
<b>At 31 December 2015</b>	21,134	728	120	396	28	159	-	22,565
Depreciation	194	238	59	124	3	56	-	674
Transfer to investment property (Note 25)	(27)	-	-	-	-	-	-	(27)
Write-offs	-	(8)	(12)	(3)	-	-	-	(23)
<b>At 31 December 2016</b>	21,301	958	167	517	31	215	-	23,189
Depreciation	175	186	59	118	3	71	-	612
Impairment allowance (Note 13)	(290)	-	-	-	-	-	-	(290)
Write-offs / sale	(17,254)	(191)	-	(45)	-	-	-	(17,490)
<b>At 31 December 2017</b>	3,932	953	226	590	34	286	-	6,021
<b>NET BOOK VALUE</b>								
<b>At 31 December 2017</b>	4,437	705	172	229	242	451	14,955	21,191
<b>At 31 December 2016</b>	16,552	1,168	231	289	229	426	11,308	30,203

As at 31 December 2017, the most significant amount of investments in progress is related to the new Bank's building (headquarters), which will be activated during 2018.

Notes to the financial statements  
for the year ended 31 December 2017

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

**25. INVESTMENT PROPERTY**

	<b>Buildings</b>
<b>COST</b>	
<b>At 31 December 2015</b>	<b>1,163</b>
Transfer from tangible assets	1,088
<b>At 31 December 2016</b>	<b>2,251</b>
Impairment allowance (Note 13)	(678)
<b>At 31 December 2017</b>	<b>1,573</b>
<b>ACCUMULATED DEPRECIATION</b>	
<b>At 31 December 2015</b>	<b>491</b>
Depreciation	327
Transfer from tangible assets (Note 24)	27
<b>At 31 December 2016</b>	<b>845</b>
Depreciation	25
Impairment allowance (Note 13)	(452)
<b>At 31 December 2017</b>	<b>418</b>
<b>NET BOOK VALUE</b>	
<b>As at 31 December 2017</b>	<b>1,155</b>
<b>As at 31 December 2016</b>	<b>1,406</b>

**26.1 Fair value measurement of investment properties**

Fair value of the Bank's investment properties was as follows:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Buildings	1,262	1,593
	<b>1,262</b>	<b>1,593</b>

Fair value measurement of Bank's investment properties as at 31 December 2017 was performed by Muharem Karamujić, independent appraiser not related to the Bank, who has appropriate qualifications and experience in estimating fair value of assets in relevant locations. Fair value of investment properties was determined using an income method – general capitalization method, and comparison method was used for verification. There were no changes in valuation techniques during the year.

The fair value measurements of the Bank's investment properties as at 31 December 2016 were performed by Hukić Ediba, independent appraiser not related to the Bank, who has appropriate qualifications and experience in estimating the fair value of the assets at the relevant locations. The fair value of investment properties was determined using a market approach that reflects the current market value, taking into account the construction value of the building and other factors (such as location, usability, quality and other factors). There were no changes in valuation techniques during the year.

Notes to the financial statements  
for the year ended 31 December 2017

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

**26. LIABILITIES TO OTHER BANKS AND FINANCIAL INSTITUTIONS**

	31 December 2017	31 December 2016
<b><i>Demand deposits:</i></b>		
In domestic currency	539	483
In foreign currencies	3	2
	<u>542</u>	<u>485</u>
<b><i>Liabilities to financial institutions:</i></b>		
Foundation for Sustainable Development (Fondacija za održivi razvoj – ODRAZ)	-	3,329
	<u>-</u>	<u>3,329</u>
	<u>542</u>	<u>3,814</u>

The Bank has made an early repayment of funds to the Ministry of Finance of FBiH based on the Subordinated Financing Agreement in September 2017.

**27. LIABILITIES TO CUSTOMERS**

	31 December 2017	31 December 2016
<b><i>Demand deposits:</i></b>		
<b><i>Corporate:</i></b>		
In domestic currency	345,795	194,616
In foreign currencies	11,797	6,499
	<u>357,592</u>	<u>201,115</u>
<b><i>Retail:</i></b>		
In domestic currency	30,275	29,546
In foreign currencies	10,501	9,630
	<u>40,776</u>	<u>39,176</u>
<b><i>Special purpose deposits:</i></b>		
In domestic currency	103,183	116,816
In foreign currencies	226	109
	<u>103,409</u>	<u>116,925</u>
	<u>501,777</u>	<u>357,216</u>
<b><i>Fixed-term deposits:</i></b>		
<b><i>Corporate:</i></b>		
In domestic currency	12,330	17,957
In foreign currencies	10,776	11,746
	<u>23,106</u>	<u>29,703</u>
<b><i>Retail:</i></b>		
In domestic currency	14,829	15,542
In foreign currencies	26,991	30,540
	<u>41,820</u>	<u>46,082</u>
<b><i>Special purpose deposits:</i></b>		
In domestic currency	18,027	17,479
In foreign currencies	566	366
	<u>18,593</u>	<u>17,845</u>
	<u>83,519</u>	<u>93,630</u>
	<u>585,296</u>	<u>450,846</u>

Interest rates on demand deposits ranged from 0.00% to 0.50% p.a. in 2017 (2016: 0.00% to 0.50% p.a.) and on fixed-term deposits ranged from 0.00% to 5.25% p.a. in 2017 (2016: 0.00% to 5.25% p.a.).

Notes to the financial statements  
for the year ended 31 December 2017

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

**28. SUBORDINATED DEBT**

On 22 October 2014, the contract on loan with subordinated terms in amount of KM 10 million was signed between the Government of the FBiH, represented by the Ministry of Finance of FBiH, and the Bank. The amount of KM 5 million was received in December 2014, and the amount of KM 5 million in December 2015. Maturity of the loan is 10 years from the day of the transfer of the total loan amount. Repayment of the loan will be one-off. Interest rate is fixed at 2.00% p.a.

Based on the Decision of the Banking Agency of Federation of Bosnia and Herzegovina of October 2014, the subordinated debt can be classified as Tier 2 capital in capital adequacy calculation.

**29. PROVISIONS**

	31 December 2017	31 December 2016
Provisions for employees	432	326
Provisions for commitments and contingencies	458	317
	<u>890</u>	<u>643</u>

Movements in provisions were as follows:

	Employee benefits	Commitments and contingencies	Court proceedings	Total
<b>Balance as of 31 December 2015</b>	<u>287</u>	<u>310</u>	<u>54</u>	<u>651</u>
Additional provisions (Note 13)	45	919	-	964
Release due to re-measurement (Note 13)	-	(912)	(13)	(925)
Releases due to payments	(6)	-	(41)	(47)
<b>Balance as of 31 December 2016</b>	<u>326</u>	<u>317</u>	<u>-</u>	<u>643</u>
Additional provisions (Note 13)	118	1,569	-	1,687
Release due to re-measurement (Note 13)	-	(1,428)	-	(1,428)
Releases due to payments	(12)	-	-	(12)
<b>Balance as of 31 December 2017</b>	<u>432</u>	<u>458</u>	<u>-</u>	<u>890</u>

**Commitments and contingencies**

In the ordinary course of business, the Bank enters into credit related commitments which are recorded in off-balance sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments.

	31 December 2017	31 December 2016
<b>Commitments</b>		
Framework loan agreements and card limits	8,347	7,608
<b>Contingencies</b>		
Performance guarantees	9,676	5,441
Payment guarantees	3,504	4,990
	<u>21,527</u>	<u>18,039</u>



Notes to the financial statements  
for the year ended 31 December 2017

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

**30. OTHER LIABILITIES**

	31 December 2017	31 December 2016
Liabilities to clients for paid instalments	785	390
Income tax payables	676	38
VAT payables (Note 19)	624	-
Liabilities toward suppliers	423	147
Accrued expenses	292	96
Liabilities for unallocated proceeds	36	543
Deferred income	35	180
Other taxes and contributions	25	24
Managed funds (Note 33)	22	49
Other liabilities	637	520
	<u>3,555</u>	<u>1,987</u>

**31. SHARE CAPITAL**

The shareholding structure as of 31 December 2017 and 31 December 2016 was as follows:

Shareholders	Number of shares	Amount KM '000	%
Ministry of Finance of the FBiH	1,558,948	31,179	91.44
ZIF MI-GROUP d.d. Sarajevo	24,884	498	1.46
ZIF BIG INVESTITICIONA GRUPA d.d. Sarajevo	11,980	240	0.70
Other shareholders	109,109	2,181	6.40
<b>Total</b>	<u>1,704,921</u>	<u>34,098</u>	<u>100.00</u>

Share capital is made up of 1,704,921 ordinary shares at nominal value of KM 20.

**32. RELATED-PARTY TRANSACTIONS**

A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rates.

	31 December 2017	31 December 2016
<b>Receivables:</b>		
Shareholders	1,340	755
Management Board members	98	114
	<u>1,438</u>	<u>869</u>
<b>Investments:</b>		
Shareholders	97,637	106,005
	<u>97,637</u>	<u>106,005</u>
<b>Payables:</b>		
Shareholders	256,484	216,592
Supervisory Board members	92	66
Management Board members	89	45
	<u>256,665</u>	<u>216,703</u>
<b>Off-balance sheet:</b>		
Shareholders	5,955	9,826
Management Board members	7	12
	<u>5,962</u>	<u>9,838</u>

Notes to the financial statements  
for the year ended 31 December 2017

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

**32. RELATED-PARTY TRANSACTIONS (CONTINUED)**

	2017	2016
<b>Income:</b>		
Shareholders	3,055	2,413
Management Board members	8	3
	<u>3,063</u>	<u>2,416</u>
<b>Expenses:</b>		
Shareholders	495	510
Supervisory Board members	-	1
	<u>495</u>	<u>511</u>

**Management remunerations**

The remunerations of Management Board and other members of key management were as follows:

	2017	2016
Management Board – gross salaries	335	378
Management Board – other benefits	8	12
Fees to Supervisory Board members (gross)	79	79
	<u>422</u>	<u>469</u>

**33. MANAGED FUNDS**

Funds managed by the Bank on behalf of individuals, trusts and other institutions are not assets of the Bank and, therefore, are not included in its balance sheet.

The table below provides analysis of the funds managed on behalf of customers:

	31 December 2017	31 December 2016
<b>Placements</b>		
Retail	5	6
Corporate	2,513	27,368
	<u>2,518</u>	<u>27,374</u>
<b>Financing</b>		
Governmental organizations	2,455	27,338
Retail	75	75
Corporate	10	10
	<u>2,540</u>	<u>27,423</u>
<b>Net liability (Note 30)</b>	<u>22</u>	<u>49</u>

The Bank does not bear the risk for these placements and charges a fee for its services.

Notes to the financial statements  
for the year ended 31 December 2017

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

**34. FINANCIAL INSTRUMENTS**

**a) Capital risk management**

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Bank expects to maintain its debt to capital ratio. Solvency indicators were as follows:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Debt	595,838	464,760
Equity	<u>53,507</u>	<u>52,499</u>
<b>Debt to capital ratio %</b>	<b><u>11.14</u></b>	<b><u>8.85</u></b>

Debt is defined as liabilities to banks and financial institutions, to customers, and subordinated debt, as presented in detail in Notes 26, 27 and 28. Capital includes share capital and retained profit.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by FBA for supervisory purposes. The required information is filed with the FBA on a quarterly basis.

FBA requires each bank to: (a) hold the minimum level of the share capital and the lowest level of net capital (regulatory capital) of KM 15 million, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum of 12%.

On 30 May 2014, FBA issued new Decision on minimum standards for capital management and capital hedge, effective for 2014. By this decision, the Bank's regulatory capital is divided into two tiers:

- Tier 1 capital or Core Capital: KM 48.5 million (2017: ordinary shares and retained earnings indefinitely allocated by the Bank's shareholders for coverage future net losses (if any), reduced by intangible assets); and
- Tier 2 capital or Supplementary Capital: KM 12.5 million (2017: general regulatory reserves in accordance with FBA regulations (calculated for regulatory reporting only) and subordinated debt, increased by positive revaluation reserves).

The risk-weighted assets are measured by means of a hierarchy of four weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

As of 31 December 2017 and 2016 the Bank complied with all of the externally imposed capital requirements to which it was subject. As of 31 December 2017 the adequacy of the Bank's capital amounts to 33.3% (31 December 2016: 37.8%).

Notes to the financial statements  
for the year ended 31 December 2017

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

**34. FINANCIAL INSTRUMENTS (CONTINUED)**

**a) Capital risk management (continued)**

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Core Capital - Tier 1 capital</b>		
Ordinary shares	34,098	34,098
Retained earnings	14,863	14,466
Less: Intangible assets	<u>(451)</u>	<u>(426)</u>
<b>Total Core Capital</b>	<b><u>48,510</u></b>	<b><u>48,138</u></b>
<b>Supplementary Capital - Tier 2 capital</b>		
General regulatory reserves according to FBA regulations	2,289	1,997
Subordinated debt	10,000	10,000
Positive revaluation reserves	<u>196</u>	<u>191</u>
<b>Total Supplementary Capital</b>	<b><u>12,485</u></b>	<b><u>12,188</u></b>
<b>Decreases of capital</b>		
Missing regulatory reserves	<u>-</u>	<u>-</u>
<b>Net capital</b>	<b><u>60,995</u></b>	<b><u>60,326</u></b>
Risk-weighted assets (unaudited)	169,839	146,787
Weighted operating risk (unaudited)	<u>13,278</u>	<u>12,912</u>
<b>Total weighted risks</b>	<b><u>183,117</u></b>	<b><u>159,699</u></b>
<b>Capital adequacy (%)</b>	<b><u>33.31%</u></b>	<b><u>37.77%</u></b>

**b) Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

Notes to the financial statements  
for the year ended 31 December 2017

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

c) Categories of financial instruments

	31 December 2017	31 December 2016
<b>Financial assets</b>		
Loans and receivables:		
<i>Cash and cash equivalents</i> <i>(including Obligatory reserve with the CBBH)</i>	354,999	235,425
<i>Loans to customers, net</i>	163,950	144,909
Financial assets at FVTPL	362	222
Financial assets available-for-sale	97,504	107,152
Financial assets held-to-maturity	-	41
Other receivables	13,214	-
	<b>630,029</b>	<b>487,749</b>
<b>Financial liabilities</b>		
At amortised cost		
<i>Liabilities to other banks and financial institutions</i>	542	3,814
<i>Liabilities to customers</i>	585,296	450,846
<i>Subordinated debt</i>	10,000	10,100
	<b>595,838</b>	<b>464,760</b>

d) Financial risk management objectives

The Bank's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

e) Market risk

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below points f and g). Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Bank's exposure to market risks or the manner in which it manages and measures the risk.

Notes to the financial statements  
for the year ended 31 December 2017

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

**34. FINANCIAL INSTRUMENTS (CONTINUED)**

**f) Foreign currency risk management**

The Bank undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Bank's monetary assets and monetary liabilities in foreign currencies at the reporting date are as follows:

	<b>KM</b>	<b>EUR</b>	<b>USD</b>	<b>Other currencies</b>	<b>Total</b>
<b>As of 31 December 2017</b>					
<b>ASSETS</b>					
Cash and cash equivalents	271,705	15,480	2,450	2,319	291,954
Obligatory reserve with the CBBH	63,045	-	-	-	63,045
Loans and advances to clients, net	83,015	80,935	-	-	163,950
Financial assets at FVTPL	362	-	-	-	362
Financial assets available-for-sale	92,019	5,485	-	-	97,504
Other receivables	13,214	-	-	-	13,214
<b>Total</b>	<b>523,360</b>	<b>101,900</b>	<b>2,450</b>	<b>2,319</b>	<b>630,029</b>
<b>LIABILITIES</b>					
Liabilities to other banks and other financial institutions	539	3	-	-	542
Liabilities to customers	494,960	86,005	2,401	1,930	585,296
Subordinated debt	-	10,000	-	-	10,000
<b>Total</b>	<b>495,499</b>	<b>96,008</b>	<b>2,401</b>	<b>1,930</b>	<b>595,838</b>
<b>As of 31 December 2016</b>					
Total Monetary assets	<b>370,856</b>	<b>110,676</b>	<b>3,342</b>	<b>2,875</b>	<b>487,749</b>
Total Monetary liabilities	<b>357,812</b>	<b>101,363</b>	<b>3,286</b>	<b>2,299</b>	<b>464,760</b>

**Foreign currency sensitivity analysis**

The Bank is mainly exposed to EUR and USD. Since Convertible Mark (KM) is pegged to EUR, the Bank is not exposed to risk of change of EUR exchange rate.

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

	<b>USD Impact</b>	
	<b>2017</b>	<b>2016</b>
Profit / (loss)	5	6

Notes to the financial statements  
for the year ended 31 December 2017

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

---

**34. FINANCIAL INSTRUMENTS (CONTINUED)**

**g) Interest rate risk management**

The Bank is exposed to interest rate risk as the Bank places and borrows funds at both fixed and floating interest rates.

The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note (see point i).

***Interest rate sensitivity analysis***

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting period date. The analysis is prepared assuming the amounts of financial instruments outstanding at the reporting period date were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank's net result for the year ended 31 December 2017 would increase / decrease by KM 21 thousand (2016: by KM 31 thousand).

**h) Credit risk management**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Board for credit risk management.

The Bank does not have any significant credit risk exposure to any single counterparty or any company of counterparties having similar characteristics. The Bank defines counterparties as having similar characteristics if they are related entities.

Except stated below in table, the carrying amount of financial asset presented in financial statements, decreased for losses based on impairments, represents the Bank's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Notes to the financial statements  
for the year ended 31 December 2017

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Financial assets

	Total gross carrying amount	Unimpaired assets	Impaired assets	Allowance for impairment losses	Total net carrying amount
<b>31 December 2017</b>					
Cash and cash equivalents	291,973	291,973	-	(19)	291,954
Obligatory reserve with the CBBH	63,045	63,045	-	-	63,045
Loans to clients	182,906	166,655	16,251	(18,956)	163,950
Financial assets at FVTPL	362	362	-	-	362
Financial assets available-for- sale	98,478	98,478	-	(974)	97,504
Other receivables	13,347	-	13,347	(133)	13,214
	<b>650,111</b>	<b>633,513</b>	<b>29,598</b>	<b>(20,082)</b>	<b>630,029</b>
<b>31 December 2016</b>					
Cash and cash equivalents	87,314	87,314	-	(22)	87,292
Obligatory reserve with the CBBH	148,133	148,133	-	-	148,133
Loans to clients	157,944	143,637	14,307	(13,035)	144,909
Financial assets at FVTPL	222	222	-	-	222
Financial assets available-for- sale	107,152	107,152	-	-	107,152
Financial assets held-to- maturity	41	41	-	-	41
	<b>500,806</b>	<b>486,499</b>	<b>14,307</b>	<b>(13,057)</b>	<b>487,749</b>



Notes to the financial statements  
for the year ended 31 December 2017

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

*Credit exposure and collateral*

	Credit risk exposure		Fair value of collateral
	Net exposure	Loan commitments / Guarantees	
<b>31 December 2017</b>			
Cash and cash equivalents	291,954	-	-
Obligatory reserve with the CBBH	63,045	-	-
Loans to clients, net	163,950	21,527	380,672
Financial assets at FVTPL	362	-	-
Financial assets available-for-sale	97,504	-	-
Other receivables	13,214	-	-
	<b>630,029</b>	<b>21,527</b>	<b>380,672</b>
<b>31 December 2016</b>			
Cash and cash equivalents	87,292	-	-
Obligatory reserve with the CBBH	148,133	-	-
Loans to clients, net	144,909	18,039	296,384
Financial assets at FVTPL	222	-	-
Financial assets available-for-sale	107,152	-	-
Financial assets held-to-maturity	41	-	-
	<b>487,749</b>	<b>18,039</b>	<b>296,384</b>
<i>Fair value of the collateral</i>			
	<b>31 December 2017</b>	<b>31 December 2016</b>	
Real estates	330,663	264,788	
Movable properties	32,755	16,835	
Deposits	17,254	14,761	
	<b>380,672</b>	<b>296,384</b>	

Notes to the financial statements  
for the year ended 31 December 2017

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

**34. FINANCIAL INSTRUMENTS (CONTINUED)**

**h) Credit risk management (continued)**

**Arrears**

	Total gross loan portfolio	Not due	Up to 30 days	31 – 90 days	91 – 180 days	181 – 270 days	over 270 days
<b>31 December 2017</b>							
Corporate loans	143,974	101,365	21,661	10,801	326	48	9,773
Retail loans	38,932	30,438	4,771	261	46	18	3,398
<b>Total</b>	<b>182,906</b>	<b>131,803</b>	<b>26,432</b>	<b>11,062</b>	<b>372</b>	<b>66</b>	<b>13,171</b>
<b>31 December 2016</b>							
Corporate loans	123,856	92,004	19,418	2,732	832	259	8,610
Retail loans	34,088	24,430	5,302	651	40	31	3,635
<b>Total</b>	<b>157,944</b>	<b>116,434</b>	<b>24,720</b>	<b>3,383</b>	<b>872</b>	<b>290</b>	<b>12,245</b>

**Due loans for which impairment losses have not been recognized**

Loans to clients overdue up to 90 days are not taken into account for individual impairment, except if other information demonstrates on the contrary. Gross amounts of loans to clients which are due, but for which individual impairment has not been recognized are as follows:

	Corporate loans	Retail loans	Total
<b>31 December 2017</b>			
Up to 30 days	21,661	4,744	26,405
31 to 90 days	10,109	210	10,319
<b>Total</b>	<b>31,770</b>	<b>4,954</b>	<b>36,724</b>
<b>31 December 2016</b>			
Up to 30 days	19,322	5,276	24,597
31 to 90 days	2,469	601	3,070
<b>Total</b>	<b>21,791</b>	<b>5,877</b>	<b>27,668</b>

**Default loans for which impairment losses are recognized**

The classification of loans for which impairment losses are recognized is as follows:

	Corporate loans	Retail loans	Total
<b>31 December 2017</b>			
Default loans – gross	10,921	3,458	14,379
Impairment allowance	8,794	3,198	11,992
<b>Net</b>	<b>2,127</b>	<b>261</b>	<b>2,388</b>
<b>31 December 2016</b>			
Default loans – gross	10,145	3,698	13,843
Impairment allowance	7,565	3,205	10,770
<b>Net</b>	<b>2,580</b>	<b>493</b>	<b>3,073</b>

Notes to the financial statements  
for the year ended 31 December 2017

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

**34. FINANCIAL INSTRUMENTS (CONTINUED)**

**h) Credit risk management (continued)**

***Credit concentration with the Federation of Bosnia and Herzegovina***

The Bank has significant credit concentration with the Federation of Bosnia and Herzegovina:

	Note	31 December 2017	31 December 2016
<b><i>Bonds:</i></b>			
Ministry of Finance of FBiH	21	97,372	106,387
<b><i>Interest receivables:</i></b>			
Ministry of Finance of FBiH	21	213	379
		<u>97,585</u>	<u>106,766</u>

On the other hand, significant part of the Bank's financing sources relates to the funds of the Federation of Bosnia and Herzegovina:

	Note	31 December 2017	31 December 2016
<b><i>Liabilities to customers:</i></b>			
Ministry of Finance of FBiH	27	242,274	199,094
<b><i>Interest payables:</i></b>			
Ministry of Finance of FBiH	27	-	123
<b><i>Subordinated debt</i></b>			
Ministry of Finance of FBiH	28	10,000	10,000
		<u>252,274</u>	<u>209,217</u>

**i) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Management Board, which has created an adequate framework for the management of liquidity risk to be used for the management of long-, mid- and short-term needs for the management of the Bank's liquidity. The Bank manages this type of risk by maintaining adequate reserves and other sources of financing, by constantly monitoring the projected and actual cash flows and by comparing maturity profiles of financial assets and liabilities.

***Liquidity and interest risk tables***

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

Notes to the financial statements  
for the year ended 31 December 2017

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

i) Liquidity risk management (continued)

*Liquidity and interest risk tables (continued)*

*Maturity for financial assets*

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>31 December 2017</b>							
Non-interest bearing	-	297,001	-	3,303	7,035	-	307,339
Fixed interest rate instruments	3.57%	170,220	11,054	55,763	89,572	19,553	346,162
		<b>467,221</b>	<b>11,054</b>	<b>59,066</b>	<b>96,607</b>	<b>19,553</b>	<b>653,501</b>
<b>31 December 2016</b>							
Non-interest bearing	-	88,045	-	-	386	-	88,431
Fixed interest rate instruments	4.54%	266,299	13,584	45,510	78,218	20,511	424,122
		<b>354,344</b>	<b>13,584</b>	<b>45,510</b>	<b>78,604</b>	<b>20,511</b>	<b>512,553</b>

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

*Maturity for financial liabilities*

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>31 December 2017</b>							
Non-interest bearing	-	230,418	546	696	1,660	2,005	235,325
Fixed interest rate instruments	0.55%	281,131	5,412	26,166	45,033	12,207	369,949
		<b>511,549</b>	<b>5,958</b>	<b>26,862</b>	<b>46,693</b>	<b>14,212</b>	<b>605,274</b>
<b>31 December 2016</b>							
Non-interest bearing	-	139,948	63	65	898	2,000	142,974
Variable interest rate instruments	1.06%	2	10	981	2,554	-	3,547
Fixed interest rate instruments	0.77%	223,772	9,317	28,832	46,872	18,747	327,540
		<b>363,722</b>	<b>9,390</b>	<b>29,878</b>	<b>50,324</b>	<b>20,747</b>	<b>474,061</b>

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

**Notes to the financial statements  
for the year ended 31 December 2017**

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

**35. FAIR VALUE MEASUREMENT**

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

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

**Financial assets / financial liabilities**

Fair value as at	Fair value hierarchy	Valuation technique(s) and key input(s)
------------------	----------------------	---

	31 December 2017	31 December 2016	
1) Financial assets at fair value through profit or loss (see Note 20)	<p>Listed equity securities on stock exchanges in other countries:</p> <ul style="list-style-type: none"> <li>Serbia – KM 362 thousand</li> </ul>	<p>Listed equity securities on stock exchanges in other countries:</p> <ul style="list-style-type: none"> <li>Serbia – KM 222 thousand</li> </ul>	Level 1 Quoted bid prices in an active market.
2) Financial assets available for sale (see Note 21)	<p>Listed equity securities in Bosnia and Herzegovina:</p> <ul style="list-style-type: none"> <li>Bosna reosiguranje d.d. Sarajevo – KM 373 thousand</li> <li>Sarajevo osiguranje d.d. Sarajevo – KM 11 thousand</li> </ul> <p>Unlisted debt securities in Bosnia and Herzegovina:</p> <ul style="list-style-type: none"> <li>Ministry of Finance of the FBiH – KM 97,372 thousand</li> <li>Sarajevo Canton – KM 499 thousand</li> </ul>	<p>Listed equity securities in Bosnia and Herzegovina:</p> <ul style="list-style-type: none"> <li>Bosna reosiguranje d.d. Sarajevo – KM 362 thousand</li> <li>Sarajevo osiguranje d.d. Sarajevo – KM 14 thousand</li> </ul> <p>Unlisted debt securities in Bosnia and Herzegovina:</p> <ul style="list-style-type: none"> <li>Ministry of Finance of the FBiH – KM 106,387 thousand</li> </ul>	Level 1 Quoted bid prices in an active market.
	<p>Listed equity securities on stock exchanges in other countries:</p> <ul style="list-style-type: none"> <li>Belgium – KM 10 thousand</li> </ul>	<p>Listed equity securities on stock exchanges in other countries:</p> <ul style="list-style-type: none"> <li>Belgium – KM 10 thousand</li> </ul>	Level 2 Level 3 Discounted cash flows, by considering the last available rate on owned or similar debt securities as yield rate. Unquoted bid prices in an active market.

There were no transfers between Level 1 and Level 2 during the period.

Notes to the financial statements  
for the year ended 31 December 2017

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

**35. FAIR VALUE MEASUREMENT (CONTINUED)**

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

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

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
<i>Loans and receivables:</i>				
- loans to customers	163,950	163,367	144,909	147,002
Financial assets held to maturity	-	-	41	41
Other receivables	13,214	13,084	-	-
<b>Financial liabilities</b>				
<i>At amortised cost:</i>				
- liabilities to banks and clients	585,838	587,962	451,332	452,772

	Fair value hierarchy as at 31 December 2017			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
<i>Loans and receivables:</i>				
- loans to customers	-	163,367	-	163,367
Financial assets held to maturity	-	-	-	-
Other receivables	-	13,084	-	13,084
	-	<b>176,451</b>	-	<b>176,451</b>
<b>Financial liabilities</b>				
<i>At amortised cost:</i>				
- liabilities to banks and clients	-	587,962	-	587,962
	-	<b>587,962</b>	-	<b>587,962</b>

The fair values of the financial assets and financial liabilities included in the Level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

The calculation of the fair value is determined by discounting future cash flows, using the weighted average interest rate on the state level, published by the CBBH separately for corporate and retail.

**Notes to the financial statements  
for the year ended 31 December 2017**

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

---

**36. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements were approved by the Management Board on 21 February 2018.



  
Vedran Hadžiahmetović  
President of the Management Board

