

## **SPARKASSE BANK DD BIH**

**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>Page</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 – 11
Notes to the financial statements	12 – 53

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 of Federation in 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 Sparkasse Bank dd BiH (the "Bank") and its related companies (together the "Group") for that period. IFRS are published by the 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;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank 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

Sanel Kusturica, President of the Management Board

Sparkasse bank d.d. BiH  
Zmaja od Bosne 7  
71000 Sarajevo  
Bosnia and Herzegovina

26 April 2018

## INDEPENDENT AUDITOR'S REPORT to the Shareholders of Sparkasse Bank dd BiH

### Opinion

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

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

### Basis for opinion

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

### Key audit matters

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

#### ***Impairment losses on loans to and receivables from customers***

Loans to and receivables from customers comprise 66% of total Bank's assets and they are subject to significant applied estimates of the Management of the Bank. Refer to Note 3 on page 16 of the financial statements for the accounting policies, and Note 20 on page 31 for additional information respectively.

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 and receivables from customers (continued)***

When there is objective evidence of impairment of loans to and receivables from customers, such as significant difficulties of the debtor, breach of the contractual terms, approving the credit relief to a debtor due to financial difficulties, certain initiation of a bankruptcy proceeding or financial reorganization of a debtor, disappearance of an active market or data that indicates measurable decrease of estimated future cash flows, the Bank 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 and receivables from client on individual basis including, but not limited to, financial position of the client, realization period and value of the collateral at the projected realization date, the expected cash flows and the current local and global economic conditions.

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

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

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

Our audit procedures were focused on and included the following:

#### ***Operating effectiveness of controls***

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

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

#### ***Automatic controls***

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

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

### ***How our audit addressed the key audit matter (continued)***

#### ***Individual assessment of impairment losses***

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

We performed our testing on the selected sample to assess and determine the existence of potential indicators of the fact that certain loans and receivables and finance lease are inadequately or redundantly provisioned. In this process, we used 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 factors that may affect the recoverability of the loans in the sample. For the same sample of loans, we assessed loan loss provisions that the Bank calculates in accordance with regulations of the Banking Agency of Federation of BiH ("FBA") depending on days overdue, financial position of a debtor and collateral, following the percentages of provisions for the purpose of their adequacy assessment.

#### ***Collective assessment of impairment losses***

During our audit, we have gained an understanding of the Bank's provisioning process, methodology and parameters used in the calculation of collective impairment losses on loans in order to evaluate the overall adequacy of the collective impairment level. In accordance with internal methodology, we selected a sample of clients, for which we tested the 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 provisioning. The model was tested by a retrospective review.

We recalculated provisions for the same sample that the Bank calculates in accordance with the 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.

In addition, we verified the adequacy of Bank's disclosure of impairment of given loans and related credit risks in Note 34 to the financial statements.

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

The Management Board is responsible for the preparation and fair presentation of the accompanying separate and consolidated 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.

## **Responsibilities of the Management and Supervisory Boards for the Separate and Consolidated Financial Statements (continued)**

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

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

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated 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 separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the separate and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

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. In accordance with stipulated audit procedures, we communicated with the Supervisory Board and the Audit Board.

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

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

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



Zmaja od Bosne 12c

Sarajevo, Bosnia and Herzegovina

26 April 2018



Sabina Softić, partner and licensed auditor



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

(all amount are expressed in thousand KM, unless otherwise stated)

	Notes	Group 2017	Group 2016	Bank 2017	Bank 2016
Interest and similar income	5	55,199	55,574	55,199	55,574
Interest and similar expenses	6	(11,269)	(11,566)	(11,269)	(11,566)
<b>Net interest income</b>		<b>43,930</b>	<b>44,008</b>	<b>43,930</b>	<b>44,008</b>
Fee and commission income	7	24,066	21,789	24,066	21,789
Fee and commission expense	8	(4,128)	(3,359)	(4,128)	(3,359)
<b>Net fee and commission income</b>		<b>19,938</b>	<b>18,430</b>	<b>19,938</b>	<b>18,430</b>
Foreign exchange gains, net	9	1,988	2,269	1,988	2,269
Other operating income	10	1,993	2,042	2,927	2,147
<b>Operating Income</b>		<b>3,981</b>	<b>4,311</b>	<b>4,915</b>	<b>4,416</b>
Personnel expenses	11	(18,258)	(17,626)	(18,258)	(17,626)
Depreciation and amortization	24, 25	(3,787)	(3,666)	(3,787)	(3,666)
Other administrative expenses	12	(19,264)	(18,026)	(19,264)	(18,026)
<b>Operating expenses</b>		<b>(41,309)</b>	<b>(39,318)</b>	<b>(41,309)</b>	<b>(39,318)</b>
<b>Profit participation in associates</b>	21	<b>781</b>	<b>823</b>	<b>-</b>	<b>-</b>
<b>PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND INCOME TAX</b>		<b>27,321</b>	<b>28,254</b>	<b>27,474</b>	<b>27,536</b>
Impairment losses and provisions	13	(4,519)	(6,169)	(4,519)	(6,169)
Other provisions	14	(2,839)	(2,055)	(2,839)	(2,055)
Collected written off receivables		1,735	1,436	1,735	1,436
<b>PROFIT BEFORE TAXATION</b>		<b>21,698</b>	<b>21,466</b>	<b>21,851</b>	<b>20,748</b>
Income tax	15	(2,009)	(2,063)	(2,009)	(2,063)
<b>NET PROFIT FOR THE YEAR</b>		<b>19,689</b>	<b>19,403</b>	<b>19,842</b>	<b>18,685</b>
<i>Other comprehensive (loss) / income</i>					
Changes in fair value of financial assets available-for-sale, net		(215)	429	(215)	429
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>19,474</b>	<b>19,832</b>	<b>19,627</b>	<b>19,114</b>
<b>Earnings per share (in KM)</b>	16	<b>22.77</b>	<b>22.44</b>	<b>22.95</b>	<b>21.61</b>

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

Statement of financial position  
for the year ending 31 December 2017

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

	Notes	Group 31 December 2017	Group December 2016	Bank 31 December 2017	Bank December 2016
<b>ASSETS</b>					
Cash and accounts with other banks	17	167,023	111,174	167,023	111,174
Obligatory reserve with the Central Bank	18	111,603	113,310	111,603	113,310
Placements with other banks	19	22,370	4,427	22,370	4,427
Loans and advances to customers	20	884,777	844,443	884,776	844,443
Investment in associates	21	2,169	2,372	656	705
Financial assets available-for-sale	22	100,520	65,095	100,520	65,095
Deferred tax assets	15	653	387	653	387
Other assets	23	15,629	4,667	15,629	4,667
Prepaid expenses		718	781	718	781
Tangible and intangible assets	24	35,134	34,971	35,134	34,971
Investment property	25	4,242	5,668	4,242	5,668
		<b>1,344,838</b>	<b>1,187,295</b>	<b>1,343,324</b>	<b>1,185,628</b>
<b>EQUITY</b>					
Share capital	31	86,473	86,473	86,473	86,473
Treasury shares		-	-	-	-
Share premium		3,000	3,000	3,000	3,000
Accumulated earnings		46,471	36,765	45,205	35,862
Regulatory and other reserves		23,257	13,560	22,856	13,514
Revaluation reserves		(208)	7	(208)	7
Profit for the year		19,689	19,403	19,842	18,685
		<b>178,682</b>	<b>159,208</b>	<b>177,168</b>	<b>157,541</b>
<b>LIABILITIES</b>					
Due to other banks	26	142,613	172,824	142,613	172,824
Due to customers	27	941,466	792,339	941,466	792,339
Borrowings	28	63,473	48,539	63,473	48,539
Provisions	29	9,511	7,885	9,511	7,885
Income tax liabilities		1,046	-	1,046	-
Deferred tax liabilities	15	203	516	203	516
Other liabilities	30	7,844	5,984	7,844	5,984
		<b>1,166,156</b>	<b>1,028,087</b>	<b>1,166,156</b>	<b>1,028,087</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,344,838</b>	<b>1,187,295</b>	<b>1,343,324</b>	<b>1,185,628</b>

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

Signed for the and in the name of Sparkasse Bank dd BiH on 26 April 2018.

  
Sanel Kusturica  
President of the Management Board



  
Amir Softić  
Member of the Management Board

Statement of cash flows  
for the year ending 31 December 2017

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

	Group 2017	Group 2016	Bank 2017	Bank 2016
<b>Operating activities</b>				
Profit before taxation	21,698	21,466	21,851	20,748
<i>Adjustments:</i>				
Depreciation and amortization	3,787	3,666	3,787	3,666
Impairment losses and provisions	7,358	8,224	7,358	8,224
Gain on sale of tangible and intangible assets, net	(611)	(813)	(611)	(813)
Gain on sale of investments in associates, net	(361)	-	(361)	-
Share in net result of associates	(782)	(823)	-	-
Interest income from financial assets available-for-sale, recognized in statement of profit and loss and other comprehensive income	(1,936)	(1,912)	(1,936)	(1,912)
Dividend income recognized in statement of profit and loss and other comprehensive income	-	(14)	(935)	(119)
<i>Cash flow before changes in operating assets and liabilities:</i>	29,153	29,794	29,153	29,794
(Decrease) / increase in obligatory reserve with the CBBH, net	1,707	(22,180)	1,707	(22,180)
Increase in placements with other banks, before allowance, net	(17,853)	(2,576)	(17,853)	(2,576)
Increase in loans and advances to customers, before allowance, net	(44,103)	(55,782)	(44,103)	(55,782)
(Increase) / decrease in other assets, before allowance, net	(11,509)	6,230	(11,509)	6,230
Decrease in due to other banks, net	(30,211)	(30,046)	(30,211)	(30,046)
Increase in due to customers, net	149,127	20,861	149,127	20,861
Decrease in provisions, net	(1,213)	(1,474)	(1,213)	(1,474)
Increase / (decrease) in other liabilities, net	2,906	(1,286)	2,906	(1,286)
<b>Cash generated in operating activities</b>	<b>78,004</b>	<b>(56,459)</b>	<b>78,004</b>	<b>(56,459)</b>
Income tax paid	(2,588)	(1,668)	(2,588)	(1,668)
<b>NET CASH GENERATED / (USED) IN OPERATING ACTIVITIES</b>	<b>75,416</b>	<b>(58,127)</b>	<b>75,416</b>	<b>(58,127)</b>
<b>Investing activities</b>				
Purchase of financial assets available-for-sale	(32,998)	(4,988)	(33,933)	(5,093)
Purchase of tangible and intangible assets	(2,704)	(2,936)	(2,704)	(2,936)
Proceeds from disposal of tangible and intangible assets	791	963	791	963
Proceeds from sale of investments in associates	410	-	410	-
Dividend received	-	14	935	119
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(34,501)</b>	<b>(6,947)</b>	<b>(34,501)</b>	<b>(6,947)</b>
<b>Financial activities</b>				
Increase of borrowings	14,934	11,521	14,934	11,521
Acquired treasury shares	-	21	-	21
<b>NET CASH GENERATED IN FINANCIAL ACTIVITIES</b>	<b>14,934</b>	<b>11,542</b>	<b>14,934</b>	<b>11,542</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>55,849</b>	<b>(53,532)</b>	<b>55,849</b>	<b>(53,532)</b>
<b>CASH AND CASH EQUIVALENTS AS AT 1 JANUARY</b>	<b>111,174</b>	<b>164,706</b>	<b>111,174</b>	<b>164,706</b>
<b>CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER</b>	<b>167,023</b>	<b>111,174</b>	<b>167,023</b>	<b>111,174</b>

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

Statement on changes in equity  
for the year ending 31 December 2017  
(all amounts are expressed in thousand KM, unless otherwise stated)

Group	Share capital	Treasury shares	Share premium	Accumulated earnings	Regulatory and other reserves	Revaluation reserves	Profit for the year	Total
<b>31 December 2015</b>	<b>86,473</b>	<b>(21)</b>	<b>3,000</b>	<b>29,306</b>	<b>6,097</b>	<b>(422)</b>	<b>14,926</b>	<b>139,359</b>
Allocation of profit for 2015	-	-	-	7,463	7,463	-	(14,926)	-
Sale of own shares	-	21	-	-	-	-	-	21
Net profit for the year	-	-	-	-	-	-	19,403	19,403
Loss on sale of own shares	-	-	-	-	(4)	-	-	(4)
Other comprehensive income	-	-	-	-	-	429	-	429
<i>Total comprehensive income</i>	-	-	-	-	-	429	19,403	19,832
<b>31 December 2016</b>	<b>86,473</b>	<b>-</b>	<b>3,000</b>	<b>36,769</b>	<b>13,556</b>	<b>7</b>	<b>19,403</b>	<b>159,208</b>
Allocation of profit for 2016	-	-	-	9,702	9,701	-	(19,403)	-
Repurchased own shares	-	-	-	-	-	-	-	-
Loss on sale of own shares	-	-	-	-	-	-	-	-
Net profit for the year	-	-	-	-	-	-	19,689	19,689
Other comprehensive loss	-	-	-	-	(215)	-	-	(215)
<i>Total comprehensive income</i>	-	-	-	-	(215)	(215)	19,689	19,474
<b>31 December 2017</b>	<b>86,473</b>	<b>-</b>	<b>3,000</b>	<b>46,471</b>	<b>23,257</b>	<b>(208)</b>	<b>19,689</b>	<b>178,682</b>

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

Statement on changes in equity  
for the year ending 31 December 2017  
(all amounts are expressed in thousand KM, unless otherwise stated)

Bank	Share capital	Treasury shares	Share premium	Accumulated income	Regulatory and other reserves	Revaluation reserves	Profit for the year	Total
<b>31 December 2015</b>	<b>86,473</b>	<b>(21)</b>	<b>3,000</b>	<b>28,761</b>	<b>6,151</b>	<b>(422)</b>	<b>14,468</b>	<b>138,410</b>
Allocation of profit for 2015	-	-	-	7,101	7,367	-	(14,468)	-
Sale of own shares	-	21	-	-	-	-	-	21
Net profit for the year	-	-	-	-	-	-	18,685	18,685
Loss on sale of own shares	-	-	-	-	(4)	-	-	(4)
Other comprehensive loss	-	-	-	-	-	429	-	429
<i>Total comprehensive income</i>	-	-	-	-	-	429	18,685	19,114
<b>31 December 2016</b>	<b>86,473</b>	<b>-</b>	<b>3,000</b>	<b>35,862</b>	<b>13,514</b>	<b>7</b>	<b>18,685</b>	<b>157,541</b>
Allocation of profit for 2016	-	-	-	9,343	9,342	-	(18,685)	-
Repurchased own shares	-	-	-	-	-	-	-	-
Net profit for the year	-	-	-	-	-	-	19,842	19,842
Other comprehensive loss	-	-	-	-	-	(215)	-	(215)
<i>Total comprehensive income</i>	-	-	-	-	-	(215)	19,842	19,627
<b>31 December 2017</b>	<b>86,473</b>	<b>-</b>	<b>3,000</b>	<b>45,205</b>	<b>22,856</b>	<b>(208)</b>	<b>19,842</b>	<b>177,168</b>

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

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

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

## 1. GENERAL

### History and incorporation

SPARKASSE Bank dd BiH („Bank“) has been registered on 9 July 1999 with the relevant court in Sarajevo, under the number U/I-1291/99. On 28 July 1999, the Bank obtained the permit to conduct its business from Federal Banking Agency (“FBA”), number 01-376/99. Banks headquarter is in Sarajevo, at Zmaja od Bosne 7.

The majority shareholder of the Bank is Steiermarkische Bank und Sparkassen AG, Graz Austria its share amounting 97%. The ultimate owner is Erste Group Austria. The consolidated financial statements can be found on the following address: Am Belvedere 1, Vienna, Austria.

Associates consolidated in the Group's financial statements can be presented as follows

Company	Business activity	Country	31 December 2017 Share %	31 December 2016 Share %
Sparkasse Leasing d.o.o Sarajevo	Leasing	Bosnia and Herzegovina	49	49
S-Premium d.o.o Sarajevo	Insurance agent	Bosnia and Herzegovina		49
Sparkasse Nekretnine d.o.o. Sarajevo in liquidation	Real estate	Bosnia and Herzegovina	49	49

The decision of the Municipality Court in Sarajevo no. 065-0-Reg-17-005977 was adopted on 30 November 2017, with regard to deletion of the company the company Sparkasse Nekretnine d.o.o. Sarajevo. The company was deleted upon completion of liquidation proceeding.

### Principal activities of the Bank

The Bank offers banking services through a developed branch network in Bosnia and Herzegovina:

1. accepting all types of cash deposits and other monetary assets;
2. receiving and taking loans and finance lease;
3. giving all types of financial guarantees;
4. participation, purchase and sale of instruments on cash and capital market for own purposes and on behalf of other parties;
5. payment transactions and money transfer services;
6. purchase and sale of foreign currencies;
7. issuance and management of payment instruments (including credit cards, travel and bank checks);
8. storing and managing securities and other valuables;
9. financial management services;
10. purchase and sale of securities;
11. factoring and forfeiting services;
12. insurance intermediation services in accordance with relevant legislation;
13. other operations arising from points 1-12 of this paragraph and other operations as a joint stock company.

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

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

---

**1. GENERAL (CONTINUED)**

**Managing bodies of the Bank**

**Supervisory Board:**

Sava Dalbokov	President
Gerhard Maier	Member
Ismeta Čardaković	Member
Georg Bucher	Member
Renate Ferlitz	Member

**Management Board:**

Sanel Kusturica	President of the Management Board
Nedim Alihodžić	Member of the Management Board
Amir Softić	Member of the Management Board

**Audit Board:**

Samir Omerhodžić	President
Aleksandar Klemenčić	Member
Slaviša Kojić	Member
Sandra Petrcizek-Mahr	Member
Aida Sivro-Rahimić	Member

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

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

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board 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.



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

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

---

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

#### 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);
- 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.

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

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

---

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

**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 basis for classification of debt assets. Accordingly, debt instruments should be measured at amortized cost if:

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

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

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

The Bank has already performed a review of the contractual characteristics of the portfolio, and determined that the entire portfolio of loans and receivables is measured at amortized cost, and the portfolio of securities at fair value and there will be no effects on capital due to Classification and Measurement. Calculations demonstrate that the transition to the new standard does not have significant effects on the impairment losses in the Bank's balance (estimated negative amount is KM 297 thousand, or 0.17% of Total share capital).

The Standard is 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 ending 31 December 2017

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

---

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Statement of compliance**

These financial statements consist of consolidated and separate financial statements of the Bank, defined in International Financial Reporting Standard 10: "Consolidated financial statements" and International Accounting Standard 27: "Separate financial statements".

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee of the IASB (IFRIC).

### **Basis of preparation**

These financial statements have been prepared on a historical cost basis, except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period.

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 Company takes into account the characteristics of the asset or liability if market participants would take those characteristics 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 leasing transactions that are within the scope of IAS 17 and measurement that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- 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 since that is the functional currency of the Group and 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 affect the reported amounts of assets and liabilities, of revenues and expenses during the reporting period. 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 ending 31 December 2017

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

---

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

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Bank and the Bank's shares in associates.

#### *Investments in associates*

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting from the date that significant influences commences until the date the significant influences ceases.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Bank's interest in that associate which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate are not recognised.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets and liabilities after reassessment is recognised immediately in profit or loss. Where the companies within the Group transact with the Bank, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

#### **Measurement and recognition of investments in separate financial statements**

Investments in associates in separate financial statements are stated at cost less any impairment in the value of individual investments if needed.

#### **Going concern**

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

#### **Interest income and expense**

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Loan origination fees, after approval and drawdown of loans, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan over its life.

Interest charged on deposits is added to the principal where this is foreseen by the agreement. Interest income is suspended when it is considered that recovery of the income is unlikely. Suspended interest is recognized as income when collected.

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

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

---

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

**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 recognised 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 excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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 realised. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income, 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. The Bank is subject to various indirect taxes which are included in administrative expenses.

**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.

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

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

---

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

#### Financial instruments

Financial assets and financial liabilities are recognised when a group entity 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.

#### Financial assets

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through statement of profit or loss are recognised immediately in the statement of profit or loss and other comprehensive income.

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", 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. The Bank currently does not have a financial asset at fair value through profit or loss.

#### *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.

Income is recognized on an effective interest basis for financial instruments: "at fair value through profit or loss"(FVTPL), "held-to-maturity investments", "available-for-sale" and "loans and receivables".

#### *Loans and receivables*

Loans 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 receivables are measured at amortised cost using the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

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

Listed shares and listed redeemable notes held by the Bank that are traded in an active market 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 and other comprehensive income for the period.

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

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

---

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

**Financial assets (continued)**

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

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

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 reporting period 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.

*Impairment of financial assets*

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-organisation,

For financial assets carried at amortised 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 for all financial assets with the exception of trade receivables, where the carrying amount 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 statement of profit or loss and other comprehensive income.

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 to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised 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.

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

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

---

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

**Financial assets (continued)**

*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.

**Financial liabilities**

*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 creates one category of financial liabilities for which accounting basis is represented as follows.

*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.



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

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

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

**Tangible and Intangible 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. Current maintenance and repairs, replacements and improvements of minor importance are expensed as incurred.

Properties in the course of construction for supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised 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 fixed 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 as follows.

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

Estimated useful lives were as follows:

	<b>2017</b>	<b>2016</b>
Buildings	33 – 50 years	33 – 50 years
Computers	5 years	5 years
Vehicles	6 years	6 years
Furniture and other office equipment	5 – 10 years	5 – 10 years
Intangible assets	5 years	5 years

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 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).

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.

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

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

---

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

**Tangible and intangible assets (continued)**

*Impairment (continued)*

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.

As of 31 December 2017, tangible assets of the Bank were impaired in the amount of KM 123 thousand, while as of 31 December 2016 tangible assets of the Bank were impaired in the amount of KM 77 thousand.

**Employee benefits**

On behalf of its employees, the Bank pays personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set legal rates during the course of the year on the gross salary. The Bank pays the tax and contributions in the favour of the institutions of the Federation of Bosnia and Herzegovina (on federal and cantonal level). In addition, transport allowances, meal allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recognized in the statement of profit or loss and 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 salaries of the employee disbursed by the Bank or 6 average salaries of the Federation of Bosnia and Herzegovina as in the most recent published report by the Federal Statistics Bureau, depending on what is more favourable to the employee.

The cost of retirement severance payments are recognized when earned.

**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 reporting period date. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Bank's statement of financial position at the reporting dates were as follows:

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

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

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

---

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

**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 preferred shares and is denominated in KM, in nominal value.

***Regulatory reserves for credit losses***

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

***Investments revaluation reserve***

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

***Retained earnings***

Profit for the period after appropriations to owners and allocations to other reserves 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 attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

During 2016, the Bank held 146 own shares in its portfolio. This caused decrease of weighted average number of shares to 864,605 in 2016.

There were no dilution effects during 2017.

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

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

---

### **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 make 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*

As described in Note 3 above, the Bank reviews the estimated useful lives of property and equipment 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 assesses indicators for impairment of loans and receivables and their impact on the estimated future cash flows from the loans and receivables.

##### *Regulatory provisions calculated in accordance with the regulations of the FBA*

For the purposes of capital adequacy assessment and recognition of provisions for credit losses from profit in equity and reserve, in accordance with local regulations and the relevant regulations of the FBA, the Bank also calculates provisions in accordance with these regulations. Relevant investments are classified in the appropriate groups for FBA in accordance with these regulations depending on days of delay, the financial position of the debtor and collateral, and are reserved in accordance with the provisions laid down in percentages.

##### *Litigations*

Bank's Legal Department makes individual assessment of all court cases and makes provisions on a portfolio basis.

As stated in Note 29, the Bank has reserved KM 1,040 thousand (2016: KM 904 thousand), which Management estimates as sufficient. It is not practical to estimate the financial impact of changes in the assumptions on which management assesses the need for provisions.

##### *Provisions for employee benefits*

As described in Note 3, in the paragraph named Employee benefits, provision for employee benefits are calculated on the basis of an independent actuarial report on the implementation of IAS 19 – Employee benefits.

##### *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 ending 31 December 2017

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

<b>5. INTEREST AND SIMILAR INCOME</b>		
<i>Group and Bank</i>	<b>2017</b>	<b>2016</b>
Interest on loans to companies	22,472	24,528
Interest on loans to individuals	30,656	28,999
Interest on bond investment	1,936	1,912
Interest on placements with other banks	135	135
	<b>55,199</b>	<b>55,574</b>
<b>6. INTEREST AND SIMILAR EXPENSES</b>		
<i>Group and Bank</i>	<b>2017</b>	<b>2016</b>
Interest on deposits from individuals	5,548	6,675
Interest on deposits and loans from banks	3,720	2,821
Interest on deposits from companies	1,923	2,027
Other interest expenses	78	43
	<b>11,269</b>	<b>11,566</b>
<b>7. FEE AND COMMISSION INCOME</b>		
<i>Group and Bank</i>	<b>2017</b>	<b>2016</b>
Fees from payment transactions	20,546	18,480
Fees from off-balance sheet transactions	1,775	1,677
Fees from conversion transactions	1,745	1,632
	<b>24,066</b>	<b>21,789</b>
<b>8. FEE AND COMMISSION EXPENSE</b>		
<i>Group and Bank</i>	<b>2017</b>	<b>2016</b>
Fees and commissions from payment transactions	3,625	2,852
Other fees from banks	503	507
	<b>4,128</b>	<b>3,359</b>
<b>9. FOREIGN EXCHANGE GAINS, NET</b>		
<i>Group and Bank</i>	<b>2017</b>	<b>2016</b>
Gain on foreign exchange transactions	179,488	135,291
Loss on foreign exchange transactions	(177,500)	(133,022)
	<b>1,988</b>	<b>2,269</b>

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

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

**10. OTHER OPERATING INCOME**

	<b>Group</b>	<b>Group</b>	<b>Bank</b>	<b>Bank</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Dividend income – associates (Note 22)			935	105
Gain on disposal of tangible and intangible assets	611	735	611	735
Rent income	512	582	512	582
Dividend income – financial assets available-for-sale	22	14	22	14
Gain on sale of investment in associates	361		361	-
Other	487	711	486	711
	<b>1,993</b>	<b>2,042</b>	<b>2,927</b>	<b>2,147</b>

**11. PERSONNEL EXPENSES**

The average employee number of the Bank during the year ending 31 December 2017, and year ending 31 December 2016 was 521 and 498 respectively.

<b>Group and Bank</b>	<b>2017</b>	<b>2016</b>
Net salaries	9,646	9,222
Taxes and contributions	7,105	6,849
Other	1,507	1,555
	<b>18,258</b>	<b>17,626</b>

**12. OTHER ADMINISTRATIVE EXPENSES**

<b>Group and Bank</b>	<b>2017</b>	<b>2016</b>
Services	5,409	4,425
Insurance	2,471	2,382
Maintenance	1,898	1,764
Rent	1,885	1,890
Telecommunication	1,220	1,132
Transport	1,050	1,041
Advertising, marketing and entertainment	1,022	882
Other taxes and contributions	889	1,213
Agency fees	774	723
Energy	753	756
Material	695	687
Supervisory Board reimbursement	120	119
Other administrative expenses	1,078	1,012
	<b>19,264</b>	<b>18,026</b>

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

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

**13. IMPAIRMENT LOSSES AND PROVISIONS**

<i>Group and Bank</i>	<b>2017</b>	<b>2016</b>
Loans and advances to customers (Note 20)	3,770	6,233
Other assets (Note 23)	399	9
Cash and accounts with other banks (Note 17)	211	(120)
Financial instruments available-for-sale (Note 22)	229	(4)
Placements with other banks (Note 19)	(90)	51
	<u>4,519</u>	<u>6,169</u>

**14. OTHER PROVISIONS**

<i>Group and Bank</i>	<b>2017</b>	<b>2016</b>
Employee benefits (Note 29)	1,697	1,289
Provision for legal proceedings (Note 29)	146	282
Provisions for off-balance (Note 29)	(104)	(185)
Other provisions (Note 29)	1,100	669
	<u>2,839</u>	<u>2,055</u>

**15. INCOME TAX**

Bank's tax liability is calculated based on accounting income taking into the account non-deductible expenses. Income tax rate for the years ended 31 December 2017 and 31 December 2016 was 10%. In 2016, new Corporate Income Tax Act ("Official Gazette of FBiH", no. 15/16) came into effect, which introduced new provisions related to recognition of tax credit for tax paid in Republika Srpska and Brčko District, but it also introduced new tax reliefs for decrease of tax liability. Income tax paid in Republika Srpska and Brčko District is deductible in FBiH up to the amount that would be paid by applying the Corporate Income Tax of FBiH. New tax reliefs introduced are related to salary expense, paid to new employees, under conditions stipulated by the Corporate Income Tax Act. Total tax recognized in the statement of profit or loss and other comprehensive income may be presented as follows:

<i>Group and Bank</i>	<b>2017</b>	<b>2016</b>
Current income tax – FBiH	2,568	1,608
Current income tax – RS and BD	20	60
Deferred tax assets	(266)	(121)
Deferred tax liabilities	(313)	516
	<u>2,009</u>	<u>2,063</u>

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

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

**15. INCOME TAX (CONTINUED)**

Reconciliation between income tax presented in tax balance and accounting income tax can be presented as follows:

	<i>Group</i>	<i>Group</i>	<i>Bank</i>	<i>Bank</i>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Profit before income tax</b>	<b>21,698</b>	<b>21,466</b>	<b>21,851</b>	<b>20,748</b>
<b>Income tax expense at prescribed rate of 10%</b>	<b>2,170</b>	<b>2,147</b>	<b>2,185</b>	<b>2,075</b>
Non-taxable income	(247)	(648)	(247)	(648)
Effects of non-deductible expenses	731	268	731	268
Other (tax reliefs)	(101)	(87)	(101)	(87)
Effects of dividends and profit participation for which the taxes have been paid	15	(72)	-	-
<b>Current Income tax</b>	<b>2,568</b>	<b>1,608</b>	<b>2,568</b>	<b>1,608</b>
<b>Effective income tax rate</b>	<b>12.13%</b>	<b>7.49%</b>	<b>11.17%</b>	<b>7.75%</b>

Movement in deferred tax assets can be presented as follows:

<i>Group and Bank</i>	<b>2017</b>	<b>2016</b>
<b>Balance at the beginning of the year</b>	<b>387</b>	<b>266</b>
Increase in tax assets	266	121
<b>Balance at the end of the year</b>	<b>653</b>	<b>387</b>

Movement in deferred tax liabilities can be presented as follows:

<i>Group and Bank</i>	<b>2017</b>	<b>2016</b>
<b>Balance at the beginning of the year</b>	<b>516</b>	<b>-</b>
(Decrease) / increase of tax liability	(313)	516
<b>Balance at the end of the year</b>	<b>203</b>	<b>516</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.

	<i>Group</i>	<i>Group</i>	<i>Bank</i>	<i>Bank</i>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Profit attributable to ordinary shareholders, net	19,689	19,403	19,842	18,685
Weighted average number of regular shares for the year	864,605	864,605	864,605	864,605
<b>Basic earnings per share (KM)</b>	<b>22.77</b>	<b>22.44</b>	<b>22.95</b>	<b>21.61</b>

During 2016, the Bank held 146 own shares in its portfolio. This caused increase of weighted average number of shares to 864,733 and 864,605 in 2017 and 2016 respectively. There were no dilution effects in 2017.



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

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

**17. CASH AND ACCOUNTS WITH OTHER BANKS**

<i>Group and Bank</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Cash at hand	70,218	52,371
Correspondent accounts with other banks in foreign currencies	67,255	47,560
Account with the CBBH in domestic currency	30,302	11,784
<b>Total before provisions</b>	<b>167,775</b>	<b>111,715</b>
Less: Impairment losses	(752)	(541)
	<b>167,023</b>	<b>111,174</b>

Provisions are in regard to the cheques and cash on correspondent accounts with other banks in foreign currencies. The movements in the allowance for impairment losses are summarized as follows:

<i>Group and Bank</i>	<b>2017</b>	<b>2016</b>
<b>Balance at 1 January</b>	<b>541</b>	<b>661</b>
Movements in provisions, net (Note 13)	211	(120)
<b>Balance at 31 December</b>	<b>752</b>	<b>541</b>

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

<i>Group and Bank</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Specific reserve by Law on banks, article 42a	-	16,375
Obligatory reserve with the CBBH	111,603	96,935
	<b>111,603</b>	<b>113,310</b>

In accordance with Law on banks (article 42 a), the Bank is obliged 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.

Interest rate on funds kept up to minimum obligatory reserve amounted to 0%. Cash held at the obligatory reserve account with the CBBH is not available for daily operations without specific approval from the CBBH and FBA.

Since 1 July 2016, the new Decision on determining and maintaining obligatory reserves and determining CBBiH fee on the amount of reserves ("Official Gazette of BiH", no. 30/16) is in effect. The Decision determines the unified obligatory reserve rate of 10%, which the CBBiH applies to the basis for calculation of obligatory reserve. On the amount of assets exceeding the obligatory reserve, CBBiH charges fee at the rate equal to 50% of the rate applied by European Central Bank (ECB) on commercial banks' deposits.

**19. PLACEMENTS WITH OTHER BANKS**

<i>Group and Bank</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
<i>Placements with other banks</i>		
Placements on money market	22,370	4,517
	<b>22,370</b>	<b>4,517</b>
<b>Total before provisions</b>	<b>22,370</b>	<b>4,517</b>
Less: Impairment losses	-	(90)
	<b>22,370</b>	<b>4,427</b>

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

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

**19. PLACEMENTS WITH OTHER BANKS (CONTINUED)**

At 31 December 2017, the placements with other banks in EUR and other currencies represent interest bearing assets.

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

<b>Group and Bank</b>	<b>2017</b>	<b>2016</b>
<b>Balance at 1 January</b>	<b>90</b>	<b>39</b>
Movements (Note 13)	(90)	51
<b>Balance at 31 December</b>	<b>-</b>	<b>90</b>
<b>Expected to be recovered:</b>		
- no more than 12 months after the reporting period	22,370	4,517
- more than 12 months after the reporting period	-	-
Less: Impairment	-	(90)
	<b>22,370</b>	<b>4,427</b>

**20. LOANS AND ADVANCES TO CUSTOMERS**

<b>Group and Bank</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Long-term loans</b>		
Retail	431,509	394,870
Corporate	325,944	299,159
	<b>757,453</b>	<b>694,029</b>
<b>Short-term loans</b>		
Retail	23,559	24,380
Corporate	187,813	215,409
	<b>211,372</b>	<b>239,789</b>
<b>Total loans before impairment losses</b>	<b>968,825</b>	<b>933,818</b>
Less: Impairment losses based on individual assessment	(43,576)	(50,923)
Less: Impairment losses based on group assessment	(40,473)	(38,452)
	<b>884,776</b>	<b>844,443</b>

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

<b>Group and the Bank</b>	<b>2017</b>	<b>2016</b>
<b>Balance at 1 January</b>	<b>89,357</b>	<b>85,387</b>
Movements in provisions, net (Note 13)	3,770	6,233
Reclassification of off-balance receivables due to re-recognition	-	-
Transfer to other assets (Note 23)	(2,162)	(74)
Write-offs	(6,665)	(1,870)
Unwinding	(269)	(301)
<b>Balance at 31 December</b>	<b>84,049</b>	<b>89,375</b>

Loans and allowances presented in table above include accrued interest in the amount of KM 5,023 thousand (2016: KM 5,304 thousand) and decreased for deferred income from fees amounting KM 4,440 thousand (2016: KM 4,267 thousand).

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

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

**20. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)**

Industry gross loan analysis before impairment losses can be presented as follows:

<i>Group and Bank</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Population	455,068	419,250
Manufacture	149,152	140,897
Construction	39,175	35,203
Real and rent estates and business activities	18,420	27,460
Financial services	9,156	4,712
Energy, gas and water supply	8,198	6,060
Hotels and restaurants	7,260	7,140
Healthcare and social work	3,692	3,690
Mining	3,261	3,050
Public administration and defence, obligatory social insurance	173	267
Education	99	187
Other	275,171	285,902
	<b>968,825</b>	<b>933,818</b>

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 82,055 thousand and KM 89,686 thousand as at 31 December 2017 and 2016, respectively.

Weighted average interest rate on loans and advances to customers as at 31 December 2017 and 2016 can be presented as follows:

<i>Group and Bank</i>	<b>2017</b>	<b>2016</b>
Corporate	4.72%	5.22%
Individuals	7.03%	7.32%

**21. INVESTMENT IN ASSOCIATES**

The Bank's investments in associates are as follows:

<i>Name of the company</i>	<i>Group</i>	<i>Group</i>	<i>Bank</i>	<i>Bank</i>
	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Sparkasse Leasing d.o.o. Sarajevo	2,128	1,831	607	607
S-Premium d.o.o. Sarajevo	-	500	-	49
Sparkasse Nekretnine d.o.o. Sarajevo in liquidation	41	41	49	49
	<b>2,169</b>	<b>2,372</b>	<b>656</b>	<b>705</b>

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

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

**21. INVESTMENT IN ASSOCIATES (CONTINUED)**

For all associates the reporting date is 31 December. The summary of financial information on joint companies is presented below:

	31 December 2017	31 December 2016
Total assets	56,156	58,196
Total liabilities	(51,772)	(53,354)
Net assets	4,384	4,842
<b>Participation in net assets of associates</b>	<b>2,169</b>	<b>2,372</b>

The changes in investments in associates can be presented as follows:

	<i>Group</i> <i>Share method</i> 2017	<i>Group</i> <i>Share method</i> 2016	<i>Bank</i> <i>Cost method</i> 2017	<i>Bank</i> <i>Cost method</i> 2016
Balance at 1 January	2,372	1,653	705	705
Dividends paid (Note 10)	(935)	(105)	-	-
Decrease in share	(49)	-	(49)	-
Share in net result of associates	781	824	-	-
<b>Balance at 31 December</b>	<b>2,169</b>	<b>2,372</b>	<b>656</b>	<b>705</b>

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

<i>Group and Bank</i>	31 December 2017	31 December 2016
<b>Total equity instruments:</b>	<b>179</b>	<b>179</b>
Governments bonds - Federation Bosnia and Herzegovina and Republika Srpska	49,735	44,632
Government of Republic of Austria – bonds	23,133	11,591
Government of Republic of Croatia – bonds	8,594	8,894
Government treasury notes of Federation Bosnia and Herzegovina and Republika Srpska	-	-
Kingdom of Belgium - bonds	9,663	-
Republic of France - bonds	9,646	-
<b>Total equity securities</b>	<b>100,771</b>	<b>64,117</b>
Less: Impairment losses	(430)	(201)
	<b>100,520</b>	<b>65,095</b>

The Bank made no investments in treasury notes in 2017, while the interest rate on treasury notes amounted from 0.61% to 3.2% during 2016, and on bonds interest rate amounted from 0.25% to 6.1% during 2017 (2016: 2.5% to 6.1% p.a.).

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

<i>Group and Bank</i>	2017	2016
<b>Balance at 1 January</b>	<b>201</b>	<b>205</b>
Movements in provisions, net (Note 13)	229	(4)
<b>Balance at 31 December</b>	<b>430</b>	<b>201</b>

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

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

**22. FINANCIAL ASSETS AVAILABLE-FOR-SALE (CONTINUED)**

*Expected to be recovered:*

- no more than 12 months after the reporting period	9,242	86
- more than 12 months after the reporting period	91,708	65,210
Less: Impairment	(430)	(201)
	<u>100,520</u>	<u>65,095</u>

**23. OTHER ASSETS**

<i>Group and Bank</i>	31 December 2017	31 December 2016
Receivables from foreign banks – currency in transit	10,056	92
Acquired tangible assets	4,281	2,886
Domestic transactions receivables	2,342	1,394
Authorized exchange office receivables	1,690	1,536
Fees and commission receivables	1,347	1,295
Inventories	173	263
Western union receivables	153	113
VAT receivables	1	2
Other assets	2,264	2,228
<b>Total other assets before impairment losses</b>	<b>22,307</b>	<b>9,809</b>
Less: Impairment losses	(6,678)	(5,142)
	<u>15,629</u>	<u>4,667</u>

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

<i>Group and Bank</i>	2017	2016
<b>Balance at 1 January</b>	<b>5,142</b>	<b>6,214</b>
Provisions movements, net (Note 13)	399	9
Transfer of loans and allowances receivables (Note 20)	2,162	74
Acquired tangible assets disposal	(813)	(1,123)
Write-offs	(212)	(32)
<b>Balance at 31 December</b>	<b>6,678</b>	<b>5,142</b>

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

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

**24. TANGIBLE AND INTANGIBLE ASSETS**

*Group and Bank*

	Land and buildings	Computers	Vehicles	Furniture and equipment	Patents, licences and software	Leasehold improvements	Investment in progress	Total
<b>COST</b>								
As at 31 December 2015	28,072	4,407	1,321	11,296	8,552	1,461	991	56,100
Additions	-	-	-	-	-	-	2,936	2,936
Transfer (from) / to	42	166	337	657	1,524	378	(3,104)	-
Reclassification	-	-	-	-	-	-	160	160
Write-offs	-	(505)	(60)	(303)	(6)	(684)	(143)	(1,701)
<b>As at 31 December 2016</b>	<b>28,114</b>	<b>4,068</b>	<b>1,598</b>	<b>11,650</b>	<b>10,070</b>	<b>1,155</b>	<b>840</b>	<b>57,495</b>
Additions	-	-	-	-	-	-	2,704	2,704
Transfer (from) / to	127	391	382	860	814	188	(2,762)	-
Transfer from investment property (Note 25)	1,507	-	-	-	-	-	-	1,507
Write-offs	-	(948)	(341)	(1,643)	(4)	(306)	-	(3,242)
<b>As at 31 December 2017</b>	<b>29,748</b>	<b>3,511</b>	<b>1,639</b>	<b>10,867</b>	<b>10,880</b>	<b>1,037</b>	<b>782</b>	<b>58,464</b>
<b>ACCUMULATED DEPRECIATION</b>								
As at 31 December 2015	3,521	2,612	395	7,099	5,811	1,100	-	20,538
Depreciation	551	496	244	1,075	993	178	-	3,537
Write offs	-	(505)	(54)	(303)	(5)	(684)	-	(1,551)
<b>As at 31 December 2016</b>	<b>4,072</b>	<b>2,603</b>	<b>585</b>	<b>7,871</b>	<b>6,799</b>	<b>594</b>	<b>-</b>	<b>22,524</b>
Depreciation	575	517	235	1,089	1,069	194	-	3,679
Transfer from investment property (Note 25)	189	-	-	-	-	-	-	189
Write offs	-	(945)	(251)	(1,576)	(4)	(286)	-	(3,062)
<b>As at 31 December 2017</b>	<b>4,836</b>	<b>2,175</b>	<b>569</b>	<b>7,384</b>	<b>7,864</b>	<b>502</b>	<b>-</b>	<b>23,330</b>
<b>NET BOOK VALUE</b>								
As at 31 December 2017	24,912	1,336	1,070	3,483	3,016	535	782	35,134
As at 31 December 2016	24,042	1,465	1,013	3,779	3,271	561	840	34,971

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

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

**25. INVESTMENT PROPERTY**

<i>Group and Bank</i>	<b>Buildings</b>
<b>COST</b>	
As at 31 December 2015	6,440
Additions	-
As at 31 December 2016	6,440
Transfer to tangible and intangible assets (Note 24)	(1,507)
As at 31 December 2017	4,933
<b>ACCUMULATED DEPRECIATION</b>	
As at 31 December 2015	643
Depreciation	129
As at 31 December 2016	772
Depreciation	108
Transfer to tangible and intangible assets (Note 24)	(189)
As at 31 December 2017	691
<b>NET BOOK VALUE</b>	
As at 31 December 2017	4,242
As at 31 December 2016	5,668

Investment property relates to business premises (floors) in the Central office building in Sarajevo rented and not used by the Bank. Investment property with net book value amounting KM 4,242 thousand (2016: KM 5,668 thousand) is in use since 2010. On the basis of an investment property, in 2016 the Bank generated a total income from rents in the amount of KM 512 thousand – Note 10 (2016 – KM 582 thousand), while the direct costs for the year amounted to KM 69 thousand (2016 – KM 54 thousand). According to Management Board opinion fair value of investment properties as at 31 December 2017 and 2016 does not significantly differ from the carrying value of the building during 2017 and 2016.

**26. DUE TO OTHER BANKS**

<i>Group and Bank</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
<i>Demand deposits</i>		
In KM	5,607	1,164
In foreign currencies	617	359
	<b>6,224</b>	<b>1,523</b>
<i>Term deposits</i>		
In KM	-	10,662
In foreign currencies	136,389	160,639
	<b>136,389</b>	<b>171,301</b>
	<b>142,613</b>	<b>172,824</b>

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

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

**27. DUE TO CUSTOMERS**

<i>Group and Bank</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
<i>Demand deposits:</i>		
<i>Individuals:</i>		
In KM	151,105	144,499
In foreign currencies	76,706	58,554
	<u>227,811</u>	<u>203,053</u>
<i>Corporate:</i>		
In KM	143,951	118,023
In foreign currencies	32,543	25,285
	<u>176,494</u>	<u>143,308</u>
<i>Other government and non-government organisations:</i>		
In KM	44,263	16,643
In foreign currencies	26,998	4,859
	<u>71,261</u>	<u>21,502</u>
<b>Total demand deposits</b>	<b><u>475,566</u></b>	<b><u>367,863</u></b>
<i>Term deposits:</i>		
<i>Individuals:</i>		
In KM	144,643	141,638
In foreign currencies	143,010	151,431
	<u>287,653</u>	<u>293,069</u>
<i>Corporate:</i>		
In KM	93,331	93,937
In foreign currencies	47,728	14,298
	<u>141,059</u>	<u>108,235</u>
<i>Other government and non-government organisations:</i>		
In KM	37,184	23,139
In foreign currencies	4	33
	<u>37,188</u>	<u>23,172</u>
<b>Total term deposits</b>	<b><u>465,900</u></b>	<b><u>424,476</u></b>
	<b><u>941,466</u></b>	<b><u>792,339</u></b>

Demand deposits interest rates had a decreasing trend from 0.04% (2016) to 0.03% (2017) annually, from 0.53% (2016) to 0.50% (2017) for short-term deposits from 2.25% to 1.78% for long-term deposits.

**28. BORROWINGS**

<i>Group and Bank</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
European Investment Bank (EIB) – <i>average weighted interest rate per drawn instalment is 1.579% with the following maturities: 15 October 2018, 15 August 2020, 15 May 2023, 15 October 2021 and 15 August 2022</i>	37,907	44,111
European Bank for Reconstruction and Development (EBRD) – <i>weighted average interest rate 0.7% p.a., maturity on 20 January 2021</i>	15,687	3,916
Foundation for sustainable development (OdRaz) – <i>weighted average interest rate 1.13% and the following maturities: 1 June 2017, 1 July 2022 and 1 November 2023 – early repayment on 1 December 2017</i>	-	512
Liabilities for long-term loans – subordinated debt STMSPK, maturity on 29 March 2027 at the rate of 3.9%	9,879	-
	<u>63,473</u>	<u>48,539</u>



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

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

**29. PROVISIONS**

<i>Group and Bank</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Provisions for off balance items	2,493	2,597
Provisions for employee benefits	2,789	2,289
Provisions for legal proceedings	1,040	904
Other provisions	3,189	2,095
	<u>9,511</u>	<u>7,885</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.

<i>Group and Bank</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Granted but undrawn loans	133,167	121,107
Performance guarantees	57,340	42,328
Payment guarantees	33,204	31,348
Acreditives	3,347	2,774
	<u>227,058</u>	<u>197,557</u>

As of 31 December 2017, the provisions for employee benefits represent unused vacation days and severance and retirement severance payments, and were determined using the projected credit unit. In order to make actuarial estimates, following assumptions were used:

- Demographic assumptions on future characteristics of employees (mortality, employee fluctuation rate):
  - Average mortality rate 0.95%
  - Average fluctuation rate 1.07%
- Financial assumptions (discount rate, wage levels, expected wage growth):
  - Discount rate 5.0% (there were no changes in actuarial assumptions compared to the previous year)
  - Expected wage growth rate of 1.0% (wage growth rate is determined compared to the movements of average salaries in FBiH and RS, movement of salaries in the Bank and Bank's expectations about salaries in the future period. There were no changes in this assumption compared to the previous year).

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

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

**29. PROVISIONS (CONTINUED)**

Movements in provisions were as follows:

<i>Group and Bank</i>	Off balance	Employee benefits	Legal proceedings	Other provisions	Total
<b>Balance at 1 January 2016</b>	<b>2,782</b>	<b>2,183</b>	<b>913</b>	<b>1,426</b>	<b>7,304</b>
Additional provisions recognized, net (Note 14)	-	1,289	282	669	2,240
Release due to re-measurement (Note 14)	(185)	-	-	-	(185)
Release due to payments	-	(1,183)	(291)	-	(1,474)
<b>Balance at 31 December 2016</b>	<b>2,597</b>	<b>2,289</b>	<b>904</b>	<b>2,095</b>	<b>7,885</b>
Additional provisions recognized, net (Note 14)	-	1,697	146	1,100	2,943
Release due to re-measurement (Note 14)	(104)	-	-	-	(104)
Release due to payments	-	(1,197)	(10)	(6)	(1,213)
<b>Balance at 31 December 2017</b>	<b>2,493</b>	<b>2,789</b>	<b>1,040</b>	<b>3,189</b>	<b>9,511</b>

**30. OTHER LIABILITIES**

<i>Group and Bank</i>	31 December 2017	31 December 2016
Liabilities towards suppliers	2,775	1,966
Liabilities towards employees	1,481	1,468
Liabilities for unallocated payments	983	573
Liabilities for taxes	73	64
Other liabilities	2,532	1,913
	<b>7,844</b>	<b>5,984</b>

**31. SHARE CAPITAL**

Shareholding structure as at 31 December 2017 and 2016 was as follows.

<i>Group and Bank</i>	31 December 2017			31 December 2016		
	No. of shares	Amount in KM '000	%	No. of shares	Amount in KM '000	%
Steiermarkische Bank und Sparkassen AG, Graz, Austria	839,160	83,916	97.0	839,160	83,916	97.0
Other	25,573	2,557	3.0	25,573	2,557	3.0
<b>Total paid capital</b>	<b>864,733</b>	<b>86,473</b>	<b>100.0</b>	<b>864,733</b>	<b>86,473</b>	<b>100.0</b>

Share capital is made up of 864,733 ordinary shares at nominal value of KM 100. Share premium represents accumulated positive difference between nominal value and amount received for issued shares.

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

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

**32. RELATED-PARTY TRANSACTIONS**

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

**Transactions with the Owner**

<i>Group and Bank</i>	31 December 2017		31 December 2016	
	Receivables	Liabilities	Receivables	Liabilities
Steiermarkische Bank und Sparkassen AG. Graz, Austria	10,231	183,950	15,262	194,820
	<b>10,231</b>	<b>183,950</b>	<b>15,262</b>	<b>194,820</b>

<i>Group and Bank</i>	2017		2016	
	Income	Expense	Income	Expense
Steiermarkische Bank und Sparkassen AG. Graz, Austria	2	3,367	6	2,734
	<b>2</b>	<b>3,367</b>	<b>6</b>	<b>2,734</b>

**Transactions with other related parties**

<i>Group and Bank</i>	31 December 2017		31 December 2016	
	Receivables	Liabilities	Receivables	Liabilities
Oesterreichischen Sparkassen AG Vienna, Austria	29,634	515	6,435	2,059
Erste and Steiermarkische bank d.d Zagreb, Croatia	12,111	45	1,907	8,153
Sparkasse Bank a.d. Skoplje, Macedonia	614	0	9,781	-
Sparkasse Leasing d.o.o. Sarajevo, BiH	1	1,281	3	1,290
S Premium d.o.o. Sarajevo, BiH	-	446	-	1,071
Sparkasse Nekretnine d.o.o. Sarajevo, BiH	-	42	-	56
	<b>42,360</b>	<b>2,329</b>	<b>18,126</b>	<b>12,629</b>

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

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

32. RELATED-PARTY TRANSACTIONS (CONTINUED)

<b>Group and Bank</b>	<b>2017</b>		<b>2016</b>	
	<b>Income</b>	<b>Expenses</b>	<b>Income</b>	<b>Expenses</b>
Sparkasse Leasing d.o.o. Sarajevo, BiH	91	11	98	29
Erste Bank der Oesterreichischen Sparkassen AG Vienna, Austria	2	-	41	-
Erste and Steiermarkische bank d.d. Zagreb, Croatia	5	137	64	141
Sparkasse Nekretnine d.o.o. Sarajevo, BiH	-	-	8	4
S Premium d.o.o. Sarajevo, BiH	12	1	9	4
Sparkasse Bank a.d. Skoplje, Macedonia	1	-	2	60
Erste Group Card Processor d.o.o. (vm.MBU)	-	919	-	942
S IT Solutions AT Spardat GmbH Vienna, Austria	-	1,173	-	565
Erste Group IT International GmbH	5	137	-	38
S IT Solutions HR d.o.o. Bjelovar, Croatia	-	69	-	59
S IT Solutions CZ s.r.o. Prague, Czech Republic	-	2	-	9
	<b>112</b>	<b>2,313</b>	<b>222</b>	<b>1,851</b>

Management remunerations

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

<b>Group and Bank</b>	<b>2017</b>	<b>2016</b>
Gross salaries	872	816
Other benefits	35	32
Fees to Supervisory Board members	21	30
	<b>928</b>	<b>878</b>

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

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

### 33. MANAGED FUNDS

The funds managed by the Bank, where the Bank acts as a commissioner on behalf of individuals, trusts and other institutions, are not Banks funds, and therefore are not included in its balance sheet.

In the table below are shown the funds managed by the Bank in and for the name of its clients:

<i>Group and Bank</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Loans</b>		
Corporate	16,802	17,624
Individuals	2,806	2,973
	<b>19,608</b>	<b>20,597</b>
<b>Financing sources</b>		
Employment agency of Federation of Bosnia and Herzegovina	16,733	16,885
Intesa Sanpaolo banka d.d. Bosna i Hercegovina	778	1,445
Ministry of war military invalids of Zenica-Doboj Canton	650	776
Bosnian-Podrinje Canton Government	799	799
International guarantee agency – IGA	326	326
Zenica-Doboj Canton Government	84	109
Employment agency of Zenica-doboj Canton	119	138
Lutheran World Federation	73	73
Housing fund of Unsko-Sanski Canton	25	25
Employment agency of Bosnian-Podrinje Canton	21	21
	<b>19,608</b>	<b>20,597</b>
<b>Liability, net</b>	<b>-</b>	<b>-</b>

The Bank does not bear any risk in regard to this placement, and for its services charges a fee. Liabilities from commissioner business are invested in loans to companies and individuals on behalf of third parties.

### 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:

<i>Bank</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Debt	1,147,552	1,013,702
Equity	177,168	157,541
<b>Debt to capital ratio</b>	<b>6,48</b>	<b>6,43</b>

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

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

---

### **34. FINANCIAL INSTRUMENTS (CONTINUED)**

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

Debt is defined as liabilities to banks and customers presented in detail in Notes 26 and 27, and borrowings presented in detail in Note 28, and capital includes total equity of the Bank.

Capital adequacy and the use of net capital are monitored 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 net (regulatory) capital and the lowest level of net capital (regulatory capital) of KM 15 million, and
- b) maintain a ratio of net (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 for 2014. The Bank's net capital is divided into two tiers:

- Tier 1 capital or Core Capital: share capital, share premium and retained earnings indefinitely allocated by the Bank's shareholders for coverage future net losses (if any), reduced by intangible assets and deferred tax assets; (2013: share capital, share premium, investments revaluation reserve and retained earnings, reduced by intangible assets); and
- Tier 2 capital or Supplementary Capital: general regulatory reserves in accordance with FBA regulations (calculated for regulatory reporting only) and qualified subordinated debt, increased by positive revaluation reserves (2013: general regulatory reserves in accordance with FBA regulations, qualified subordinated debt and audited net profit for the current year).

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.

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

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

**34. FINANCIAL INSTRUMENTS (CONTINUED)**

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

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 14.6% (2016: 12,9%).

	31 December 2016	31 December 2015
<b>Tier 1 capital</b>		
Ordinary shares	86,473	86,473
Share premium	3,000	3,000
Statutory reserves	45,205	35,862
Retained earnings	22,066	12,723
Own (treasury) shares	-	-
Deferred tax assets	(706)	(421)
Negative revaluation reserve	(478)	(311)
Less: Intangible assets	(3,634)	(3,528)
<b>Total tier 1 capital</b>	<b>151,926</b>	<b>133,798</b>
<b>Tier 2 capital</b>		
General provision - FBA regulations	13,679	12,833
Positive Revaluation reserves	270	319
Subordinated debt	9,779	-
<b>Total tier 2 capital</b>	<b>23,728</b>	<b>13,152</b>
<b>Impairment of capital</b>		
Shortfall in regulatory reserves	(15,810)	(14,416)
<b>Net capital</b>	<b>159,844</b>	<b>132,534</b>
Risk Weighted Assets (unaudited)	1,018,696	954,307
Weighted Operational Risk (unaudited)	75,628	72,363
<b>Total weighted risk</b>	<b>1,094,324</b>	<b>1,026,670</b>
<b>Capital adequacy (%)*</b>	<b>14.6</b>	<b>12.9</b>

\* In accordance the Decision of FBA on minimum standards for capital management and capital hedge ("Official Gazette of the Federation of Bosnia and Herzegovina", number 46/14)

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

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

**34. FINANCIAL INSTRUMENTS (CONTINUED)**

**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.

**c) Categories of financial instruments**

	Group 31 December 2017	Group 31 December 2016	Bank 31 December 2017	Bank 31 December 2016
<b>Financial assets</b>				
Loans and receivables:				
<i>Cash and cash equivalents (including Obligatory reserve with the CBBH)</i>	278,626	224,484	278,626	224,484
<i>Placements with other banks</i>	22,370	4,427	22,370	4,427
<i>Loans and advances to customers, net</i>	884,776	844,443	884,776	844,443
<i>Other financial assets</i>	15,037	3,996	15,037	3,996
Financial assets available-for- sale and investment in associates	<u>102,689</u>	<u>67,467</u>	<u>101,176</u>	<u>65,800</u>
	<b><u>1,303,498</u></b>	<b><u>1,144,817</u></b>	<b><u>1,301,985</u></b>	<b><u>1,143,150</u></b>
<b>Financial liabilities</b>				
At amortised cost				
<i>Due to other banks</i>	142,613	172,824	142,613	172,824
<i>Due to customers</i>	941,466	792,339	941,466	792,339
<i>Due for loans taken</i>	63,473	48,539	63,473	48,539
<i>Other financial liabilities</i>	<u>9,093</u>	<u>6,500</u>	<u>9,093</u>	<u>6,500</u>
	<b><u>1,156,645</u></b>	<b><u>1,020,202</u></b>	<b><u>1,156,645</u></b>	<b><u>1,020,202</u></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 ending 31 December 2017

(all amounts are expressed in thousand 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:

<i>Bank</i>	<b>KM</b>	<b>EUR</b>	<b>USD</b>	<b>Other currencies</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	80,753	62,071	17,200	6,999	167,023
Obligatory reserve with the CBBH	111,603	-	-	-	111,603
Placements with other banks	-	22,370	-	-	22,370
Loans and advances to customers, net	531,941	352,835	-	-	884,776
Financial assets available-for-sale	18,957	82,219	-	-	101,176
Other financial assets	4,603	7,845	568	2,021	15,037
	<b>747,857</b>	<b>527,340</b>	<b>17,768</b>	<b>9,020</b>	<b>1,301,985</b>
<b>LIABILITIES</b>					
Due to other banks	5,607	135,570	-	1,436	142,613
Due to clients	598,173	317,634	17,892	7,767	941,466
Borrowings	-	63,473	-	-	63,473
Other financial liabilities	6,243	2,837	8	5	9093
	<b>610,023</b>	<b>519,514</b>	<b>17,900</b>	<b>9,208</b>	<b>1,156,645</b>
<b>Discrepancy as at 31 December 2017</b>	<b>137,834</b>	<b>7,826</b>	<b>(132)</b>	<b>(188)</b>	<b>145,340</b>
<b>Total monetary assets</b>	<b>654,168</b>	<b>468,060</b>	<b>11,088</b>	<b>9,834</b>	<b>1,143,150</b>
<b>Total monetary liabilities</b>	<b>521,919</b>	<b>477,049</b>	<b>11,133</b>	<b>10,101</b>	<b>1,020,202</b>
<b>Discrepancy as at 31 December 2016</b>	<b>132,249</b>	<b>(8,989)</b>	<b>(45)</b>	<b>(267)</b>	<b>122,948</b>

**Foreign currency sensitivity analysis**

The Bank is mainly exposed to EUR, USD and other currencies. 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 and other currencies. 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 in currencies different from lender and borrower currencies. A positive number below indicates an increase in profit or other capital where KM strengthens 10% against other relevant currency.. For a 10% weakening of KM against other relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

<i>Bank</i>	<b>USD Effect</b>	
	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Profit / (loss)</b>	<b>(15)</b>	<b>(6)</b>

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

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

---

**34. FINANCIAL INSTRUMENTS (CONTINUED)**

**g) Interest rate risk management**

The Bank is exposed to interest rate risk as the Bank is placing and borrowing funds at fixed 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 derivative and non-derivative instruments at the reporting period date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting period date was 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 profit for the year ending 31 December 2017 would increase / decrease by KM thousand 3,288 (2016: by KM 3,518 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, provided by reports from Risk management department.

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 the value of any collateral obtained.

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

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Financial assets

<b>Bank</b>	<b>Total gross carrying amount</b>	<b>Unimpaired assets</b>	<b>Impaired assets</b>	<b>Individually impaired assets</b>	<b>Group impaired assets</b>	<b>Total net carrying amount</b>
<b>As at 31 December 2017</b>						
Cash and accounts in banks	167,775	167,775	-	-	(752)	167,023
Obligatory reserve with the CBBH	111,603	111,603	-	-	-	111,603
Placements with other banks	22,370	22,370	-	-	-	22,370
Loans to customers	968,825	886,770	82,055	(43,576)	(40,473)	884,776
Financial assets available-for-sale	101,606	101,606	-	-	(430)	101,176
Other financial assets	17,813	15,309	2,504	-	(2,776)	15,037
	<b>1,389,892</b>	<b>1,305,433</b>	<b>84,559</b>	<b>(43,576)</b>	<b>(44,431)</b>	<b>1,301,985</b>
<b>As at 31 December 2016</b>						
Cash and accounts in banks	111,715	111,715	-	-	(541)	111,174
Obligatory reserve with the CBBH	113,310	113,310	-	-	-	113,310
Placements with other banks	4,517	4,517	-	-	(90)	4,427
Loans to customers	933,818	844,132	89,686	(49,644)	(39,731)	844,443
Financial assets available-for-sale	66,001	66,001	-	-	(201)	65,800
Other financial assets	6,584	4,170	2,414	-	(2,588)	3,996
	<b>1,235,945</b>	<b>1,143,845</b>	<b>92,100</b>	<b>(49,644)</b>	<b>(43,151)</b>	<b>1,143,150</b>

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

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

*Credit exposure and collateral*

Bank	Credit risk exposure		Value of collateral
	Net exposure	Unwithdrawn loans / Guarantees	
<b>As at 31 December 2017</b>			
Cash and cash equivalents	167,023	-	-
Obligatory reserve with the CBBH	111,603	-	-
Placements with other banks	22,370	-	-
Loans to customers	884,776	224,565	369,737
Financial assets available-for-sale	101,176	-	-
Other financial assets	15,037	-	-
	<b>1,301,985</b>	<b>224,565</b>	<b>369,737</b>
<b>As at 31 December 2016</b>			
Cash and cash equivalents	111,174	-	-
Obligatory reserve with the CBBH	113,310	-	-
Placements with other banks	4,427	-	-
Loans to customers	844,443	196,191	381,065
Financial assets available-for-sale	65,800	-	-
Other financial assets	3,996	-	-
	<b>1,143,150</b>	<b>196,191</b>	<b>381,065</b>
<i>Value of the collateral</i>			
<b>Bank</b>	<b>31 December 2017</b>	<b>31 December 2016</b>	
Real estate	334,746	347,232	
Movable property	8,453	7,814	
Deposits	19,723	17,310	
Other	6,815	8,709	
	<b>369,737</b>	<b>381,065</b>	

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

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

**34. FINANCIAL INSTRUMENTS (CONTINUED)**

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

*Credit exposure and collateral (continued)*

**Arrears**

<b>Bank</b>	<b>Total gross loan portfolio</b>	<b>Not due</b>	<b>Up to 30 days</b>	<b>31 – 90 days</b>	<b>91 – 180 days</b>	<b>181 – 270 days</b>	<b>over 270 days</b>
<b>31 December 2017</b>							
Corporate	513,757	446,094	18,431	2,178	1,252	1,121	44,681
Retail	455,068	420,408	6,899	2,763	2,237	1,766	20,995
<b>Subtotal</b>	<b>968,825</b>	<b>866,502</b>	<b>25,330</b>	<b>4,941</b>	<b>3,489</b>	<b>2,887</b>	<b>65,676</b>
Impairment losses	(84,049)	(16,383)	(1,800)	(1,565)	(2,320)	(2,373)	(59,608)
<b>Total</b>	<b>884,776</b>	<b>850,119</b>	<b>23,530</b>	<b>3,376</b>	<b>1,169</b>	<b>514</b>	<b>6,068</b>
<b>31 December 2016</b>							
Corporate	514,567	429,977	26,701	4,972	1,390	2,940	48,587
Retail	419,251	381,546	8,184	3,582	3,031	2,520	20,388
<b>Subtotal</b>	<b>933,818</b>	<b>811,523</b>	<b>34,885</b>	<b>8,554</b>	<b>4,421</b>	<b>5,460</b>	<b>68,975</b>
Impairment losses	(89,375)	(14,989)	(1,541)	(2,059)	(2,479)	(4,395)	(63,912)
<b>Total</b>	<b>844,443</b>	<b>796,534</b>	<b>33,344</b>	<b>6,495</b>	<b>1,942</b>	<b>1,065</b>	<b>5,063</b>

**l) 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.

The following table details the rest of Bank's contractual maturities for financial assets. The table is prepared based on nondiscounted financial assets cash flows, including interest for that assets and interest for that asset that will be earned, except for the assets that it is expected for the cash flow to appear in the future period.

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

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

**34. FINANCIAL INSTRUMENTS (CONTINUED)**

**l) Liquidity risk management (continued)**

**Liquidity and interest risk tables**

*Maturity for financial assets*

<b>Bank</b>	<b>Weighted average effective interest rate</b>	<b>Less than 1 month</b>	<b>2 to 3 months</b>	<b>4 months to 1 year</b>	<b>2 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>31 December 2017</b>							
Non-interest bearing	-	114,346	27	1,043	1	0	115,417
Variable interest rate instruments	3.04%	114,765	7,435	32,983	141,679	138,743	435,605
Fixed interest rate instruments	6.10%	91,182	57,510	235,415	339,566	220,035	943,708
		<b>320,293</b>	<b>64,972</b>	<b>269,441</b>	<b>481,246</b>	<b>358,778</b>	<b>1,494,730</b>
<b>31 December 2016</b>							
Non-interest bearing	-	100,136	33	1,157	11	-	101,337
Variable interest rate instruments	3.62%	81,178	8,670	37,459	130,413	109,041	366,761
Fixed interest rate instruments	6.60%	93,988	65,810	241,176	305,114	224,204	930,292
		<b>275,302</b>	<b>74,513</b>	<b>279,792</b>	<b>435,538</b>	<b>333,245</b>	<b>1,398,390</b>

The following table details the Bank's remaining contractual maturity for its non-derivative financial liabilities. The tables have 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*

<b>Bank</b>	<b>Weighted average effective interest rate</b>	<b>Less than 1 month</b>	<b>2 to 3 months</b>	<b>4 months to 1 year</b>	<b>2 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>31 December 2017</b>							
Non-interest bearing	-	371,003	240	3,371	3,870	4,086	382,570
Variable interest rate instruments	1.58%	-	-	18,631	98,348	13,355	130,334
Fixed interest rate instruments	1.30%	121,846	87,557	145,853	286,519	19,296	661,071
		<b>492,849</b>	<b>87,797</b>	<b>167,855</b>	<b>388,737</b>	<b>36,737</b>	<b>1,173,975</b>
<b>31 December 2016</b>							
Non-interest bearing	-	313,698	135	2,129	4,377	4,636	324,975
Variable interest rate instruments	1.53%	-	-	26	115,461	10,123	125,610
Fixed interest rate instruments	1.86%	74,853	27,896	172,137	268,335	52,207	595,428
		<b>388,551</b>	<b>28,031</b>	<b>174,292</b>	<b>388,173</b>	<b>66,966</b>	<b>1,046,013</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 ending 31 December 2017  
(all amounts are expressed in thousand KM, unless otherwise stated)

**35. FAIR VALUE MEASUREMENT**

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

**35.1 Fair value of the Company's financial assets and financial liabilities that are measured at fair value on a recurring basis**

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)
	<b>31 December 2017</b>		
1) Financial assets available-for-sale (see Note 22)	Listed equity securities in stock exchange in Bosnia and Herzegovina: • BamCard d.d Sarajevo – KM 115 thousand	Listed equity securities in stock exchange in Bosnia and Herzegovina: • BamCard d.d Sarajevo – KM 115 thousand	
	Listed equity securities on stock exchanges in other countries: • Belgium – KM 64 thousand	Listed equity securities on stock exchanges in other countries: • Belgium - KM 64 thousand	
	Listed debt securities in stock exchange in other countries: • Croatia – KM 8,364 thousand (Baa3/BBB) • Austria – KM 23,082 thousand (AA/AA) • Belgium – KM 9,619 thousand (AA/AA) • France – KM 9,640 thousand (AA/AA)	Listed debt securities in stock exchange in other countries: • Croatia – KM 8,663 thousand (Baa3/BBB) • Austria – KM 11,565 thousand (AAA/AAA)	Quoted bid prices in an active market.
	Listed debt securities in stock exchange in Bosnia and Herzegovina: • FBiH Ministry of Finance – KM 26,889 thousand (B+) • RS Ministry of Finance – KM 22,028 thousand (B+) • Hadžići Municipality – KM 100 thousand	Listed debt securities in stock exchange in Bosnia and Herzegovina: • FBiH Ministry of Finance – KM 26,878 thousand (B+) • RS Ministry of Finance – KM 16,846 thousand (B+) • Cazin Municipality – KM 84 thousand • Hadžići Municipality – KM 200 thousand	Level 1

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

(all amounts are expressed in thousand 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 recognised in the financial statements approximate their fair values.

<b>Group and Bank</b>	<b>31 December 2017</b>		<b>31 December 2016</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
<b>Financial assets</b>				
<i>Loans and receivables:</i>				
- loans to customers	884,776	887,766	844,443	845,814
<b>Financial liabilities</b>				
<i>Financial liabilities held at amortised cost:</i>				
- due to banks and customers	1,084,079	1,087,901	965,163	968,529

<b>Group and Bank</b>	<b>Fair value hierarchy as at 31 December 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
<i>Loans and receivables:</i>				
- loans to customers	-	-	887,766	887,766
	-	-	887,766	887,766
<b>Financial liabilities</b>				
<i>Financial liabilities held at amortised cost:</i>				
- due to banks and customers	-	-	1,087,901	1,087,901
	-	-	1,087,901	1,087,901

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

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 CBBH separately for corporate and individuals.

**36. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements were approved by the Management Board of the Bank on 26 April 2018.

 <hr/> Sanel Kusturica President of the Management Board		 <hr/> Amir Softić Member of the Management Board
---	---	--