Addiko Bank

Annual Report 2016

Addiko Bank d.d. Sarajevo
Bosnia and Herzegovina

Key Data

Addiko Group		EUR m
	2016.	2015.
Income statement	**1.1.-31.12.**	**1.1.-31.12.**
Net interest income	9	12
Net fee and commission income	4	4
Inpairment or reversal of impairment on loans and receivables	-5	-46
Operating expenses	-31	-21
Operating result - prior to risk provisions on loans and receivables	-14	0
Operating result - after risk provisions on loans and receivables	-19	-46
Result after tax	-19	-46
Statement of financial position	**31.12.**	**31.12.**
Loans and receivables to customers	190	177
Customer deposits	307	268
Equity (including non-controlling interests)	105	97
Total assets	433	414
Risk weighted assets (banking book)	216	182
Key figures	**1.1.-31.12.**	**1.1.-31.12.**
Cost/Income-ratio	488%	140%
Net interest income/Ø Risk weighted assets (banking book)	4.3%	6.4%
Capital Ratios (before profit utilization proposal)	**31.12.**	**31.12.**
Own capital funds according to CRR	39	32
Own funds requirement	26	22
Surplus capital	13	10
Core Capital (Tier 1)	35	28
Tier 1 ratio	14.5%	13.0%
Own capital funds ratio	16.0%	14.7%
Employees and locations	**31.12.**	**31.12.**
Employees at closing date (Full Time Equivalent - FTE)	454	507
Number of locations	38	38

Letter from the CEO

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

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

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

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

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

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

We are entering the year 2017 with an increased depositary base, a better structure of our credit portfolio, strong capital and liquidity base. I am certain, that the year 2017 will be even more successful, with a strong focus on straightforward banking, efficiency and simple communication with our clients.

Best regards,

Sanela Pašić
Chief Executive Officer

Management Board of Addiko Bank d.d.

From left to right: Belma Sekavić-Bandić, Executive Director, Sanela Pašić, Director, Selma Omić, Executive Director

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Management Board Report

1. Overview of Addiko Bank

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

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

The holding company Al Lake (Luxembourg) S.á.r.l. is the direct parent company of the Addiko Group and is indirectly owned by funds advised by Advent International, a global active private equity investor and by the European Bank for Reconstruction and Development (EBRD). Addiko Bank has operated under this name since July 11, 2016 following the successful rebranding of the Group.

2. Significant events in the 2016 financial year

2.1. New name, brand and higher corporate standards

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

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

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

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

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

One of the top priorities in 2016 was to resolve the CHF loans issue, in which the Bank was fully supported by the Group and the new owners. Namely, the Bank prepared a voluntary, responsible, understandable and utterly fair offer to its clients.

The Bank's offer included a reduction of the outstanding loan by 30% with the loan conversion at the current exchange rate and the fixed interest rate of 5.99% for the new loan. The proposed solution has also an additional social responsibility component, as it entails an additional benefit for the clients with the lowest monthly income in the form of reduction of the outstanding loan amount by up to 50%. In addition, clients of the Bank, whose loans have fallen due or have been cancelled or are pending in legal proceedings due to foreclosure started by the Bank are also entitled to have their outstanding debts reduced. The clients also have the possibility to reduce a part of the receivables along with the closing and liquidation of loan.

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

The total value of CHF write-offs amounted to BAM 23.73 million. The offered conversion resulted in the bank losing of BAM 12.79 million which can be seen as the banks contribution to resolve the issue in the interest of its clients. The loss of the Bank in amount of KM 37.63 million was furthermore significantly influenced by write-offs for litigations in amount of KM 24 million, which show and intention of the new owner to clean up the liabilities from the past. Leaving aside these two largest one-off effects, other important indicators of the business operations of the Bank give us reason to be very optimistic in the coming period.

It is important to point out that even after the 2016 result, the Bank's capital adequacy is 16 percent, which is far above the legal requirement of 12 percent, and above the market average and that the Bank has solid capital and liquidity base.

3. Economic development of the Bank

3.1. Overview

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

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

3.2. Significantly increased key performance indicators

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

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

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

By adjusting approach and introducing innovative and competitive products for targeted clients, the Bank closed the year 2016 with a high increase of new loans, which forms a good basis for significant growth in the year 2017.

Special focus was on increasing the profitability of the branches and human resources. The training of the sales staff was intensified and the implementation of the strategic project SFE (Sales Force Effectiveness) with clear KPIs was started by introduction of new selling tools and new client approaches. Efficiency being at the roots of the strategy, a whole range of measures was undertaken with the purpose of optimising the loan approval process, required documents and improvement of client management.

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

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

With regard to capital the Bank is capital-wise one of the strongest in the market. Assets of the Bank amounted to BAM 847.63 million, while total deposits amounted to BAM 602.77 million. The total gross loans and advances to customers of the Bank amounted to BAM 554.14 million.

At the end of 2016, the Bank had 38 branches and 77 ATMs. The number of employees was 435.

4. Plan and strategy

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

With clear business strategy, excellent liquidity and strong capital position, the Bank will in 2017 continue developing its business, focusing on core but modern products and services which directly serve everyday client needs, and advancing its digital platform and modern communication channels with our clients.

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

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

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

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

Three pillars of our business operations are:

- Focus on Essentials meaning we do a few things very well, rather than a lot just OK, and that also means fewer, essential products that deliver greater value.
- Deliver on efficiency meaning we concentrate on removing complexity for our customers and delivering of what is relevant.
- Communicate simplicity meaning we and our products and procedures communicate in the simplest terms to ensure they are clearly understood.

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

Unconsolidated and consolidated financial statements for the year ended 31 December 2016 and Independent auditor's report

Responsibility for the financial statements

The Management Board is required to prepare financial statements, which give a true and fair view of the financial position of the Group and Bank and of the results of their operations and cash flows, in accordance with applicable accounting The Management Board is required to prepare financial statements, which give a true and fair view of the financial position of the Group and Bank and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. Management has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Group and Bank and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then applying them consistently, making judgements and estimates that are reasonable and prudent, and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank together with the annual financial statements, following which the Supervisory Board is required to approve the financial statements.

The financial statements set out on pages 4 to 85 were authorised by the Management Board on 24 March 2017 for issue to the Supervisory Board, and are signed below to signify this:

For and on behalf of Management Board

Sanela Pašić	**Belma Sekavić-Bandić**
Director	Executive Director

Addiko Bank d.d. Sarajevo
Trg Solidarnosti 12
71000 Sarajevo
Bosnia and Herzegovina

24 March 2017

Independent Auditor's Report

To the shareholders of Addiko Bank d.d. Sarajevo:

We have audited the accompanying financial statements of Addiko Bank d.d. Sarajevo (the "Bank"), set out on pages 4 to 85, which comprise of the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

Bank's financial statements for the year ended 31 December 2015 were audited by another auditor who expressed unmodified opinion to those financial statements on 4 July 2016.

Deloitte d.o.o.

Sead Bahtanović, director and licensed auditor

Sabina Softić, partner and licensed auditor

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

Sarajevo, Bosnia and Herzegovina
24 March 2017

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

	Notes	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Interest and similar income	7	25,684	32,732	25,684	32,732
Interest and similar expenses	8	(7,695)	(9,963)	(7,698)	(9,973)
Net interest income		**17,989**	**22,769**	**17,986**	**22,759**
Fee and commission income	9	11,215	11,431	11,215	11,431
Fee and commission expense		(3,230)	(2,893)	(3,230)	(2,893)
Net fee and commission income		**7,985**	**8,538**	**7,985**	**8,538**
Dividend income		35	10	35	10
Net income on financial operations	10	884	1,548	940	1,548
Collected written-off receivables		3,692	4,163	3,692	4,163
Other operating income	11	2,926	4,917	2,101	4,305
Operating income		**33,511**	**41,945**	**32,739**	**41,323**
Personnel expenses	12	(16,663)	(15,633)	(16,435)	(15,429)
General and administrative expense	13	(41,919)	(23,132)	(41,723)	(22,997)
Depreciation and amortization	22, 23, 24	(2,622)	(3,021)	(2,597)	(2,994)
Operating expenses		**(61,204)**	**(41,786)**	**(60,755)**	**(41,420)**
(Loss) / profit before impairment losses, provisions and income tax		**(27,693)**	**159**	**(28,016)**	**(97)**
Impairment losses and provisions, net	14	(9,613)	(90,009)	(9,613)	(90,009)
LOSS BEFORE INCOME TAX		**(37,306)**	**(89,850)**	**(37,629)**	**(90,106)**
Income tax	15	(34)	(934)	-	(908)
NET LOSS FOR THE CURRENT YEAR		**(37,340)**	**(90,784)**	**(37,629)**	**(91,014)**
Basic loss per share (KM)	34	**(70.12)**	**(170.5)**	**(70.66)**	**(170.9)**

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

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

	Notes	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Loss for the year		**(37,340)**	**(90,784)**	**(37,629)**	**(91,014)**
Other comprehensive income					
Net change in fair value of financial assets available for sale, net of realized amounts		1,231	203	1,251	199
Deferred tax on financial assets available-for-sale	15	(126)	(20)	(126)	(20)
Total comprehensive loss for the year		**(36,235)**	**(90,601)**	**(36,504)**	**(90,835)**

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

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

		GROUP		BANK	
	Notes	2016	2015	2016	2015
ASSETS					
Cash and balances with other banks	16	163,369	211,441	163,369	211,441
Obligatory reserve with the Central Bank of Bosnia and Herzegovina	17	59,783	54,996	59,783	54,996
Placements with other banks	18	26,933	30,993	26,933	30,993
Loans and advances to customers	19	371,663	346,220	371,663	346,220
Financial assets available for sale	20	171,510	114,315	171,394	114,122
Investments in subsidiaries	21	-	-	2,711	2,711
Property and equipment	22	26,577	35,778	26,276	35,452
Intangible assets	23	827	238	827	238
Investment property	24	468	479	468	479
Prepaid income tax		1,783	1,783	1,783	1,783
Other assets	25	21,427	10,404	21,329	10,322
Total assets		**844,340**	**806,647**	**846,536**	**808,757**
LIABILITIES					
Due to other banks	26	5,524	67,061	5,524	67,061
Due to customers	27	598,354	521,966	600,319	523,562
Provisions	28	20,920	14,180	20,869	14,126
Provisions for financial commitments and contingencies	29	1,588	2,706	1,588	2,706
Other liabilities	30	13,026	12,379	12,920	12,290
Total liabilities		**639,412**	**618,292**	**641,220**	**619,745**
SHAREHOLDERS' EQUITY					
Share capital	31	100,403	100,403	100,403	100,403
Reserves	31	7,864	46,070	7,799	46,005
Regulatory reserves	31	133,391	133,391	133,391	133,391
Fair value reserves		1,352	247	1,352	227
Retained losses		(38,082)	(91,756)	(37,629)	(91,014)
Total equity		**204,928**	**188,355**	**205,316**	**189,012**
TOTAL LIABILITIES AND EQUITY		**844,340**	**806,647**	**846,536**	**808,757**

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

Signed on behalf of Addiko Bank d.d. Sarajevo on 24 March 2017:

Sanela Pašić
Director

Belma Sekavić-Bandić
Executive Director

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

GROUP	Share capital	Reserves	Regulatory reserves	Fair value reserves	Accumulated loss	Total
31 December 2014	**213,000**	**65**	**133,391**	**64**	**(113,562)**	**232,958**
Net loss for 2015	-	-	-	-	(90,784)	(90,784)
Other comprehensive income						
Net change in fair value of financial assets available for sale, net of realized amounts	-	-	-	203	-	203
Net change in deferred taxes	-	-	-	(20)	-	(20)
Total other comprehensive income	**-**	**-**	**-**	***183***	**-**	***183***
Total comprehensive loss	**-**	**-**	**-**	**183**	**(90,784)**	**(90,601)**
Transactions with the owner						
Increase of capital	-	46,000	-	-	-	46,000
Coverage of losses	(112,597)	5	-	-	112,592	-
Other	-	-	-	-	(2)	(2)
Total transactions with the owner	**(112,597)**	**46,005**	**-**	**-**	**112,590**	**45,998**
31 December 2015	**100,403**	**46,070**	**133,391**	**247**	**(91,756)**	**188,355**
Net loss for 2016	-	-	-	-	(37,340)	(37,340)
Other comprehensive income						
Net change in fair value of financial assets available for sale, net of realized amounts	-	-	-	1,231	-	1,231
Net change in deferred taxes	-	-	-	(126)	-	(126)
Total other comprehensive income	**-**	**-**	**-**	***1,105***	**-**	***1,105***
Total comprehensive loss				**1,105**	**(37,340)**	**(36,235)**
Transactions with the owner						
Increase of capital	-	52,808	-	-	-	52,808
Coverage of losses	-	(91,014)	-	-	91,014	-
Other	-	-	-	-	-	-
Total transactions with the owner	**-**	**(38,206)**	**-**	**-**	**91,014**	**52,808**
31 December 2016	**100,403**	**7,864**	**133,391**	**1,352**	**(38,082)**	**204,928**

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

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

BANK	Share capital	Reserves	Regulatory reserves	Fair value reserves	Accumulated loss	Total
31 December 2014	**213,000**	**-**	**133,391**	**48**	**(112,590)**	**233,849**
Net loss for 2015	-	-	-	-	(91,014)	(91,014)
Other comprehensive income						
Net change in fair value of financial assets available for sale, net of realized amounts	-	-	-	199	-	199
Net change in deferred taxes	-	-	-	(20)	-	(20)
Total other comprehensive income	***-***	***-***	***-***	***179***	***-***	***179***
Total comprehensive loss	**-**	**-**	**-**	**179**	**(91,014)**	**(90,835)**
Transactions with the owner						
Increase of capital	-	46,000	-	-	-	46,000
Coverage of losses	(112,597)	5	-	-	112,592	-
Other	-	-	-	-	(2)	(2)
Total transactions with the owner	**(112,597)**	**46,005**	**-**	**-**	**112,590**	**45,998**
31 December 2015	**100,403**	**46,005**	**133,391**	**227**	**(91,014)**	**189,012**
Net loss for 2016	-	-	-	-	(37,629)	(37,629)
Other comprehensive income						
Net change in fair value of financial assets available for sale, net of realized amounts	-	-	-	1,251	-	1,251
Net change in deferred taxes	-	-	-	(126)	-	(126)
Total other comprehensive income	***-***	***-***	***-***	***1,125***	***-***	***1,125***
Total comprehensive loss	**-**	**-**	**-**	**1,125**	**(37,629)**	**(36,504)**
Transactions with the owner						
Increase of capital	-	52,808	-	-	-	52,808
Coverage of losses		(91,014)	-	-	91,014	-
Other	-	-	-	-	-	-
Total transactions with the owner	**-**	**(38,206)**	**-**	**-**	**91,014**	**52,808**
31 December 2016	**100,403**	**7,799**	**133,391**	**1,352**	**(37,629)**	**205,316**

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

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

	Notes	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Operating activities					
Loss before income tax		(37,306)	(89,850)	(37,629)	(90,106)
Adjustments to reconcile net loss to net cash provided by operating activities:					
Depreciation and amortization		2,622	3,021	2,597	2,994
Impairment losses and provisions, net		9,613	87,061	9,613	87,061
Provisions for employee benefits		250	89	236	89
Restructuring provisions		1,922	750	1,922	750
Accrued expenses		3,663	2,234	3,663	2,234
Loss on disposal of tangible and intangible assets		48	8	48	8
Loss on sale of assets available for sale		206	-	206	-
Effects of changes in fair value of assets available for sale		(87)	(292)	(143)	(292)
Dividend income recognized in the income statement		(35)	(10)	(35)	(10)
Foreign exchange adjustment		(350)	(7,092)	(350)	(7,092)
Interest income on financial assets available for sale recognized in the income statement		(1,099)	(516)	(1,096)	(516)
Cash flow before changes in operating assets and liabilities:					
Net (increase) / decrease in obligatory reserve with the Central Bank of Bosnia and Herzegovina		(4,787)	7,838	(4,787)	7,838
Net decrease / (increase) in placements with other banks, before impairment losses		4,035	(8,491)	4,035	(8,491)
Net (increase) / decrease in loans and advances to customers, before impairment losses		(21,064)	60,758	(21,064)	60,758
Net decrease in provisions		(1,225)	(4,284)	(1,228)	(4,284)
Net increase in other assets, before impairment losses		(11,902)	(6,005)	(11,853)	(5,954)
Net decrease in due to other banks		(61,537)	(130,482)	(61,537)	(130,482)
Net increase in due to customers		76,388	6,599	76,757	6,832
Net (decrease) / increase in other liabilities		(3,839)	(439)	(3,836)	(442)
		(44,484)	*(79,103)*	*(44,481)*	*(79,105)*
Income tax paid		-	-	-	-
Net cash used in operating activities		**(44,484)**	**(79,103)**	**(44,481)**	**(79,105)**
Investing activities					
Net increase of tangible and intangible assets		(1,720)	(2,949)	(1,720)	(2,947)
Increase of financial assets available for sale		(56,095)	(78,964)	(56,095)	(78,960)
Proceeds from sale of tangible and intangible assets		274	1,869	274	1,865
Dividends received		35	10	35	10
Interest income in financial assets available for sale		1,110	291	1,107	291
Net cash used in investing activities		**(56,396)**	**(79,743)**	**(56,399)**	**(79,741)**
Financing activities					
Increase in capital reserves		52,808	46,000	52,808	46,000
Net cash from financing activities		**52,808**	**46,000**	**52,808**	**46,000**
Net decrease in cash and balances with other banks		**(48,072)**	**(112,846)**	**(48,072)**	**(112,846)**
Cash and balances with other banks at the beginning of the year		**211,441**	**324,287**	**211,441**	**324,287**
Cash and balances with other banks at the end of the year	15	**163,369**	**211,441**	**163,369**	**211,441**

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

1. GENERAL INFORMATION

History and incorporation

Hypo Alpe-Adria-Bank d.d. Mostar (the ''Bank'') has received the approval from the Banking Agency of Federation of Bosnia and Herzegovina ("FBA") on 17 January 2000 and the Bank was registered at the Municipality Court in Mostar on 21 January 2000.

On 31 October 2016, the Bank changed its name from Hypo Alpe-Adria-Bank d.d. Mostar to Addiko Bank d.d. Sarajevo, and its registered headquarters in Mostar, Kneza Branimira 2b to the new address Trg solidarnosti 12, Sarajevo. The Bank conducts its operations in Federation of Bosnia and Herzegovina through the headquarters in Sarajevo, 37 branch offices and 1 office in Federation of Bosnia and Herzegovina.

The Bank is registered in Federation of Bosnia and Herzegovina to perform payment operations, credit and deposit activities in the country and abroad, in accordance with the legislation of FBiH.

The immediate parent of the Bank is Addiko Bank AG Austria, while the ultimate owners are Advent International Corporation, United States of America, and the European Bank for Reconstruction and Development (EBRD).

The Bank is the 100% owner of Addiko Invest d.o.o. Mostar, which, combined with the Bank, makes the Group. The Company is responsible for the establishment and management of investment funds: Investment fund CROBiH Fond d.d. Mostar ("IF CROBiH"), Open investment fund Addiko BH Equity, Investment fund Fortuna fond d.d. Cazin, and OIF Kapital.

2. BASIS OF PREPARATION

a) Statement of compliance

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

These financial statements were authorised by the Management Board of the Bank on 24 March 2017 for submission to the Supervisory Board for approval.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for financial assets and liabilities at fair value through profit or loss and certain financial instruments that are measured at fair value.

c) Functional and presentation currency

Financial statements are presented in convertible mark (KM), taking into account that this is the currency in which most of Bank's business transactions are presented. Convertible mark is pegged to the Euro (EUR 1 = KM 1.95583).

d) Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may eventually differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

2. BASIS OF PREPARATION (CONTINUED)

d) Use of estimates and judgements (continued)

Information on areas with significant uncertainty in the estimates and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in these financial statements are disclosed in Note 4.

e) Going concern

The financial statements of the Bank are prepared on a going concern basis, which assumes it will continue its business operations in the foreseeable future. Even though the Bank faced numerous challenges during 2016, it is necessary to emphasize that capital and liquidity positions were not endangered, primarily due to capital increase by the majority owner of the Bank, and change of business strategy.

One of the main challenges that the Bank faced in 2016 is the issue of customers using loans with foreign currency clause in Swiss franc. In March 2016, the Bank offered incentives to retail customers with foreign currency clause in Swiss franc, which are reflected in the reduction of credit commitments by 30% accompanying the conversion into local currency at current exchange rate and a fixed interest rate of new loans of 5.99%. The proposed offer of the Bank has a component of social responsibility, in the form of additional reliefs to reduce the amount of credit commitments by 50% for socially endangered categories. Loss recorded on this basis is KM 12.8 million.

At 31 December 2016, the Bank reported capital adequacy ratio at the level of 16%, which is above the stipulated limit of 12% (percentage as at 31 December 2015: 14.7%). With regard to liquidity and capital position of the Bank as at 31 December 2016 and the fact that the sale transaction of the Addiko Group has ended, management has concluded that these financial statements can be made on the basis of the going concern concept, which assumes that the Group and the Bank will continue to operate in the foreseeable future. Management believes that this is supported by the fact that at the time of reporting, the Bank has significant refinancing lines owned by Addiko Bank AG, Austria.

f) New standards and interpretations

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

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016);

2. BASIS OF PREPARATION (CONTINUED)

f) New standards and interpretations (continued)

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" -Bearer Plants (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016);
- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The following new or amended standards are not expected to have a significant impact of the Bank's accounting policies.

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" (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);
- 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 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 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 IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

The Bank has elected not to adopt these new standards and amendments to existing standards in advance. The Bank anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Bank in the period of initial application, except for IFRS 9. The Management is currently analysing the impact of IFRS 9 on Bank's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies set out below have been consistently applied to all periods, presented in these financial statements.

a) Basis of consolidation

a) Business combinations

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

b) Subsidiaries

Financial statements are prepared for the Bank and the Group. Financial statements of the Group include consolidated financial statements of the Bank and Addiko Invest d.o.o. entity under its control (subsidiary). In the Bank's unconsolidated financial statements, investments in subsidiary are accounted for at cost less impairment.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated in preparing the consolidated financial statements. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

c) Transactions eliminated on consolidation

Intra-group balances and transactions, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Investments

A subsidiary is a subject under Bank's control. Control is obtained by the Bank's cooperation in decisions on financial and business policies of the subject, in a way to obtain benefits from the related entity's business operations.

Investments in subsidiaries presented in these financial reports are valued by costs decreased by losses from value impairment of individual investment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Interest income and expense

Interest income and expense are recognised in the income statement as they accrue using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows of financial assets or liabilities over the life of the financial instrument (or, if appropriate, a shorter period) to its net carrying value. In the calculation of effective interest rates the Bank estimates future cash flows considering all contractual terms, but not future credit losses.

Interest income is not recognized for past-due, non-performing loans. The collected suspended interest is recognized as income upon receipt of cash. Interest on deposits is capitalized if stipulated in the contract.

d) Income from management fees

Revenue is recognized on delivery of services or transfer of ownership. Interest income is recognized on an accrual basis based on the principal amount outstanding and at the effective interest rate applicable.

The Group generates income from fund management fees, which are regulated by the Law on Fund Management Companies and Investment Funds (which was replaced by the new Law on Investment Funds in January 2009) and the Regulations on the evaluation and calculation of the assets of investment funds (Official Gazette of the Federation of Bosnia and Herzegovina No. 42/09). The net value of the Fund is determined by the Group and the calculation of the value is controlled and verified by the Depositary Bank.

According to the Law on Investment Funds (Official Gazette of the Federation of Bosnia and Herzegovina 85/08, Article 64-66, which entered into force on 2 January 2009) management fee is calculated and paid in cash, and together with other costs prescribed by the Prospectus and the Statute, may not exceed 3.5% of the average net asset value of the Fund per year.

e) 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.

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.

f) Net trading income

Net trading income comprises net gains and losses from foreign exchange trading, and net gains and losses from the translation of monetary assets and liabilities denominated in foreign currency at the reporting date.

g) Dividend income

Dividend income is recognised in the income statement when the right to receive income is established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Leases

Group as lessor

Leases where the Group and Banks as lessor retains substantially all the risks and rewards incidental of ownership of the asset are included in property and equipment and intangible assets at cost less accumulated depreciation. Rental income made under operating leases is recognized in the income statement on a straight-line basis over the lease term.

Group as a lessee

Payments made under operating leases are recognised in the income statement on a straight- line basis over the term of the lease.

i) Taxation

Income tax expense based on income tax represents the sum of the current tax payable and deferred taxes.

The tax expense is based on taxable income for the year. Taxable profit differs from net profit as reported in the statement of 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 balance sheet date.

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 balance sheet 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 assets and liabilities are not discounted and are classified as long term assets and/or liabilities in the statement of financial position.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also presented with in the equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank and Group have the ability and intention to settle on a net basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments

Recognition

Financial assets and financial liabilities are recognized when the Group and the Bank become a party to the contractual provisions of the instrument.

Classification

The Bank and the Group classify their financial instruments in the following categories: loans and receivables, financial assets at fair value through profit or loss, financial assets available for sale and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of financial assets and liabilities upon initial recognition and re-evaluates this classification at each reporting date.

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. Loans and receivables arise when the Bank provides money to a debtor with no intention of trading with these receivable and include placements with and loans to other banks, loans and advances to customers and balances with the Central Bank.

ii) Financial assets at fair value through profit or loss

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

The Group designates financial assets and financial liabilities at fair value through profit or loss when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminated or significantly reduced an accounting mismatch which would otherwise have arisen; or
- the asset or liability contains an embedded derivative that significantly modified the cash flows that would otherwise be required under the contract.

Financial instruments at fair value through profit or loss include derivatives.

iii) Financial assets available for sale

Financial assets classified as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or equity prices. Financial assets available for sale include equity and debt securities.

iv) Other financial liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments (continued)

iv) Other financial liabilities (continued)

Initial and subsequent measurement

Loans and receivables are initially recognised at fair value. After initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Costs incurred to third parties, as tariffs for loan insurance, are treated as part of the transaction cost.

Financial assets carried at fair value through profit and loss are initially recognized at fair value, and transaction costs directly attributable to profit or loss. After initial recognition, the Group recognizes financial instruments at fair value through profit or loss at their fair value, without any deduction for transaction costs.

Financial assets available for sale are measured initially at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequent to initial recognition financial assets available for sale are measured at fair value, except for equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are stated at cost increased by transaction costs, less impairment.

Other financial liabilities are initially measured at fair value less transaction costs. Subsequent to initial recognition the Bank measures other financial liabilities at amortised cost using the effective interest rate.

Recognition of gains and losses on subsequent measurement of financial instruments

Gains and losses arising from changes in fair value of financial assets available for sale are recognized directly in equity as revaluation reserves with the exception of impairment losses, interest calculated using the effective interest method, and gains and losses arising from exchange rate differences on monetary assets , which are recognized in the income statement. In the case of the investment being disposed of, or impaired, the cumulative gain or loss previously recognized in the revaluation reserve is included in profit or loss for the period.

Dividends on these equity instruments are recognized in the income statement when the Bank establishes the right to receive payments.

Derecognition

The Group derecognises financial assets (in full or partially) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights on those financial assets. If the Group neither transfers nor retains substantially all the risks and rewards of ownership, and maintains control of the asset, the Group continues to recognize the financial asset.

The Bank derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments (continued)

Reclassification

No transfers of derivatives and financial instruments initially designated as at fair value through profit and loss are allowed to other portfolios. Financial assets held for trading may be reclassified from this category in the case when both of the following two conditions are met: a change in the intended purpose of the assets and an extraordinary event. In such case, the fair value at the reclassification date becomes the new cost/amortised cost. Reclassification is possible to the available-for-sale portfolio, the held-to- maturity portfolio and the loans and receivables portfolio. Transfers from other portfolios to the portfolio at fair value through profit and loss are not possible.

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

Offsetting financial instruments

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

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

Fair value measurement

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments (continued)

Identification and measurement of impairment of financial assets

i) Financial assets carried at amortised cost

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has (or have) an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for the individual financial assets in the group.

For financial assets carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists individually, for financial assets that are individually significant, or collectively, for financial assets that are not individually significant. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted at the original effective interest rate of financial assets valid at the time the asset become impaired. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

For individually significant loans, the need for, and amount of impairment allowance is determined based on an assessment which includes the sustainability of the counterparty’s business plan, its ability to improve performance once a financial difficulty has arisen, the availability of working capital and other financial support, the realisable value of collateral, and the timing of the expected cash flows.

Impairment is determined on a group level, for credit losses that are not individually significant. For the assessment of group impairment, the Bank uses statistical models and historical data on the probability of occurrence of events that cause impairment, the time required for recovery, and the amount of loss incurred, adjusted for management’s assessment of whether current economic and credit conditions are such that it is likely that the actual losses will be higher or lower than those calculated on the basis of historical data.

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 recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments (continued)

Identification and measurement of impairment of financial assets (continued)

i) Financial assets carried at amortised cost (continued)

When a loan is uncollectible, it is written off against the related impairment allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as a reversal of impairment losses in the income statement.

The Bank also calculates provisions in accordance with the relevant regulations of the Banking Agency of the Federation of Bosnia and Herzegovina ("the Agency" or "FBA"). In accordance with these regulations, the relevant placements are classified into appropriate risk groups, depending on the past due days, the financial position of the borrower and collateral; and are provided for at prescribed rates. A general provision is also calculated in accordance with these regulations at a rate of 2% on exposure not specifically impaired.

The provisions calculated on the basis of the preceding paragraph ("the FBA provisions") are not recognized in those financial statements of the Bank. However, if the FBA provisions are greater than the impairment allowance calculated in accordance with IFRS, the difference is presented as an appropriation within equity in the position "Regulatory reserves".

ii) Financial assets available for sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its acquisition cost is considered in determining whether the assets are impaired.

Specific financial instruments

i) Derivative financial instruments

The Bank uses derivative financial instruments to hedge economically its exposure to foreign exchange risks arising from operating, financing and investing activities. The Bank does not hold or issue derivative financial instruments for speculative trading purposes Hedge accounting is not applied.

Derivative financial instruments include foreign exchange forward contracts and are initially recognised and subsequently measured at their fair value in the statement of financial position. Fair values are obtained from discounted cash flow models.

All derivatives are classified as financial assets at fair value through profit or loss when their fair value is positive and as financial liabilities at fair value through profit or loss when it is negative.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments (continued)

Specific financial instruments (continued)

ii) Cash and cash equivalents

For the purpose of reporting cash flows, cash and balances with other banks are defined as cash, balances with the Central Bank and current accounts with other banks. Cash and balances with other banks exclude the compulsory minimum reserve with the Central Bank as these funds are not available for the Bank's day-to-day operations. The compulsory minimum reserve with the Central Bank is a required reserve to be held by all commercial banks licensed in Bosnia and Herzegovina.

iii) Placements with banks and the obligatory reserve with the Central Bank

Placements with banks and the obligatory reserve with the Central Bank are classified as loans and receivables and are carried at amortised cost less impairment losses.

k) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Subsequent cost is included in net book value or is accounted for as separate assets only if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. Gains or losses on the disposal of property and equipment and intangible assets are included in the statement of income in the period in which they occur.

Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable assets as follows:

	2015	2016
Buildings	2%	2%
Office equipment	10-33.3%	10-33.3%
Vehicles	25%	20%
Leasehold improvements	20%	20%

Leasehold improvements are capitalized and amortized on straight-line basis or during their useful life or over the lease term, depending on what is shorter. Gains and losses on disposal of assets are determined as difference of cash inflow and carrying amount amounts and are recognized within the income statement as gains or losses from sale or disposal of property and equipment.

The Bank reviews the estimated useful life of property and equipment at the end of each annual reporting period. During 2016, pursuant to the requirements of the Corporate Income Tax Act in Federation of BiH ("Official Gazette of Federation of BiH", no. 15/16) that changed deductible depreciation rates, and based on the review of useful lives of long-term assets, the Management estimated that useful lives of certain assets are longer or shorter than initially estimated, which resulted in decreased depreciation expense and increased net result for 2016 for the amount of KM 73 thousand.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. The cost includes all expenditure that is directly attributable to the acquisition of the items.

Amortisation is provided on all intangible assets except assets in the course of construction on a straight line basis at prescribed rates designed to write off the cost over the estimated useful lives of the assets. The amortisation rates used by the Bank are as follows:

Software		14,29% - 20%

m) Investment property

Investment property is property held by the Group to earn rentals or for capital appreciation or for both, but not for sale in the ordinary course of business or for administrative purposes.

Investment property is measured initially at its cost, including transaction costs. Subsequently, investment property is stated at cost less accumulated depreciation and any impairment loss.

Investment property is depreciated on a straight-line basis over a period of 50 years.

Investment property is derecognised when either it has been disposed of or permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the income statement in the year of retirement or disposal.

n) Acquired tangible assets

The Group occasionally acquires real estate and movable property in exchange for the settlement of certain loans and advances.

In accordance with the International Accounting Standard ("IAS") 2: "Inventories", such properies are initially recognised at cost. After the initial recognition, these assets are stated at the lower of the following two values – cost or net realizable value. An impairment loss is recognized whenever the carrying amount of an asset exceeds its net realizable value. Impairment losses are recognized in the income statement for the year.

Gains and losses from sales are recognized in the income statement for the year.

o) Impairment of non-financial assets

At each reporting period date, the Bank reviews the possibility of any indications of impairment arising, as well as the carrying amounts of its other assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss The Bank regularly reviews the remaining life time of the assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Impairment of non-financial assets (continued)

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

p) Employee benefits

Short-term benefits

The Bank performs payment of liabilities in terms of taxes, contributions, and benefits from employment in accordance with the collective agreements in FBiH, as meal allowances, transport, one-time fee. These costs are recognized in the income statement in the same period as the cost of staff salaries.

Long-term employee benefits: retirement severance payments

In accordance with applicable laws and regulations, as well as the requirements of the Bank`s Employment Handbook, severance payments are made depending on the type of employment contract termination and for cases in which a payment is determined. In the event of termination of employment due to retirement, the Bank pays severance payments in the amount of 6 net individual salaries of employees, and in the case of termination of employment for economic, technical and organizational reasons, the employee is paid 50% of individual net salary, that the employee was realising with the employer for each year of service with the employer, rounded to the first following half. In addition to the above amount, the extra amount of severance pay may be approved by the Management Board and the Supervisory Board, appreciating the circumstances of each case.

Retirement benefits provisions are based on actuarial reports and are used only for the purposes they are intended for. At the end of each year, an assessment of accuracy of the amounts of provisions for retirement benefits and unused holiday accrual is performed.

In accordance with the Amendments to International Accounting Standard ("IAS") 19: Employee Benefits", additional provisions or reversal of such provisions are recognized in the Income statement, under "Personnel expenses", assuming they are not related to actuarial gains and losses, otherwise they shall be immediately recognized in other comprehensive income. Benefits falling due more than 12 months after the statement of financial position date are discounted to their present value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) 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 balance sheet 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 income statement for the period.

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

31 December 2016	1 EUR = 1.95583 KM	1 USD = 1.855450 KM
31 December 2015	1 EUR = 1.95583 KM	1 USD = 1.790070 KM

r) Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present liability at the reporting date, taking into account the risks and uncertainties surrounding the liability. Where a provision is measured using the cash flows estimated to settle the present liability, its carrying amount is the present value of those cash flows.

Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

s) Share capital and reserves

Issued share capital

Issued share capital comprises ordinary and preference shares and is stated in KM at nominal value.

Regulatory reserve for credit losses

The regulatory reserve for credit losses represents the surplus of impairment allowances calculated in accordance with regulations as prescribed by the Agency over impairment allowances recognised in accordance with IFRS. The reserve is presented directly within equity (as a non-distributable reserve) and until 2012 any increase of the surplus was covered by transfers from retained earnings, after approval by shareholders.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Share capital and reserves (continued)

Prior to 2012, the need for transfers from retained earnings to an earmarked reserve within equity (regulatory reserve for credit losses) was calculated for the whole credit-risk portfolio on a net basis, thereby taking into account both instances where application of Agency regulations would have resulted in a higher provision and instances where the application of Agency regulations would have resulted in a lower provision, comparing to IFRS reserves. However, from 2012, banks are required to calculate the requirement for regulatory reserves for credit losses taking into account only instances where higher provisions would have resulted from the application of the Agency rules. Retroactive application of this change in Agency rules is not required. Based on the Decision of Minimum Standards for Capital Management and Asset Classification issued by the Agency in February 2013 any increase of the surplus of regulatory provisions no longer needs to be presented as a reserve movement within equity but will be exclusively computed as a deduction of regulatory capital for the purpose of capital adequacy calculations. Accordingly, the balance of the regulatory reserve presented in the financial statements as of 31 December 2011 has been carried forward unchanged to 31 December 2016.

Dividends

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

t) Off-balance sheet commitments and contingent liabilities

In the ordinary course of business, the Group enters into credit-related commitments which are recorded off balance sheet and primarily comprise guarantees, letters of credit, undrawn loan commitments and credit-card limits. Such financial commitments are recorded in the Group's statement of financial position if and when they become payable.

u) Managed funds for and on behalf of third parties

The Bank manages funds for and on behalf of corporate and retail clients. These amounts do not represent the Bank's assets and are excluded from the statement of financial position. For the services rendered the Bank charges a fee.

v) Segment reporting

Debt securities or shares of the Bank are not traded on public markets, and these financial statements are not subject to regulation by the Securities Commission, for the purpose of issuing any type of instruments in a public market. Accordingly, the Bank operates under a single business and geographical segment, that is, the provision of banking services in Bosnia and Herzegovina.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATIONS

When applying the accounting policies described in Note 3, the Management makes the decisions, estimates and assumptions that affect the amounts of assets and liabilities that cannot be derived from other sources. The estimates and assumptions are based on historical experience and other relevant factors. Actual amounts may differ from those estimates. Significant estimates made by the Management as at 31 December 2016 and 2015 in these financial statements are presented below.

Estimates and assumptions are continually reviewed. Changes in accounting estimates are recognized in the period of change, if the changes are being reflected in the same, or in the period of the change and other future periods if it affects current and future periods.

Impairment losses on loans and receivables

The Group monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on and off-balance sheet exposure to credit risk is assessed on a monthly basis.

Impairment losses are made mainly against the carrying value of loans to corporate and retail customers and as provisions for liabilities and charges arising from off-balance exposure to customers, mainly in the form of guarantees and letters of credit and other assets.

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

The Group first assesses whether objective evidence of impairment exists individually for assets that are individually significant. However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics and then assessed collectively for impairment.

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

The Group, in accordance with the initiative, which was conducted at the level of the entire Addiko Group at the end of 2016, carried out the amendment to its methodology in provisions for credit risks.

The first and main criterion for determining the type of impairment is determining whether the impairment trigger occurred, as defined in the policy for determining irregular payment of liabilities and reconstruction.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATIONS (CONTINUED)

Impairment losses on loans and receivables (continued)

The client that are not in default will be provisioned based on portfolio principle, while the default clients will be provisioned individually or collectively depending on the significance of exposure at default (EAD) of their group of related parties. Individual risk provisions represent the impairment of assets for the amount that is not expected to be collected in the contractual maturity. The amount of impairment loss for the outstanding exposures is the result of gross exposure (balance and/or off-balance) impaired for the expected future cash flows discounted to their present value. The impairment losses on financial assets held at amortized cost will be calculated as the difference of the carrying amount of assets and present value of estimated future cash flows, discounted at the original effective interest rate.

Portfolio of risk provisions (PRP) represents impairment of assets for incurred but not reported (unidentified) losses. Default does not need to happen in order to estimate PRP, but it is a general measure of expected credit risk within the portfolio, adjusted for loss identification period (LIP).

Litigation and claims

The Group assesses the amount of provisions for expenses for litigations. The assessment is based on the estimated probability of future cash flows, arising from the past legal or constructive obligations and based on professional legal advice.

The Bank provisioned KM 18,228 thousand in respect of litigations (2015: KM 12,475 thousand), which the Management estimates as sufficient.

At 31 December 2016, the total proceedings brought against the Bank amounted to KM 219.3 million, not including potential penalty interest. This amount includes KM 23.1 million already paid, so it does not represent additional risk of loss, but the court proceedings are open. There are 1,115 litigations brought against the Bank, of which 958 litigations are related to CHF disputes and increase in interest rate, with the value of KM 47.1 million (the amount includes other claims, such as damage claims, if combined for CHF/margin claims).

In 2016, a significant legal loss in the claim M-Rozić d.o.o. Mostar occurred, in which the Bank paid the total ruled amount of KM 21 million. Due to Bank's estimate that it is an unlawful court decision, the Bank filed a request for audit to the Supreme Court of FBiH, expecting the decision in the third quarter of 2017.

Loans with CHF foreign currency clause

For the purpose of resolving loan portfolio with the CHF foreign currency clause, the Bank initiated the CHF project on 8 March 2016.

The Bank identified 2,544 loan parties as the scope of the project, which the Bank had as at 29 February 2016. The number of parties did not contain the pool of loan parties that are the consequence of previously offered solutions related to CHF issue, and they are related to the party of initial loan approval (46 parties).

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATIONS (CONTINUED)

Loans with CHF foreign currency clause (continued)

The project officially ended on 5 December 2016, given that the Bank continued with realization of incoming requests, and all subsequent client requests are considered individually as a part of regular activities.

As at 31 December 2016, 1,386 requests were realized (54% of total parties), while a certain number of parties was closed by regular repayment during the project.

The outstanding number of retail parties with CHF foreign currency clause in Bank's portfolio as is 1,075 as at 31 December 2016.

Total of KM 23.7 million of on-balance and KM 10.1 million of off-balance client exposure were written-off, with the effect on the statement of profit or loss in the expense amounting to KM 12.4 million.

Taxation

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

Regulatory requirements

The Agency is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulation.

Acquired tangible assets

The Bank and the Group occasionally acquire properties in settlement of certain loans and advance payments. Properties are stated at net realizable value of the dependent claims on loans and receivables or at the current fair value of such assets less selling costs, depending on which is lower. Gains and losses from the sale are recognized in the statement of profit or loss.

Retirement severance payments

Costs for long-term provisions relating to the future outflows for retirement pay for employees who are to be retired, are formed on the basis of an actuarial calculation in accordance with International Accounting Standard ("IAS") 19: Employee Benefits". For this calculation, Group hired a certified actuary who calculates on the basis of data from the Human Resources records, of the Group according to the estimated time of retirement of employees. The present value of future liabilities is calculated using a discount rate. These liabilities are used exclusively to cover the costs for which are formed. At the end of each financial year, the Group assesses these provisions. If it is estimated that the provision is higher / lower than estimated amount, the difference will affect the income or expense, except when it is a result of changes in actuarial assumptions, this change is recorded in equity as part of actuarial losses or gains.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATIONS (CONTINUED)

Retirement severance payments (continued)

Appointed actuary made a new calculation of provisions in January 2017 in accordance with the International Accounting Standard ("IAS") 19: "Employee Benefits" as at 31 December 2016. According to the new calculation Group has recorded an increase in previously recognized provision at the expense of actuarial losses in equity. Assessment of short-term provisions for unused vacation days is done according to the number of days of unused vacation leave on the day of statement of financial position and average monthly gross salary per employee.

Impairment of assets available for sale

The group determines that the capital investment available for sale is impaired when there has been a significant or extended decline in the fair value below their cost. Determination of meaning of significant and extended decline requires judgement. In making this judgment, the Group, among other factors, also estimates normal action price volatility.

In addition, impairment may be appropriate when there is evidence of declining financial health of the investor, industry and sector performance, changes in technology, and operational and finance cash flows.

If every decline in the fair value below cost is considered significant and prolonged, the Group and the Bank would have a reduction in the loss of KM 20 thousand in its financial statements for 2016, which represents a transfer of the total fair value reserve in the statement of profit or loss.

The fair value of properties and investment properties

The fair value of real estate and investment properties is estimated based on the market value of similar properties in similar locations, by certified evaluators on a regular basis. Fair value is determined by the method of capitalization valuation method taking into account the actual or possible achievable annual income of assessed property, which is then put in relation with the value of the investment. The actual annual income is reduced by maintenance costs, depreciation, tax and risk of the absence of rent or non-issuance of property lease. Specific factors that were used in the assessment are those for the market of Bosnia and Herzegovina.

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

5. SEGMENT REPORTING

The Bank monitors business by business segment (public companies, corporate, retail) and by geographical segment (offices) for purposes of group reporting of Parent Bank and because of internal financial analysis, in order to manage the Bank's results and achieve greater profitability.

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

- Business with retail segments-Retail (RET), in which are identifies three sub-segment as follows:
  - sub-segment of physical persons (PI),
  - affluent sub-segment (AFF),
  - and sub-segment of small and medium enterprises (SME)
- Business with corporate segment – Corporate (COR)
- Operations with the segment of public enterprises – Public (PUB)
- Treasury (TRE)
- Other (OTH)

The tables below shows the overall analysis of the income statement for the Bank, since it represents a major segment of the consolidated income statement.

BANK	RET	COR	PUB	TRE	OTH	Total
For the year ended 31 December 2016						
Interest income	17,633	5,928	719	1,404	-	25,684
Interest expenses	(6,441)	(71)	(145)	(1,041)	-	(7,698)
Net interest income	**11,192**	**5,857**	**574**	**363**	**-**	**17,986**
Fee and commission income	8,736	2,345	133	1	-	11,216
Fee and commission expenses	(2,715)	(487)	(28)	-	-	(3,230)
Net fee and commission income	**6,021**	**1,858**	**105**	**1**	**-**	**7,985**
Other income	**3,669**	**1,632**	**37**	**492**	**938**	**6,768**
Operating income	**20,882**	**9,347**	**716**	**856**	**938**	**32,739**
Operating expenses	**(20,694)**	**(4,081)**	**(546)**	**(652)**	**(34,782)**	**(60,755)**
(Loss) / profit before impairment, provisions and income tax	**188**	**5,266**	**170**	**204**	**(33,844)**	**(28,016)**
Impairment losses and provisions	6,504	(1,360)	(9)	(4)	(14,744)	(9,613)
LOSS BEFORE INCOME TAX	**6,692**	**3,906**	**161**	**200**	**(48,588)**	**(37,629)**
Income tax	-	-	-	-	-	-
NET LOSS FOR THE CURRENT YEAR	**6,692**	**3,906**	**161**	**200**	**(48,588)**	**(37,629)**

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

5. SEGMENT REPORTING (CONTINUED)

BANK	RET	COR	PUB	TRE	OTH	Total
For the year ended 31 December 2015						
Interest income	23,240	7,590	1,183	600	119	32,732
Interest expenses	(6,511)	(238)	(178)	(3,046)	-	(9,973)
Net interest income	**16,729**	**7,352**	**1,005**	**(2,446)**	**119**	**22,759**
Fee and commission income	9,196	2,011	224	-	-	11,431
Fee and commission expenses	(1,868)	(692)	-	(333)	-	(2,893)
Net fee and commission income	**7,328**	**1,319**	**224**	**(333)**	**-**	**8,538**
Other income	**-**	**-**	**-**	**-**	**10,026**	**10,026**
Operating income	**24,057**	**8,671**	**1,229**	**(2,779)**	**10,145**	**41,323**
Operating expenses	**(31,235)**	**(8,407)**	**(593)**	**(1,185)**	**-**	**(41,420)**
(Loss) / profit before impairment, provisions and income tax	**(7,178)**	**264**	**636**	**(3,964)**	**10,145**	**(97)**
Impairment and provisions	(60,214)	(14,274)	(22)	(43)	(15,456)	(90,009)
LOSS BEFORE INCOME TAX	(67,392)	(14,010)	614	(4,007)	(5,311)	(90,106)
Income tax	-	-	-	-	(908)	(908)
NET LOSS FOR THE CURRENT YEAR	(67,392)	(14,010)	614	(4,007)	(6,219)	(91,014)

The table below shows the total assets and liabilities by segment for the Bank, since it represents a major segment of the consolidated statement of financial position.

BANK	RET	COR	PUB	TRE	OTH	Total
31 December 2016						
Total assets	227,874	133,935	10,997	433,372	40,358	**846,536**
Total liabilities	473,951	97,384	28,991	5,524	35,370	**641,220**
31 December 2015						
Total assets	207,452	113,778	24,990	411,552	50,985	**808,757**
Total liabilities	424,009	71,301	28,252	67,061	29,122	**619,745**

6. FINANCIAL RISK MANAGEMENT

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

The Group's and the Bank's activities expose it to a variety of financial risks: credit risk, market risk, liquidity risk and operating risks.

a) Credit risk management

The Bank and the Group takes on exposure to credit risk which is the risk that the counterparty will be unable to pay amounts in full when due. Based on the allocation of placements and borrowers into risk categories, the Bank identifies and assesses the possible level of credit losses, that is the general credit risk and potential credit loss.

Assessments of credit losses are being performed by the Group and the Bank individually for each debtor or group of related individuals and / or on a portfolio level, segmented according to relevant criteria. The Bank regularly monitors the mentioned risks and reviews them in accordance with internal programs and policies and decisions of the Banking Agency of the Federation.

The Group and the Bank manage credit risk through a regular analysis of the creditworthiness of existing and potential borrowers to pay off their liabilities for equity and interests, and changes in indebtedness limits where necessary. This is done in accordance with set procedures for credit approval, additional lending, investment activities, and assumptions for potential off-balance sheet commitments. In addition, with the Group's exposure to credit risk, it manages and further reduces to a minimum any form of risk related to quality, concentration, providing billing (all loans are insured by collateral, guarantees, mortgages and other types of insurance), maturity and currency.

The Bank has formed a separate organisational unit in charge of managing and controlling credit risk and the collection of problematic receivables, pursuant to the organisational chart used within Addiko Bank Group. The Bank introduced a clearer and stricter criteria for granting new financing. The Bank also raised the alert level for continuous monitoring and early recognition of risks and steps taken to address before mentioned. The assessment of credit risk and responsibility is partly transferred from the credit committee on to personal responsibility, in order to better assess risk (not only at the level of a credit committee).

The Bank approves the loans in accordance with a defined process of loan approval, based on the borrower's creditworthiness and exclusively on the basis of its sustainable cash flow, as the primary source of the repayment of loans. Credit decisions are made, or holder of jurisdiction is determined by the total liabilities / limits group of related persons.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk management (continued)

For all loans in the Bank, there are several levels of authority for approving them, of which the highest is the Supervisory Board of the parent company. The relevant department responsible for credit risk management provides a non-binding opinion for every approval, and is authorized to approve loans up to EUR 250,000 of exposure of the debtor and/or a group of related persons, and has the right to vote in the local credit committee with decision-making competence up to EUR 5,000,000.

In order to ensure business activities, and based on the estimated risk of potential losses, the Bank calculates provisions, based on the risk exposure arising from the loan and off-balance sheet claims.

The Bank calculates provisions for relevant loans using one of three approaches (methods):

- Portfolio provisions for latent losses (PRPLL) are applied to loans for which the loss event (IBNR) is still not recognized by the Bank on a particular date
- Portfolio risk provisions - collective impairment (SRPci) are applied for loans of the Bank, which based on their amount, are below the level of materiality relevant for the individual assessment of impairment and for which an objective evidence of impairment, has already been detected. Such individually insignificant loans, are being grouped by the Bank in portfolios with similar characteristics and impairment is being assessed on a collective basis.
- Individual provisions for risks - individual impairment (SRPii) represents the impairment allowance for each individual loan for an amount that is expected to not be collected in the agreed period. The amount of loss for which the remaining exposure is corrected, is the result of gross exposure reduction of expected future cash flows discounted to present value, where the expected future cash flows are assessed and recognized for each individual loan (party).

Managing problematic placements

Problematic placements (NPL status) are those which include investments that are overdue more than 90 days (significant material delay means that the liabilities exceed 2.5 % of total exposure and higher than EUR 250, and the delay from entering the significant material delay of more than 90 days) or who have reported problems in business. According to the categorization of investments in C, D and E, or assets with a special provision in accordance with IAS (NPL) with an internal rating of 5A or worse. Placements in category B, and/or internal rating ranging from 4A to 4E, are additionally monitored with the active participation of the Rehabilitation Department but are not considered NPL placements.

Since March 2011 2016, managing problematic placements is organized by the Rehabilitation Department, which is responsible for business with the corporate segment (COR) and the segment of public enterprises (PUB), including retail and the sub-segment of small and medium enterprises (SME customers), in whole or in partially, in the event that one or more legal entities - clients of the Rehabilitation Department, constitute a group of related parties and the Collection Division, that are in charge of SME and retail.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk management (continued)

Managing problematic placements (continued)

Rehabilitation Department is responsible for all COR and PUB clients (with all their related parties) with the delay status of over 90 days, a 5A rating and worse, and local classifications categories C, D and E. After the acquisition, the transfer of clients from markets is immediate. Before the transfer in Rehabilitation, Market works out a Protocol of the client transfer and the approval of the transfer is in the responsibility domain of the credit committee. In addition, the Rehabilitation Department has the right of withdrawal of other clients with a better rating of 5A in all cases in which the Rehabilitation Department estimates that there could be a deterioration of the credit risk.

Upon identification of a client as a NPL client, the Rehabilitation Department assumes competence and responsibility for the whole group of clients with the Bank as well as for defining collection strategy at the client group level. Transfer of clients to the Rehabilitation Department is performed at the clients related party group level, whereby all group members are allocated the credit rating of the worst group member. Exceptionally, the Rehabilitation Department can assume on one group member or allocate different credit ratings to the group members; however, this must be explained, documented and approved by competent bodies.

After assuming clients, the Rehabilitation Department assumes functions of both the Market and Credit Risk Management departments, as it is now competent for client processing and monitoring, for proposing manners of resolution and manners of possible collection of the Bank's receivables, for determination of the credit risk at the loan account/client level by applying the local regulations and IFRS, for obtaining valid collateral appraisal, for client rating adjustments, for assessment and proposal of the amount of SRP and for collection of receivables using all legal means available.

The Rehabilitation Department clients are monitored every six months via a credit report which is submitted for approval to the respective Credit Committees' competences.

In terms of a type of an organizational unit, the Rehabilitation Department consists of:

- Underwriting Function,
- Financial Analysis Function,
- Corporate Monitoring Function,
- Restructuring Function,
- Workout Function,

Collection Department in charge of collection from SME and retail sector borrowing clients is organized and operates through the following sub-departments:

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk management (continued)

Managing problematic placements (continued)

- Early Collection is in charge of servicing irregular clients/debtors, co-debtors and guarantors that are 1 to 90 days past-due;
- Delayed Collection, Legal Affairs and Assets Repossession Function is in charge of servicing irregular clients/debtors, co-debtors and guarantors whose contracts are cancelled, and for initiating and leading court proceedings for receivables collection;
- Restructuring Function is in charge of conducting financial restructuring measures for the portfolio within Sector's authority;
- Administration Function provides administrative support to the Sector in the collection process and is responsible for sending collection letters and debt notices to clients by SMS and letters. The Function is responsible for activating collateral instruments, debt calculations, contract cancellations, cooperation with external collection agencies, objections, etc.

Maximum exposure to credit risk

The table below shows the Group's and the Bank's maximum exposure to credit risk, by the statement of the financial position items:

	GROUP		BANK	
	2016	2015	2016	2015
Included in the statement of financial position				
Cash and balances with other banks	137,200	179,225	137,200	179,225
Obligatory reserve with the CBBH	59,783	54,996	59,783	54,996
Placements with other banks	26,933	30,993	26,933	30,993
Loans and advances to customers	371,663	346,220	371,663	346,220
Financial assets available for sale	171,035	113,470	171,035	113,470
Other assets excluding acquired assets	19,158	8,578	19,023	8,495
Total financial assets	**785,772**	**733,482**	**785,637**	**733,399**
Off-balance-sheet exposure				
Commitments and contingencies	105,803	88,781	105,803	88,781
Total credit risk exposure	**891,575**	**822,263**	**891,440**	**822,180**

For items included in the statement of financial position, the exposures set out above are based on net carrying amounts. Off-balance-sheet exposure is also stated net of provisions as reported in the statement of financial position.

The maximum exposure is presented without deducting the value of any underlying collateral. Loans and advances to customers are presented without deducting the accrued income fee.

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk management (continued)

Loans and advances to customers - rating system

Rating system of the Group and the Bank (as well as in the entire Addiko Group) must be presented in accordance with the main scale (five rating classes and five levels within each class). The probability of default of a certain client, whose rating was assigned from an internal Addiko Group rating scale, was expressed through the internal rating.

Client's rating is audited and updated in accordance with Bank's internal acts, more precisely Addiko Group.

All rating results are presented in accordance with the main Addiko Group scale, which is comprised of 25 ratings (5 for disordered cases/non-payment and 20 for regular).

Addiko Group groups ratings into 5 rating classes:

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

The Group's and the Bank's credit risk exposure arising from loans and advances to clients is given below:

	Corporate		Retail		Total	
GROUP AND BANK	Gross	Risk provisions	Gross	Risk provisions	Gross	Risk provisions
31 December 2016						
No rating	8	(1)	12,922	(452)	12,930	(453)
1A-1E	7,850	(15)	7,550	(113)	15,400	(128)
2A-2E	44,845	(308)	124,581	(2,042)	169,426	(2,350)
3A-3E	52,122	(1,082)	52,284	(843)	104,406	(1,925)
4A-4E	14,027	(684)	13,047	(347)	27,074	(1,031)
5A-5E	59,440	(27,680)	168,457	(151,903)	227,897	(179,583)
Total	**178,292**	**(29,770)**	**378,841**	**(155,700)**	**557,133**	**(185,470)**
Total (net)		**148,522**		**223,141**		**371,663**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk management (continued)

Loans and advances to customers - rating system (continued)

	Corporate		Retail		Total	
GROUP AND BANK	Gross	Risk provisions	Gross	Risk provisions	Gross	Risk provisions
31 December 2015						
No rating	1,491	(1,418)	3,209	(426)	4,700	(1,844)
1A-1E	9,039	(294)	965	(21)	10,004	(315)
2A-2E	29,254	(659)	117,952	(2,131)	147,206	(2,790)
3A-3E	40,810	(598)	47,270	(1,001)	88,080	(1,599)
4A-4E	18,234	(141)	31,688	(1,509)	49,922	(1,650)
5A-5E	77,826	(34,776)	195,087	(183,631)	272,913	(218,407)
Total	**176,654**	**(37,886)**	**396,171**	**(188,719)**	**572,825**	**(226,605)**
Total (net)		**138,768**		**207,452**		**346,220**

Loans and advances to customers: *analysis by performance*

GROUP AND BANK	2016	2015
Neither past due nor impaired	327,202	293,218
Past due but not impaired	1,498	1,486
Impaired (non-performing loans)	228,433	278,121
Gross	**557,133**	**572,825**
Collective and individual impairment (SRPii/ SRPci)	(179,958)	(221,424)
Provision Portfolio for Latent Losses (PRPLL)	(5,512)	(5,181)
Net	**371,663**	**346,220**

Neither past due nor impaired loans

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

GROUP AND BANK	2016	2015
Corporate	117,714	94,564
Retail	209,488	198,654
	327,202	**293,218**

Past due but not impaired loans

Past due but not impaired loans and receivables, by the sectoral structure and days of delay, can be summarized as follows:

GROUP AND BANK						
31 December 2016	**up to 30 days**	**30 to 60 days**	**60 to 90 days**	**90 to 180 days**	**over 180 days**	**Total**
Corporate	1,132	5	1	-	-	1,138
Retail	321	30	9	-	-	360
	1,453	**35**	**10**	**-**	**-**	**1,498**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk management (continued)

Loans and advances to customers: ***analysis by performance (continued)***

Past due but not impaired loans (continued)

GROUP AND BANK						
31 December 2015	**up to 30 days**	**30 to 60 days**	**60 to 90 days**	**90 to 180 days**	**over 180 days**	**Total**
Corporate	857	8	1	-	-	866
Retail	316	303	1	-	-	620
	1,173	**311**	**2**	**-**	**-**	**1,486**

Impaired loans

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

GROUP AND BANK	Corporate	Retail	Total
31 December 2016			
Gross	59,440	168,993	**228,433**
Collective and individual impairment (SRPii/ SRPci)	(27,680)	(152,228)	(179,958)
Net	**31,760**	**16,765**	**48,525**
Collateral fair value	39,499	35,029	74,528
31 December 2015			
Gross	81,224	196, 897	**278,121**
Collective and individual impairment (SRPii/ SRPci)	(36,343)	(185,081)	(221,424)
Net	**44,881**	**11,816**	**56,697**
Collateral fair value	50,576	49,531	100,107

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk management (continued)

Loans and advances to customers: ***Analysis per past due/delay days***

Loans and advances to customers of the Group and the Bank (gross and net) per past due/delay days are presented in the table below:

GROUP AND BANK	Corporate	Retail	Total
31 December 2016			
Not past-due	151,189	217,910	369,099
1 to 90 days past-due	4,537	9,509	14,046
Over 90 days past-due	22,566	151,422	173,988
Total gross loans and receivables	**178,292**	**378,841**	**557,133**
Provision Portfolio for Latent Losses (PRPLL)	(2,090)	(3,422)	(5,512)
Collective and individual impairment (SRPii/ SRPci)	(27,680)	(152,278)	(179,958)
Total provisions for potential losses	(29,770)	(155,700)	(185,470)
Net loans and receivables	**148,522**	**223,141**	**371,663**
31 December 2015			
Not past-due	141,803	213,241	355,044
1 to 90 days past-due	4,848	7,957	12,805
Over 90 days past-due	30,003	174,973	204,976
Total gross loans and receivables	**176,654**	**396,171**	**572,825**
Provision Portfolio for Latent Losses (PRPLL)	(1,543)	(3,638)	(5,181)
Collective and individual impairment (SRPii/ SRPci)	(36,343)	(185,081)	(221,424)
Total provisions for potential losses	(37,886)	(188,719)	(226,605)
Net loans and receivables	**138,768**	**207,452**	**346,220**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk management (continued)

Rescheduled and restructured receivables

A restructured loan is a loan that is refinanced, reprogrammed or otherwise converted, or a loan in which, due to the borrower's changed conditions and repayment capabilities, or its inability to make repayment in line with initially agreed repayment schedule; or because of the revised (lower) current market rate, previously agreed deadlines (period or repayment schedule) and/or other conditions subsequently changed so that the Bank can allow the borrower easier (and for the Bank itself more secure) debt servicing.

Overview the restructured and refinanced loans, at 31 December 2016 and 2015 is given below:

	Number of restructured loan	Amount
31 December 2016		
Corporate clients	2	274
Retail clients and entrepreneurs	1,261	35,698
Total	**1,263**	**35,972**
31 December 2015		
Corporate clients	5	6,170
Retail clients and entrepreneurs	217	5,784
Total	**222**	**11,954**

Sector concentration

Analysis of the financial assets exposed to credit risk of the Group and the Bank by industrial sectors on a gross and net basis (net of provisions) is shown in the following table:

GROUP AND BANK	2016	%	2015	%
Retail customers	379,759	68.16	406,869	71.03
Trade	62,712	11.26	48,883	8.53
Mining and industry	1	0.00	360	0.06
Services, tourism and catering business	10,480	1.88	9,349	1.63
Transport and communications	5,351	0.96	4,267	0.75
Real estate	4,409	0.79	5,041	0.88
Agriculture, forestry and fishing	3,422	0.61	4,142	0.72
Construction industry	14,075	2.53	13,893	2.43
Financial institutions	5,696	1.02	7,671	1.34
Power industry	96	0.02	95	0.02
Administration and other public services	41,712	7.49	39,633	6.92
Other	29,420	5.28	32,622	5.69
Less: Allowance for impairment	(185,470)	-	(226,605)	-
	371,663	**100**	**346,220**	**100**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk management (continued)

Off-balance sheet items

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

GROUP AND BANK	Up to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2016				
Borrowings	8,641	47,369	14,311	70,321
Payable, performance guarantees and letters of credit	193	36,870	7	37,070
	8,834	**84,239**	**14,318**	**107,391**
As at 31 December 2015				
Borrowings	36,244	16,987	11,556	64,787
Payable, performance guarantees and letters of credit	23,156	3,544	-	26,700
	59,400	**20,531**	**11,556**	**91,487**

b) Market risk

Given that the Bank represents the main segment of the consolidated Statement of financial position, the following chapter analyses the market risk from the aspect of the Bank.

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

General Requirements

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

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

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Market risk (continued)

Risk Measurement

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

The Bank uses VaR to measure the following market risks:

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

Bank's VaR by types of risk in 2016 and 2015 amounts to:

BANK	Minimum	Maximum	Average	31 December
2016				
Interest rate risk	38.5	178.1	112.1	171.2
Foreign currency risk	1.3	7.8	3.8	7.8
Price risk	1.5	4.7	3.1	4.5
Credit spread risk	24.7	294.2	112.0	58.4
	66.0	**484.8**	**231.0**	**241.9**
2015				
Interest rate risk	160.4	305.3	215.0	305.4
Foreign currency risk	1.9	11.5	4.9	3.5
Price risk	2.3	6.3	3.9	6.3
Credit spread risk	4.9	61.6	22.2	21.6
	169.5	**384.7**	**246.0**	**336.8**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Foreign currency risk

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

Foreign currency risk exposure is controlled daily in accordance with legislation and the internally set limits for each currency and for the financial assets and liabilities denominated in foreign currencies. During the year opened currency positions (gaps) were held within the limits prescribed by the Decisions of Banking Agency of FBiH and the internal limits set according to the HGAA methodology. Foreign currency adjustment of financial assets and liabilities are reflected through purchase and sales of all foreign currencies and by including foreign currency clause into agreements on deposits and monitoring approval of loans with contracted currency clause. Foreign currency risk activities and responsibilities are defined in the Foreign Currency Risk Program.

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

Sensitivity analysis

The following table indicates the currencies to which the Bank had significant exposure at 31 December 2016 and 31 December 2015, considering that the Bank represents the main segment of the consolidated financial statement. The Euro was not analyzed since the exchange rate of KM is linked to the Euro exchange rate.

Currency	FX Open position 31 December 2016	10% increase	10% decrease	FX Open position 31 December 2015	10% increase	10% decrease
USD	411	76.3	(76.3)	(65)	(11.68)	11.68
CHF	757	137.9	(137.9)	(3)	(0.49)	0.49

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

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Foreign currency risk (continued)

The Group had the following currency position:

GROUP	EUR	USD	CHF	Other currencies	KM	Total
31 December 2016						
ASSETS						
Cash and balances with other banks	22,306	1,742	1,250	2,749	135,322	163,369
Obligatory reserves with the Central Bank of BiH	-	-	-	-	59,783	59,783
Placements with other banks	19,511	7,422	-	-	-	26,933
Loans and advances to customers	234,292	55	26,648	-	110,668	371,663
Financial assets available for sale	138,966	12,521	-	-	20,023	171,510
Property and equipment	-	-	-	-	26,577	26,577
Intangible assets	-	-	-	-	827	827
Investment property	-	-	-	-	468	468
Prepaid income tax	-	-	-	-	1,783	1,783
Other assets	2,581	4,163	1	17	14,665	21,427
Total assets	**417,656**	**25,903**	**27,899**	**2,766**	**370,116**	**844,340**
LIABILITIES						
Due to other banks	404	165	4,903	2	50	5,524
Due to customers	281,575	25,250	3,625	2,655	285,249	598,354
Provisions	-	-	-	-	20,920	20,920
Provision for financial commitments and contingencies	248	7	-	-	1,333	1,588
Other liabilities	952	70	28	3	11,973	13,026
Total liabilities	**283,179**	**25,492**	**8,556**	**2,660**	**319,525**	**639,412**
Assets - off-balance sheet	20,927	-	2,277	-	154,511	177,715
Liabilities - off-balance sheet	156,790	-	20,863	-	-	177,653
Net foreign exchange position	**(1,386)**	**411**	**757**	**106**	**205,102**	**204,990**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Foreign currency risk (continued)

GROUP	EUR	USD	CHF	Other currencies	KM	Total
31 December 2015						
ASSETS						
Cash and balances with other banks	38,557	1,995	4,906	2,467	163,516	211,441
Obligatory reserves with the Central Bank of BiH	-	-	-	-	54,996	54,996
Placements with other banks	9,773	20,585	-	-	635	30,993
Loans and advances to customers	196,107	10	105,823	-	44,280	346,220
Financial assets available for sale	76,989	-	-	-	37,326	114,315
Property and equipment	-	-	-	-	35,778	35,778
Intangible assets	-	-	-	-	238	238
Investment property	-	-	-	-	479	479
Prepaid income tax	-	-	-	-	1,783	1,783
Other assets	1,465	3,358	2	17	5,562	10,404
Total assets	**322,891**	**25,948**	**110,731**	**2,484**	**344,593**	**806,647**
LIABILITIES						
Due to other banks	2,507	60	64,468	1	25	67,061
Due to customers	264,107	25,950	3,827	2,999	225,083	521,966
Provisions	-	-	-	-	14,160	14,160
Provision for financial commitments and contingencies	483	32	-	-	2,191	2,706
Other liabilities	3,241	2	62	6	9,088	12,399
Total liabilities	**270,338**	**26,044**	**68,357**	**3,006**	**250,547**	**618,292**
Assets - off-balance sheet	66,497	-	-	-	133,975	200,472
Liabilities - off-balance sheet	133,975	-	66,636	-	-	200,611
Net foreign exchange position	**(14,925)**	**(96)**	**(24,262)**	**(522)**	**228,021**	**188,216**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Foreign currency risk (continued)

The Bank had the following currency position:

BANK	EUR	USD	CHF	Other currencies	KM	Total
31 December 2016						
ASSETS						
Cash and balances with other banks	22,306	1,742	1,250	2,749	135,322	163,369
Obligatory reserves with the Central Bank of BiH	-	-	-	-	59,783	59,783
Placements with other banks	19,511	7,422	-	-	-	26,933
Loans and advances to customers	234,292	55	26,648	-	110,668	371,663
Financial assets available for sale	138,966	12,521	-	-	19,907	171,394
Investments in subsidiaries	-	-	-	-	2,711	2,711
Property and equipment	-	-	-	-	26,276	26,276
Intangible assets	-	-	-	-	827	827
Investment property	-	-	-	-	468	468
Prepaid income tax	-	-	-	-	1,783	1,783
Other assets	2,581	4,163	1	17	14,567	21,329
Total assets	**417,656**	**25,903**	**27,899**	**2,766**	**372,312**	**846,536**
LIABILITIES						
Due to other banks	404	165	4,903	2	50	5,524
Due to customers	281,575	25,250	3,625	2,655	287,214	600,319
Provisions	-	-	-	-	20,869	20,869
Provision for financial commitments and contingencies	248	7	-	-	1,333	1,588
Other liabilities	952	70	28	3	11,867	12,920
Total liabilities	**283,179**	**25,492**	**8,556**	**2,660**	**321,333**	**641,220**
Assets - off-balance sheet	20,927	-	2,277	-	154,511	177,715
Liabilities - off-balance sheet	156,790	-	20,863	-	-	177,653
Net foreign exchange position	**(1,386)**	**411**	**757**	**106**	**205,490**	**205,378**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Foreign currency risk (continued)

BANK	EUR	USD	CHF	Other currencies	KM	Total
31 December 2015						
ASSETS						
Cash and balances with other banks	38,557	1,995	4,906	2,467	163,516	211,441
Obligatory reserves with the Central Bank of BiH	-	-	-	-	54,996	54,996
Placements with other banks	9,773	20,585	-	-	635	30,993
Loans and advances to customers	196,107	10	105,823	-	44,280	346,220
Financial assets available for sale	76,989	-	-	-	37,133	114,122
Investments in subsidiaries	-	-	-	-	2,711	2,711
Property and equipment	-	-	-	-	35,452	35,452
Intangible assets	-	-	-	-	238	238
Investment property	-	-	-	-	479	479
Prepaid income tax	-	-	-	-	1,783	1,783
Other assets	1,465	3,358	2	17	5,480	10,322
Total assets	**322,891**	**25,948**	**110,731**	**2,484**	**346,703**	**808,757**
LIABILITIES						
Due to other banks	2,507	60	64,468	1	25	67,061
Due to customers	265,107	25,950	3,827	2,999	225,679	523,562
Provisions	-	-	-	-	14,126	14,126
Provision for financial commitments and contingencies	483	32	-	-	2,191	2,706
Other liabilities	3,241	2	62	6	8,979	12,290
Total liabilities	**271,338**	**26,044**	**68,357**	**3,006**	**251,000**	**619,745**
Assets - off-balance sheet	66,497	-	-	-	133,975	200,472
Liabilities - off-balance sheet	133,975	-	66,636	-	-	200,611
Net foreign exchange position	**(15,925)**	**(96)**	**(24,262)**	**(522)**	**229,678**	**188,873**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Interest rate risk management

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

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

The following table shows the sensitivity of gain and loss to a reasonable change in interest rates (parallel movement), with all other variables left constant.

BANK	Sensitivity interest rate changes	Sensitivity interest rate changes	Sensitivity interest rate changes	Sensitivity interest rate changes
31 December 2016	**+200bp**	**-200bp**	**+100bp**	**-100bp**
KM	(171)	195	(88)	95
EUR	(6,214)	7,372	(3,233)	3,521
CHF	(333)	353	(169)	174
USD	366	(389)	186	(192)
OTHER	48	(50)	24	(25)
Total	**(6,304)**	**7,480**	**(3,281)**	**3,573**
31 December 2015	**+200bp**	**-200bp**	**+100bp**	**-100bp**
KM	6,150	(6,869)	3,159	(3,338)
EUR	1,707	(1,894)	875	(922)
CHF	(1,732)	1,862	(881)	914
USD	895	(978)	457	(478)
OTHER	10	(11)	5	(5)
Total	**7,030**	**(7,890)**	**3,615**	**(3,829)**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Liquidity risk management

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

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

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

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

Maturity analysis of financial assets and liabilities

The following table shows the analysis of assets and liabilities by maturity based on the remaining period from the statement of financial position date to the agreed due date:

GROUP	Less than 1 month	1 - 3 months	3-12 months	Over 1 year	Total
As at 31 December 2016					
ASSETS					
Cash and balances with other banks	163,369	-	-	-	163,369
Obligatory reserves with the Central Bank of BiH	59,783		-	-	59,783
Placements with other banks		12,289	14,644	-	26,933
Loans and advances to customers	122,021	12,648	55,962	181,032	371,663
Financial assets available for sale	171,510	-	-	-	171,510
Investments in subsidiaries	-	-	-	-	-
Property and equipment	-	-	-	26,577	26,577
Intangible assets	-	-	-	827	827
Investment property	-	-	-	468	468
Tax receivables	-	-	-	1,783	1,783
Deferred tax assets	-	-	-	-	-
Other assets	21,427	-	-	-	21,427
Total assets	**538,110**	**24,937**	**70,606**	**210,687**	**844,340**
LIABILITIES					
Due to other banks	629	-	-	4,895	5,524
Due to customers	390,887	15,065	90,017	102,385	598,354
Provisions	-	-	-	20,920	20,920
Provisions for financial commitments and contingencies	-	-	-	1,588	1,588
Other liabilities	13,026	-	-	-	13,026
Total liabilities	**404,542**	**15,065**	**90,017**	**129,788**	**639,412**
Maturity mismatch	**133,563**	**9,872**	**(19,411)**	**80,899**	**204,923**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Liquidity risk management (continued)

GROUP	Less than 1 month	1 - 3 months	3-12 months	Over 1 year	Total
As at 31 December 2015					
ASSETS					
Cash and balances with other banks	211,441	-	-	-	211,441
Obligatory reserves with the Central Bank of BiH	54,996	-	-	-	54,996
Placements with other banks	13,409	645	16,939	-	30,993
Loans and advances to customers	140,179	8,755	40,420	156,866	346,220
Financial assets available for sale	114,315	-	-	-	114,315
Investments in subsidiaries	-	-	-	-	-
Property and equipment	-	-	-	35,778	35,778
Intangible assets	-	-	-	238	238
Investment property	-	-	-	479	479
Tax receivables	-	-	-	1,783	1,783
Other assets	10,404	-	-	-	10,404
Total assets	**544,744**	**9,400**	**57,359**	**195,144**	**806,647**
LIABILITIES					
Due to other banks	2,597	-	-	64,464	67,061
Due to customers	302,913	17,250	117,916	83,887	521,966
Provisions	-	-	-	14,160	14,160
Provisions for financial commitments and contingencies	-	-	-	2,706	2,706
Other liabilities	12,399	-	-	-	12,399
Total liabilities	**317,909**	**17,250**	**117,916**	**165,217**	**618,292**
Maturity mismatch	**226,835**	**(7,850)**	**(60,557)**	**29,927**	**188,355**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Liquidity risk management (continued)

The following table shows the analysis of assets and liabilities by maturity based on the remaining period from the statement of financial position date to the agreed due date:

BANK	Less than 1 month	1 - 3 months	3-12 months	Over 1 year	Total
As at 31 December 2016					
ASSETS					
Cash and balances with other banks	163,369	-	-	-	163,369
Obligatory reserves with the Central Bank of BiH	59,783	-	-	-	59,783
Placements with other banks		12,289	14,644	-	26,933
Loans and advances to customers	122,021	12,648	55,962	181,032	371,663
Financial assets available for sale	171,394	-	-	-	171,394
Investments in subsidiaries	2,711	-	-	-	2,711
Property and equipment	-	-	-	26,276	26,276
Intangible assets	-	-	-	827	827
Investment property	-	-	-	468	468
Tax receivables	-	-	-	1,783	1,783
Other assets	21,329	-	-	-	21,329
Total assets	**540,607**	**24,937**	**70,606**	**210,386**	**846,536**
LIABILITIES					
Due to other banks	629	-	-	4,895	5,524
Due to customers	392,852	15,065	90,017	102,385	600,319
Provisions	-	-	-	20,869	20,869
Provisions for financial commitments and contingencies	-	-	-	1,588	1,588
Other liabilities	12,920	-	-	-	12,920
Total liabilities	**406,401**	**15,065**	**90,017**	**129,737**	**641,220**
Maturity mismatch	**134,206**	**9,872**	**(19,411)**	**80,649**	**205,316**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Liquidity risk management (continued)

BANK	Less than 1 month	1 - 3 months	3-12 months	Over 1 year	Total
As at 31 December 2015					
ASSETS					
Cash and balances with other banks	211,441	-	-	-	211,441
Obligatory reserves with the Central Bank of BiH	54,996	-	-	-	54,996
Placements with other banks	13,409	645	16,939	-	30,993
Loans and advances to customers	140,179	8,755	40,420	156,866	346,220
Financial assets available for sale	114,122	-	-	-	114,122
Investments in subsidiaries	2,711	-	-	-	2,711
Property and equipment	-	-	-	35,452	35,452
Intangible assets	-	-	-	238	238
Investment property	-	-	-	479	479
Tax receivables	-	-	-	1,783	1,783
Other assets	10,322	-	-	-	10,322
Total assets	**547,180**	**9,400**	**57,359**	**194,818**	**808,757**
LIABILITIES					
Due to other banks	2,597	-	-	64,464	67,061
Due to customers	303,209	17,550	118,916	83,887	523,562
Provisions	-	-	-	14,126	14,126
Provisions for financial commitments and contingencies	-	-	-	2,706	2,706
Other liabilities	12,290	-	-	-	12,290
Total liabilities	**318,096**	**17,550**	**118,916**	**165,183**	**619,745**
Maturity mismatch	**229,084**	**(8,150)**	**(61,557)**	**29,635**	**189,012**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Liquidity risk management (continued)

Analysis of financial liabilities by the remaining undiscounted contractual maturity

The table below shows the remaining undiscounted maturities of the financial liabilities of Group and Bank:

GROUP	Less than 1 month	1 - 3 months	3-12 months	Over 1 year	Total	Carrying amount
As at 31 December 2016						
Due to other banks	6,676	-	-	198	6,874	5,524
Due to customers	600,185	59	1,299	5,923	607,446	598,354
	608,837	**59**	**1,299**	**6,121**	**616,316**	**605,843**
As at 31 December 2015						
Due to other banks	68,703	-	-	2,850	71,553	67,061
Due to customers	523,111	67	1,752	4,447	529,377	521,966
	591,814	**67**	**1,752**	**7,297**	**600,930**	**589,027**

BANK	Less than 1 month	1 - 3 months	3-12 months	Over 1 year	Total	Carrying amount
As at 31 December 2016						
Due to other banks	6,676	-	-	198	6,874	5,524
Due to customers	602,161	59	1,299	5,923	609,442	600,319
	608,837	**59**	**1,299**	**6,121**	**616,316**	**605,843**
As at 31 December 2015						
Due to other banks	68,703	-	-	2,850	71,553	67,061
Due to customers	524,716	67	1,753	4,447	530,983	523,562
	593,419	**67**	**1,753**	**7,297**	**602,536**	**590,623**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

f) Fair value of financial assets and liabilities

IFRS 13 defines fair value as a price which would be obtained by sale of some asset position or paid for the transfer of a liability in a transaction between market participants on valuation date.

For a higher consistency and comparability in fair value measures and the related information, this IFRS defines a fair value hierarchy that classifies inputs to the valuation technique in three levels:

- Level 1 inputs: quoted market prices (unadjusted) in an active market for identical assets or liabilities and to which entity has access on the day of balancing.
- Level 2 inputs: inputs other than quoted prices included in Level 1 that are based on observable inputs, either directly or indirectly for the relevant asset or liability.
- Level 3 inputs: unobservable inputs for assets or liabilities.

IFRS 13 provides for three valuation techniques that operators may use in determining fair value.

- The market approach - price and other relevant information is used from market transactions with identical or comparable (i.e. similar) assets and liabilities or a group of assets and liabilities.
- Income approach - future amounts are deducted to a single, present (i.e. discounted) amount.
- Cost approach - valuation technique whereby a sum that would be required at the present time to replace the service capacity of an asset (often referred to as current replacement cost) is acquired.

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

GROUP As at 31 December 2016	Carrying amount	Fair value total	Level 1	Level 2	Level 3
Financial assets carried at fair value					
Financial assets available-for-sale	171,510	171,394	118,160	53,223	127
Financial assets not carried at fair value					
Cash and balances with other banks	163,369	163,369	-	-	163,369
Obligatory reserves with the Central Bank of BiH	59,783	59,783	-	-	59,783
Placements with other banks	26,933	26,756	-	-	26,756
Loans and advances to customers	371,663	360,689	-	-	360,689
Other assets	21,427	21,427	-	-	21,427
Other assets for which the fair value is disclosed					
Property and equipment	26,577	26,577	-	-	26,577
Intangible assets	827	827	-	-	827
Investment property	468	468	-	-	468
	842,557	**831,406**	**118,160**	**53,223**	**660,023**
Financial liabilities not carried at fair value					
Due to other banks	5,524	5,658	-	-	5,658
Due to customers	598,354	604,288	-	-	604,288
Other liabilities	12,876	12,876	-	-	12,876
	616,754	**622,822**	**-**	**-**	**622,822**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

f) Fair value of financial assets and liabilities (continued)

GROUP As at 31 December 2015	Carrying amount	Fair value total	Level 1	Level 2	Level 3
Financial assets carried at fair value					
Financial assets available-for-sale	114,315	114,122	-	113,816	306
Financial assets not carried at fair value					
Cash and balances with other banks	211,441	211,441	-	-	211,441
Obligatory reserves with the Central Bank of BiH	54,996	54,996	-	-	54,996
Placements with other banks	30,993	30,823	-	-	30,823
Loans and advances to customers	346,220	366,559	-	-	366,559
Other assets	10,404	10,322	-	-	10,322
Other assets for which the fair value is disclosed					
Property and equipment	35,778	35,452	-	-	35,452
Intangible assets	238	238	238	-	-
Investment property	479	479	-	-	479
	804,864	**824,432**	**238**	**113,816**	**710,378**
Financial liabilities not carried at fair value					
Due to other banks	67,061	66,095	-	-	66,095
Due to customers	521,966	527,691	-	-	527,691
Other liabilities	12,375	12,266	-	-	12,266
	601,402	**606,052**	**-**	**-**	**606,052**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

f) Fair value of financial assets and liabilities (continued)

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

BANK As at 31 December 2016	Carrying amount	Fair value total	Level 1	Level 2	Level 3
Financial assets carried at fair value					
Financial assets available-for-sale	171,394	171,394	118,160	53,107	127
Financial assets not carried at fair value					
Cash and balances with other banks	163,369	163,369	-	-	163,369
Obligatory reserves with the Central Bank of BiH	59,783	59,783	-	-	59,783
Placements with other banks	26,933	26,756	-	-	26,756
Loans and advances to customers	371,663	360,689	-	-	360,689
Investments in subsidiaries	2,711	2,711	-	-	2,711
Other assets	21,329	21,329	-	-	21,329
Other assets for which the fair value is disclosed					
Property and equipment	26,276	26,276	-	-	26,276
Intangible assets	827	827	-	-	827
Investment property	468	468	-	-	468
	844,753	**833,602**	**118,160**	**53,107**	**662,335**
Financial liabilities not carried at fair value					
Due to other banks	5,524	5,658	-	-	5,658
Due to customers	600,319	606,253	-	-	606,253
Other liabilities	12,770	12,770	-	-	12,770
	618,613	**624,681**	**-**	**-**	**624,681**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

f) Fair value of financial assets and liabilities (continued)

BANK As at 31 December 2015	Carrying amount	Fair value total	Level 1	Level 2	Level 3
Financial assets carried at fair value					
Financial assets available-for-sale	114,122	114,122	-	113,816	306
Financial assets not carried at fair value					
Cash and balances with other banks	211,441	211,441	-	-	211,441
Obligatory reserves with the Central Bank of BiH	54,996	54,996	-	-	54,996
Placements with other banks	30,993	30,823	-	-	30,823
Loans and advances to customers	346,220	366,559	-	-	366,559
Investments in subsidiaries	2,711	2,711	-	-	2,711
Other assets	10,322	10,322	-	-	10,322
Other assets for which the fair value is disclosed					
Property and equipment	35,452	35,452	-	-	35,452
Intangible assets	238	238	238	-	-
Investment property	479	479	-	-	479
	806,974	**827,143**	**238**	**113,816**	**713,089**
Financial liabilities not carried at fair value					
Due to other banks	67,061	66,095	-	-	66,095
Due to customers	523,562	527,691	-	-	527,691
Other liabilities	12,266	12,266	-	-	12,266
	602,889	**606,052**	**-**	**-**	**606,052**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

f) Fair value of financial assets and liabilities (continued)

By definition, fair value is the value that a third party will pay for a contract in a fair transaction. To be able to calculate fair market value, one must reduce future cash flows to their present value, which have clear cash flows defined by a contract. An investor is willing to take the contract if it fairly compensates the price on all risks surrounding the contract. This means that the investor will discount all future cash flows with this return rate, which leads us to present value that the investor is willing to pay for the contract. The present value, based on the manner in which it was received, guarantees the investor a required annual return rate and represents the fair value.

The table below presents the movements of financial assets that fall into Level 3 of the hierarchy and that are subject to recurring fair value measurement:

GROUP	S.W.I.F.T SCRL	Registry of securities of FBiH	Sarajevo stock exchange	Soko specijalna oprema	Soko tvornica transmisija	Ventilator Soko	Total
As at 1 January 2016	52	61	32	108	26	45	324
Increase for the year	-	-	-	(108)	(26)	(45)	(179)
As at 31 December 2016	**52**	**61**	**32**	**-**	**-**	**-**	**145**
As at 1 January 2015	52	61	32	108	26	45	324
As at 31 December 2015	**52**	**61**	**32**	**108**	**26**	**45**	**324**

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

f) Fair value of financial assets and liabilities (continued)

Bank	S.W.I.F.T SCRL	Registry of securities of FBiH	Sarajevo stock exchange	Soko specijalna oprema	Soko tvornica transmisija	Ventilator Soko	Total
As at 1 January 2016	52	43	32	108	26	45	306
Increase for the year	-	-	-	(108)	(26)	(45)	(179)
As at 31 December 2016	**52**	**43**	**32**	**-**	**-**	**-**	**127**
As at 1 January 2015	52	43	32	108	26	45	306
As at 31 December 2015	**52**	**43**	**32**	**108**	**26**	**45**	**306**

g) Operating risks

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

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

- definition and identification of operating risk,
- development and application of methods and systems for measurement, analysis, limitations and control of operating risks in accordance with regulatory and Addiko Group requirements,
- measurement, analysis and supervision of operating risk in line with minimum standards for operating risk management,
- maintenance of database on losses from operating risks – regular data collection and reporting on loss events,
- regular updates of new and existing policies, manuals and procedures in accordance with regulations and Addiko Group standards,
- performing qualitative estimates (scenario analyses and risk assessment) in order to identify and assess risk in business processes,
- reputation risk management aiming at risk identification, assessment, monitoring and control and reporting,
- education of all employees in order to improve their knowledge and experience, awareness and skills in dealing with operating risk or specific processes (e.g. collection of data on losses, risk assessment),
- development of an internal control system, through the mapping of all internal bank processes, by defining the owners of those processes, recognition of risks which incur in the process, adequate way of decrement of those risks, and testing the effectiveness of established controls,
- assessment and establishing adequate operating risk management in new product development,
- assessment of outsourcing risk and management of outsourced activities within the Bank in cooperation with business units responsible for outsourced activities.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

g) Operating risks (continued)

In order to improve processes for managing operational risk in the Bank, the following activities are planned:

- continuous education of all employees in order to improve their knowledge and awareness skills in dealing with operating risk - strengthening OpRisk culture,
- defining key indicators of operating risk,
- development of a risk matrix in defined bank business processes based on the results of internal control system,
- testing risk controls established for SIK relevant bank processes,
- development of methodology for monitoring new risk categories, model risk and “conduct” risk.

h) Capital risk management

In accordance with the Law on Banks (Official Gazette of Federation of BiH no. 39/98, 32/00, 48/01, 27/02, 41/02, 58/02, 13/03, 19/03 i 28/03), the minimum amount of a bank’s paid-in capital and the lowest level of the capital a bank has to maintain, cannot be lower than KM 15,000 thousand. The Bank’s subscribed capital amounted to KM 100,403 thousand in line with these provisions. The Bank covered the accumulated loss for 2015 in the amount of KM 91,014 thousand from the reserves fund. As at 31 December 2016, total reserves fund amounts to KM 7,799 thousand arising as a difference of payment of KM 52,808 thousand as at 27 July 2016 and KM 46,000 thousand as at 31 December 2016 and loss for 2015.

The Bank’s capital is comprised of the core capital less items deductible from the core capital and supplementary capital.

The Bank’s core capital is comprised of paid-in share capital and reserves. The deducing amounts from the core capital are intangible assets, uncovered losses from previous years and the current year loss, the carrying value of own shares held by the Bank.

Additional capital of the Bank consists of: share capital from the basic nominal amounts of permanent preferred cumulative shares issued on the basis of cash payments in the share capital, the share capital from the basic nominal amounts of permanent preferred cumulative shares issued on the basis of invested goods and rights in the share capital, the amount of general reserves to cover credit losses for the bank’s assets, estimated as category A - Good assets, the amount of accrued profit in the current year audited and confirmed by an external auditor, the amount of profit for which FBA issued a resolution about a temporary suspension of the distribution, the amount of subordinated debts up to 50% of core capital and items - commitments of a permanent character without obligation to return.

The amount of general reserves for credit losses on banks assets estimated as category A – Good Assets as at 31 December 2016 cannot be higher than 1.25% of total risk-weighted assets.

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

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

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

h) Capital risk management (continued)

The Bank is under obligation to maintain capital adequacy at the minimum of 12%, share capital at least at the level of 50% of the total capital and to harmonize the scope and the structure of its operations with the performance indicators that are defined by the regulations of the Banking Agency especially with the Decision on Minimum Standards for Bank Capital Management and other decisions of the Banking Agency in the field of supervision and control of bank operations, and the Law on Banks of Federation of BiH.

The Bank's Management monitors adequacy ratios and other business indicators on a regular basis. Reports on indicators are submitted to the Banking Agency quarterly in the prescribed form.

	2016	2015
Core capital - Tier I		
Share capital	100,403	100,403
Statutory reserves	7,799	46,005
Uncovered and current loss	(37,629)	(91,014)
Intangible assets	(1,174)	(762)
Total core capital	**69,399**	**54,632**
Supplementary capital - Tier II		
General reserves of category A, by FBA regulations	5,981	6,830
Positive revaluation reserves	1,353	227
Total supplementary capital	**7,334**	**7,057**
Deductions from capital*		
Insufficient reserves for credit losses	-	-
Net capital	**76,733**	**61,689**
Total risk-weighted assets (unaudited)*	328,262	269,454
Total risk-weighted off-balance sheet (unaudited)*	94,437	86,724
Weighted operating risk (unaudited)*	55,838	64,154
Total risk-weighted assets	**478,537**	**420,332**
Capital adequacy as at 31 December	16.0%	14.7%
Rate of core capital relative to total risk-weighted assets	**14.5%**	**13.0%**

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

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

7. INTEREST INCOME

	GROUP		BANK	
	2016	2015	2016	2015
Interest on loans and advances - retail	17,170	22,132	17,170	22,132
Interest on loans and advances - corporate	7,110	9,889	7,110	9,889
Interest on placements with other banks	213	41	213	41
Interest on financial instruments available for sale	1,191	670	1,191	670
	25,684	**32,732**	**25,684**	**32,732**

8. INTEREST AND SIMILAR EXPENSES

	GROUP		BANK	
	2016	2015	2016	2015
Interest on deposits - retail	6,292	6,466	6,292	6,466
Interest on funds of other banks	843	2,874	843	2,874
Interest on deposits - corporate	360	454	363	464
Other interest	200	169	200	169
	7,695	**9,963**	**7,698**	**9,973**

9. FEE AND COMMISSION INCOME

	GROUP		BANK	
	2016	2015	2016	2015
Fees on other services - retail	5,472	5,937	5,472	5,937
Fees on other services - corporate	2,532	2,550	2,532	2,550
Fees on services to banks	2,522	2,341	2,522	2,341
Fees on issued guarantees	689	603	689	603
	11,215	**11,431**	**11,215**	**11,431**

10. NET INCOME ON FINANCIAL OPERATIONS

	GROUP		BANK	
	2016	2015	2016	2015
Conversion of assets and liabilities denominated in foreign currencies, net	1,003	1,256	1,003	1,256
Net income from sale of assets available for sale	(206)	-	(206)	-
Net income on fair value adjustment - securities	87	292	143	292
	884	**1,548**	**940**	**1,548**

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

11. OTHER OPERATING INCOME

	GROUP		BANK	
	2016	2015	2016	2015
Income from expenses re-invoiced to related parties	133	209	133	209
Income from broker services	826	611	-	-
Net rent income	149	295	149	295
Release of provisions for employee benefits (Note 28)	140	10	139	10
Income from insurance companies	32	53	32	53
Income from release of provisions for court proceedings (Note 28)	-	2,948	-	2,948
Net income from sale of collateral	252	133	252	133
Income from credit card operations	955	119	955	119
Other income	439	539	441	538
	2,926	**4,917**	**2,101**	**4,305**

12. PERSONNEL EXPENSES

	GROUP		BANK	
	2016	2015	2016	2015
Gross salaries	13,852	13,756	13,624	13,552
Other employee benefits	2,811	1,877	2,811	1,877
	16,663	**15,633**	**16,435**	**15,429**

The average number of employees in the Bank for the years ended 31 December 2016 and 2015 was 454 and 507, respectively.

13. GENERAL AND ADMINISTRATIVE EXPENSES

	GROUP		BANK	
	2016	2015	2016	2015
Court proceedings	21,070	-	21,070	-
Maintenance and repairs	5,532	6,276	5,532	6,276
Memberships and other dues	2,507	2,373	2,397	2,322
Rent	1,749	2,257	1,742	2,250
Consulting services	1,475	2,020	1,460	1,999
Other taxes and contributions	1,052	981	1,052	981
Utilities	1,142	1,274	1,142	1,274
Security	1,096	1,294	1,096	1,294
Telecommunication expenses	1,009	1,036	1,000	1,026
Other services	707	1,135	707	1,135
Advertising, marketing and sponsorships	989	1,000	989	1,000
Small inventory write-off	565	557	562	557
Insurance	429	482	429	482
Loss on disposal of tangible and intangible assets	48	8	48	8
Other expenses	2,549	2,439	2,497	2,393
	41,919	**23,132**	**41,723**	**22,997**

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

14. IMPAIRMENT LOSSES AND PROVISIONS

	GROUP		BANK	
	2016	2015	2016	2015
Loans and advances to customers (Note 19)	(18,025)	74,553	(18,025)	74,553
Reliefs to clients with CHF foreign currency loans	12,791	-	12,791	-
Impairment of tangible and intangible assets, and investment property (Notes 22, 23, 24 and 25)	7,521	9,045	7,521	9,045
Provisions for court proceedings (Note 28)	5,813	2,241	5,813	2,241
Directly written-off loans and receivables	1,202	920	1,202	920
Financial commitments and contingencies – release of provisions (Note 29)	(1,118)	(883)	(1,118)	(883)
Other provisions for contingencies	677	-	677	-
Impairment of acquired assets	390	4,094	390	4,094
Other assets (Note 25)	334	107	334	107
Placements with other banks (Note 18)	28	(68)	28	(68)
	9,613	**90,009**	**9,613**	**90,009**

Release of provisions for credit risks is a result of application of the new methodology whose application commenced in November 2016 is based on the expected loss principle, and release of provisions in the amount of KM 27.7 million. Provisions are recorded as a result of methodological changes in the segment of provisions for non-performing loans and retail loans resulting from the ”backtesting“ analysis. During 2016, by applying the new methodology the release of the stated provisions for credit risks was recorded. The effect of application of the new methodology is reflected through two main reasons: the change of PRP methodology (new PD and LGD estimates, abolishing the Cure rate factor, new risk segmentation), changes in SRPci methodology (use of LDG BE parameter, new risk segmentation).

Impairment of Bank’s tangible and intangible assets in 2016 is related to impairment expense on tangible and intangible assets in the amount of KM 7,521 thousand and it is a result of devaluation due to decrease of net recoverable amount of assets in accordance with the provisions of the International Accounting Standard (“IAS”) 36: “Impairment of Assets”.

15. INCOME TAX

a) Components of income tax

	GROUP		BANK	
	2016	2015	2016	2015
Current tax	34	26	-	-
Deferred tax	-	908	-	908
	34	**934**	**-**	**908**

Bank’s tax liability is calculated based on the accounting profit, taking into account non-deductible expenses and non-taxable income. The tax rate for the years ended 31 December 2016 and 31 December 2015 was 10%.

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

15. INCOME TAX (CONTINUED)

a) Components of income tax (continued)

Usklađivanje između poreza na dobit prikazanog u poreznoj bilanci i računovodstvenog poreza na dobit je predstavljeno kako slijedi:

	GROUP		BANK	
	2016	2015	2016	2015
Loss before income tax	**(37,340)**	**(89,850)**	**(37,629)**	**(90,106)**
Income tax benefit at 10%	**(3,734)**	**(8,985)**	**(3,763)**	**(9,010)**
Effects of non-deductible expenses	3,206	185	3,206	185
Effects of non-deductible income	(4)	(10)	(4)	(10)
Effects of subsidiary's income tax	34	26	-	-
Tax losses for which deferred assets are not recognized	532	8,810	561	8,835
Income tax for the year	**34**	**26**	**-**	**-**

In accordance with the Corporate Income Tax Act, the taxable losses may be carried forward for the next five years. Deferred tax assets related to losses incurred in the current year were not recorded in the accompanying financial statements since it is uncertain that the Bank will have sufficient taxable profit against which it can utilize the benefits from unutilized tax losses carry forward and related deferred tax asset.

The Bank has no deferred tax assets as a result of tax losses carry forward which it plans on using.

The Group and the Bank have unrecognized tax losses amounting to KM 607 thousand which expire in 2021 and KM 23,072 thousand which expire in 2019 and 2020.

b) Deferred taxes

	GROUP		BANK	
	2016	2015	2016	2015
Deferred tax liabilities				
Financial assets available for sale (Note 20)	150	24	150	24
	150	**24**	**150**	**24**

Movement in deferred taxes can be presented as follows:

GROUP AND BANK	31 December 2015	Recognized in the current result	Recognized in other comprehensive income	31 December 2016	Deferred tax assets	Deferred tax liabilities
Financial assets available for sale	(24)	-	(126)	(150)	-	(150)
	(24)	**-**	**(126)**	**(150)**	**-**	**(150)**

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

16. CASH AND BALANCES WITH OTHER BANKS

	GROUP		BANK	
	2016	2015	2016	2015
Cash at current account with the Central Bank of Bosnia and Herzegovina	116,015	141,107	116,015	141,107
Current accounts with other banks	21,185	38,116	21,185	38,116
Cash at hand	26,168	32,217	26,168	32,217
Checks	1	1	1	1
	163,369	**211,441**	**163,369**	**211,441**

17. OBLIGATORY RESERVE WITH THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA

	GROUP		BANK	
	2016	2015	2016	2015
Obligatory reserve with the Central Bank of Bosnia and Herzegovina	59,783	54,996	59,783	54,996
	59,783	**54,996**	**59,783**	**54,996**

The Management Council of the Central Bank of Bosnia and Herzegovina ("CBBiH") adopted the Decision on determining and maintaining obligatory reserves and determining CBBiH fee on reserve amount. By this decision, the basis for calculation of the obligatory reserve comprises deposits and loaned assets, regardless of the currency. The decision determines the unified obligatory reserve rate of 10%, which the CBBiH applies to the basis for obligatory reserve calculation. The decision became effective upon publishing in the "Official Gazette of BiH", and it has been applied since 1 July 2016. The Decision also stipulates that the CBBiH does not calculate fees on the amount of funds in the obligatory reserve. For the funds exceeding the obligatory reserve, the CBBiH calculates the fee at the rate equal to 50% of the rate applied by the European Central Bank (ECB) on deposits of commercial banks.

The previous decision stipulated the following: the rates of obligatory reserve were 10% of total short-term deposits and loans, and 7% of total long-term deposits and loans.

18. PLACEMENTS WITH OTHER BANKS

	GROUP		BANK	
	2016	2015	2016	2015
Short-term deposits in banks in the following countries:				
OECD countries	26,980	31,009	26,980	31,009
Total gross deposits with other banks	*26,980*	*31,009*	*26,980*	*31,009*
Less: Impairment for potential losses	(47)	(16)	(47)	(16)
	26,933	**30,993**	**26,933**	**30,993**

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

18. PLACEMENTS WITH OTHER BANKS (CONTINUED)

As at 31 December 2016, the Bank had several placements on the inter-banking market, in EUR and USD currency. The amounts of placements were:

- EUR 6,000,000, maturity on 31 August 2017, interest rate 0.5% p.a.,
- EUR 1,500,000, maturity on 29 December 2017, interest rate 0.5% p.a.,
- EUR 2,500,000, maturity on 31 January 2017, interest rate 0.65% p.a. and
- EUR 4,000,000, maturity on 6 February 2017, interest rate 1.12% p.a..

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

	GROUP		BANK	
	2016	2015	2016	2015
Balance as at 1 January	16	84	16	84
Changes in allowance for potential losses, net (Note 14)	28	(68)	28	(68)
Effects of FX changes	3	-	3	-
Balance as at 31 December	**47**	**16**	**47**	**16**

19. LOANS AND ADVANCES TO CLIENTS

	Corporate		Retail		Total	
GROUP AND BANK	2016	2015	2016	2015	2016	2015
Total loans and advances before impairment	178,292	176,654	378,841	396,171	557,133	572,825
Less: impairment losses	(29,774)	(37,886)	(155,696)	(188,719)	(185,470)	(226,605)
Total	**148,518**	**138,768**	**223,145**	**207,452**	**371,663**	**346,220**

Loans are mainly approved to clients in Federation of Bosnia and Herzegovina.

Changes in impairment allowance were as follows:

	GROUP		BANK	
	2016	2015	2016	2015
Balance as at 1 January	**226,605**	**154,101**	**226,605**	**154,101**
Increase in allowance for loans to corporate clients (Note 14)	(19,199)	14,339	(19,199)	14,339
Increase in allowance for loans to retail clients (Note 14)	1,174	60,214	1,174	60,214
Decrease – unwinding (interest income on impaired receivables)	(3,816)	(7,303)	(3,816)	(7,303)
CHF reliefs	(10,935)	-	(10,935)	-
Sale - Brush IV	(4,751)	-	(4,751)	-
Write-off	(3,955)	(1,848)	(3,955)	(1,848)
Effects of FX changes	347	7,102	347	7,102
Balance as at 31 December	**185,470**	**226,605**	**185,470**	**226,605**

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

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Weighted average interest rates on loans can be summarized as follows:

	GROUP		BANK	
	2016	2015	2016	2015
Corporate	4.51%	5.24%	4.51%	5.24%
Retail	7.75%	7.19%	7.75%	7.19%

20. FINANCIAL ASSETS AVAILABLE FOR SALE

	GROUP		BANK	
	2016	2015	2016	2015
Debt securities				
Bonds				
Government of Spain	19,720	20,262	19,720	20,262
LVMH MOET HENNESSY LOUIS VUITTON SE	3,749	3,717	3,749	3,717
Government of Italy	-	9,524	-	9,524
Total Capital S.A.	1,727	1,829	1,727	1,829
JP Morgan Chase and CO	8,372	-	8,372	-
Republic of Bulgaria	14,387	-	14,387	-
Barclays PLC	14,201	-	14,201	-
Lloyds Bank	9,780	-	9,780	-
Norddeutsche Landesbank	9,584	-	9,584	-
Government of the Republic of Serbia	12,521	-	12,521	-
Toyota	3,739	3,716	3,739	3,716
Republic of Romania	15,408	15,456	15,408	15,456
KA Finanz AG	4,971	4,910	4,971	4,910
Deutsche Bank AG	-	17,523	-	17,523
Government of Federation of BiH	5,855	5,897	5,855	5,897
Treasury notes				
Government of Federation of BiH	13,745	14,983	13,745	14,983
Government of Republika Srpska	33,276	15,653	33,276	15,653
	171,035	*113,470*	*171,035*	*113,470*
Equity securities				
CROBIH Fund	282	471	184	296
S.W.I.F.T SCRL	52	52	52	52
Mutual fund HYPO BH EQUITY	48	51	48	51
Registry of securities of FBiH	61	61	43	43
Sarajevska berza d.d. Sarajevo	32	32	32	32
Soko Specijalna oprema d.o.o. Mostar	-	108	-	108
Soko tvornica transmisija d.o.o. Mostar	-	25	-	25
Ventilator Soko d.o.o. Mostar	-	45	-	45
	475	*845*	*359*	*652*
	171,510	**114,315**	**171,394**	**114,122**

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

20. FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)

The structure of bonds and treasury notes at nominal value as at 31 December 2016 can be presented as follows:

Assets	Number	Discount price	Nominal price	Maturity	Coupon
Bonds					
JP Morgan Chase and CO	4,300	8,372	8,410	27.1.2020	0.55 + 3M EURIBOR
Republic of Bulgaria	7,000	14,321	13,691	21.3.2023	0.55 + 3M EURIBOR
Government of Spain	10,000	19,720	19,558	30.4.2017	2.10%
LVMH MOET HENNESSY LOUIS VUITTON SE	1,800	3,749	3,520	13.11.2020	1.75%
Barclays Bank	7,000	14,130	13,691	23.3.2021	1.88%
Total Capital S.A.	800	1,727	1,565	28.1.2019	4.88%
Toyota Motor Credit Corp.	1,800	3,739	3,520	23.7.2020	1.80%
KA Finanz AG	2,500	4,971	4,890	11.8.2020	0.38%
Republic of Romania	6,800	15,408	13,300	18.9.2020	4.63%
Republic of Serbia	6,600	12,432	12,246	25.2.2020	4.88%
Norddeutsche Landesbank	4,900	9,584	9,584	23.6.2017	0.40 + 3M EURIBOR
Lloyds Bank	5,000	9,780	9,779	10.9.2019	0.45 + 3M EURIBOR
Government of Federation of BiH	5,865	5,855	5,865	27.6.2017	6.10%
Receivables for accrued interest		230	-		
		124,018	119,619		
Treasury notes					
Government of Federation of BiH	186	1,851	1,860	23.6.2017	-
Government of Federation of BiH	1,189	11,890	11,890	19.7.2017	-
Government of Republika Srpska	30	300	300	27.1.2017	-
Government of Republika Srpska	1,000	9,997	10,000	27.1.2017	-
Government of Republika Srpska	1,000	9,986	10,000	4.7.2017	-
Government of Republika Srpska	900	8,994	9,000	3.4.2017	-
Government of Republika Srpska	400	3,999	4,000	7.6.2017	-
		47,017	47,050		
		171,035	**166,669**		

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

20. FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)

The structure of bonds and treasury notes at nominal value as at 31 December 2015 can be presented as follows:

Assets	Number	Discount price	Nominal price	Maturity	Coupon
Bonds					
Deutsche Bank AG	30	5,841	5,867	15.4.2019	0.55 + 3M EURIBOR
Deutsche Bank AG	60	11,682	11,735	15.4.2019	0.55 + 3M EURIBOR
Government of Spain	10,000	20,099	19,558	30.4.2017	2.10%
LVMH MOET HENNESSY LOUIS VUITTON SE	1,800	3,717	3,520	13.11.2020	1.75%
Government of Italy	4,800	9,524	9,388	15.12.2016	1.50%
Total Capital S.A.	800	1,780	1,565	28.1.2019	4.88%
Toyota Motor Credit Corp.	1,800	3,706	3,520	23.7.2020	1.80%
KA Finanz AG	25	4,908	4,890	11.8.2020	0.38%
Republic of Romania	5,000	11,356	9,779	18.9.2020	4.63%
Republic of Romania	1,800	4,088	3,520	18.9.2020	4.63%
Government of Federation of BiH	46,545	46	47	31.3.2016	2.50%
Government of Federation of BiH	5,865	5,846	5,865	27.6.2017	6.10%
Receivables for accrued interest		241	-		
		82,834	79,254		
Treasury notes					
Government of Federation of BiH	500	4,995	5,000	13.4.2016	-
Government of Federation of BiH	1,000	9,988	10,000	11.5.2016	-
Government of Republika Srpska	500	4,989	5,000	8.4.2016	-
Government of Republika Srpska	545	5,432	5,450	16.5.2016	-
Government of Republika Srpska	525	5,232	5,250	21.6.2016	-
		30,636	30,700		
		113,470	**109,954**		

21. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries as at 31 December 2016 and 2015 are stated at cost:

	GROUP		BANK	
	2016	2015	2016	2015
Addiko Invest d.o.o. Mostar	-	-	2,711	2,711
	-	**-**	**2,711**	**2,711**

Name	Principal activity	Headquarters	% ownership
Addiko Invest d.o.o. Mostar	Financial services	Bosnia and Herzegovina	100

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

22. PROPERTY, PLANT AND EQUIPMENT

GROUP	Buildings and land	Office equipment and vehicles	Investments in progress	Leasehold improvements	Total
COST					
31 December 2014	**48,736**	**11,322**	**479**	**1,405**	**61,942**
Additions	-	2	1,042	-	1,044
Transfer from/to	209	935	(1,197)	53	-
Disposals	-	(83)	(11)	-	(94)
31 December 2015	**48,945**	**12,176**	**313**	**1,458**	**62,892**
Additions	-	-	693	-	693
Transfer from/to	133	646	(786)	7	0
Disposals	(76)	(2,651)	-	(408)	(3,135)
31 December 2016	**49,002**	**10,171**	**220**	**1,057**	**60,450**
ACCUMULATED DEPRECIATION					
31 December 2014	**10,577**	**6,431**	**-**	**478**	**17,486**
Depreciation for the year	940	1,613	-	277	2,830
Disposals	-	(75)	-	-	(75)
Impairment losses	6,389	304	-	180	6,873
31 December 2015	**17,906**	**8,273**	**-**	**935**	**27,114**
Depreciation for the year	770	1,230	-	183	2,183
Disposals	(39)	(2,377)	-	(407)	(2,823)
Impairment losses	7,140	259	-	-	7,399
31 December 2016	**25,777**	**7,385**	**-**	**711**	**33,873**
PRESENT VALUE					
31 December 2016	**23,225**	**2,786**	**220**	**347**	**26,577**
31 December 2015	**31,039**	**3,903**	**313**	**523**	**35,778**

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

22. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

BANK	Buildings and land	Office equipment and vehicles	Investments in progress	Leasehold improvements	Total
COST					
31 December 2014	**48,357**	**11,217**	**479**	**1,405**	**61,458**
Additions	-	-	1,042	-	1,042
Transfer from/to	209	935	(1,197)	53	-
Disposals	-	(83)	(11)	-	(94)
31 December 2015	**48,566**	**12,069**	**313**	**1,458**	**62,406**
Additions	-	-	693	-	693
Transfer from/to	133	646	(786)	7	-
Disposals	(76)	(2651)	-	(407)	(3,134)
31 December 2016	**48,623**	**10,064**	**220**	**1,058**	**59,965**
ACCUMULATED DEPRECIATION					
31 December 2014	**10,491**	**6,384**	**-**	**478**	**17,353**
Depreciation for the year	929	1,598	-	276	2,803
Disposals	-	(75)	-	-	(75)
Impairment losses	6,389	304	-	180	6,873
31 December 2015	**17,809**	**8,211**	**-**	**934**	**26,954**
Depreciation for the year	758	1,217	-	183	2,158
Disposals	(39)	(2,376)	-	(407)	(2,822)
Impairment losses	7,140	259	-	-	7,399
31 December 2016	**25,668**	**7,311**	**-**	**710**	**33,689**
PRESENT VALUE					
31 December 2016	**22,955**	**2,753**	**220**	**348**	**26,276**
31 December 2015	**30,757**	**3,858**	**313**	**524**	**35,452**

It was concluded for certain apartments, buildings and investment property that a part of assets shows indicators of impairment as at 31 December 2016, i.e. that their carrying amounts are higher than their recoverable amounts (which is market value or the appraisal of a certified appraiser for tangible assets), which led to impairment losses of KM 7,140 thousand.

With regard to equipment, IT equipment was impaired in the amount of KM 259 thousand.

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

23. INTANGIBLE ASSETS

	GROUP	BANK
COST		
31 December 2014	**967**	**959**
Additions	1,905	1,905
31 December 2015	**2,872**	**2,864**
Additions	1,027	1,027
Write-offs	(10)	(10)
31 December 2016	**3,889**	**3,881**
ACCUMULATED DEPRECIATION		
31 December 2014	**694**	**686**
Additions	175	175
Impairment losses	1,765	1,765
31 December 2015	**2,634**	**2,626**
Additions	428	428
31 December 2016	**3,062**	**3,054**
NET CARRYING AMOUNT		
31 December 2015	**238**	**238**
31 December 2016	**827**	**827**

24. INVESTMENT PROPERTY

	GROUP	BANK
COST		
31 December 2014	**786**	**786**
31 December 2015	**786**	**786**
31 December 2016	**786**	**786**
ACCUMULATED DEPRECIATION		
31 December 2014	**200**	**200**
Transfer (from)/to	16	16
Impairment losses	91	91
31 December 2015	**307**	**307**
Additions	11	11
31 December 2016	**318**	**318**
NET CARRYING AMOUNT		
31 December 2015	**479**	**479**
31 December 2016	**468**	**468**

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

25. OTHER ASSETS

	GROUP		BANK	
	2016	2015	2016	2015
Special current accounts	10,786	1,191	10,786	1,191
Taken over collateral available for sale	2,305	1,827	2,305	1,827
Credit card operations	1,241	1,261	1,241	1,261
Advances to suppliers	576	399	576	399
Empty buildings	476	598	476	598
Office equipment	101	106	101	106
Fees and commission receivables	75	76	75	76
Receivables from Addiko Bank a.d. Banja Luka	39	17	39	17
Receivables from BORA d.o.o. Banja Luka	-	76	-	76
Receivables from HETA d.o.o. Sarajevo	-	12	-	12
Receivables from management services	101	83	-	-
Difference in funds	-	77	-	77
Other assets	6,862	5,543	6,865	5,544
Total other assets	*22,562*	*11,266*	*22,464*	*11,184*
Less: Allowance for impairment	(1,135)	(862)	(1,135)	(862)
	21,427	**10,404**	**21,329**	**10,322**

Changes in allowance for impairment for potential losses can be summarized as follows:

	GROUP		BANK	
	2016	2015	2016	2015
Balance as at 1 January	**862**	**1,017**	**862**	**1,017**
Impairment (Note 14)	334	107	334	107
Write-off	(61)	(262)	(61)	(262)
Balance as at 31 December	**1,135**	**862**	**1,135**	**862**

26. DUE TO OTHER BANKS

	GROUP		BANK	
	2016	2015	2016	2015
Short-term deposits:				
KM	48	24	48	24
Foreign currencies	581	610	581	610
	629	*634*	*629*	*634*
Long-term deposits:				
Foreign currencies	4,895	66,427	4,895	66,427
Total deposits from banks:	*5,524*	*67,061*	*5,524*	*67,061*
Long-term loans by the bank	-	-	-	-
	5,524	**67,061**	**5,524**	**67,061**

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

26. DUE TO OTHER BANKS (CONTINUED)

Long-term deposits as at 31 December 2016 and 2015 can be presented as follows:

	GROUP		BANK	
	2016	2015	2016	2015
Addiko Bank AG, Austrija (fixed-term deposits for period no longer than 3 years)	4,895	23,020	4,895	23,020
Addiko Bank AG, Austrija (fixed-term deposits for period from 3 to 5 years)	-	43,407	-	43,407
	4,895	**66,427**	**4,895**	**66,427**

As at 31 December 2016, the Bank had one fixed term deposit in CHF from Addiko Bank AG, Austria, with the floating interest rate of 6M Libor + 2.015% p.a.

27. DUE TO CUSTOMERS

	GROUP		BANK	
	2016	2015	2016	2015
Demand deposits:				
Retail:				
KM	125,335	105,954	125,335	105,954
Foreign currency	120,863	95,926	120,863	95,926
	246,198	*201,880*	*246,198*	*201,880*
Corporate:				
KM	117,735	69,405	119,700	69,701
Foreign currency	10,577	12,758	10,577	12,758
	128,312	*82,163*	*130,277*	*82,459*
Total demand deposits	**374,510**	**284,043**	**376,475**	**284,339**
Fixed-term deposits:				
Retail:				
KM	32,493	40,153	32,493	40,153
Foreign currency	171,113	181,976	171,113	181,976
	203,606	*222,129*	*203,606*	*222,129*
Corporate:				
KM	9,686	9,570	9,686	9,870
Foreign currency	10,552	6,224	10,552	7,224
	20,238	*15,794*	*20,238*	*17,094*
Total fixed-term deposits	**223,844**	**237,923**	**223,844**	**239,223**
	598,354	**521,966**	**600,319**	**523,562**

Average interest rate on interest expense is 1.27% as at 31 December 2016 (31 December 2015: 1.37%).

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

28. PROVISIONS

	GROUP		BANK	
	2016	2015	2016	2015
Provisions for court proceedings	18,248	12,495	18,228	12,475
Provisions for restructuring	1,977	1,100	1,977	1,100
Provisions for vacations	522	143	515	139
Provisions for severance payments	173	442	149	412
Total	**20,920**	**14,180**	**20,869**	**14,126**

Movement in provisions can be presented as follows:

GROUP	Provisions for restructuring	Employee payables	Provisions for court proceedings (Notes 11 and 14)	Total
Balance as at 31 December 2014	**500**	**639**	**17,305**	**18,444**
Increase	750	89	2,241	3,100
Decrease	-	-	(2,948)	(2,948)
Decrease due to payment	(150)	(143)	(4,103)	(4,416)
Balance as at 31 December 2015	**1,100**	**585**	**12,495**	**14,180**
Increase	1,922	514	5,813	8,249
Decrease	-	(139)	-	(139)
Decrease due to payment	(1,045)	(265)	(40)	(1,350)
Balance as at 31 December 2016	**1,977**	**695**	**18,248**	**20,920**

BANK	Provisions for restructuring	Employee payables	Provisions for court proceedings (Notes 11 and 14)	Total
Balance as at 31 December 2014	**500**	**605**	**17,305**	**18,410**
Increase	750	89	2,241	3,080
Decrease	-	-	(2,948)	(2,948)
Decrease due to payment	(150)	(143)	(4,123)	(4,416)
Balance as at 31 December 2015	**1,100**	**551**	**12,475**	**14,126**
Increase	1,922	514	5,813	8,249
Decrease	-	(139)	-	(139)
Decrease due to payment	(1,045)	(262)	(60)	(1,367)
Balance as at 31 December 2016	**1,977**	**664**	**18,228**	**20,869**

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

28. PROVISIONS (CONTINUED)

Provision for court proceedings

Structure of provisions for court proceedings:

	GROUP		BANK	
	2016	2015	2016	2015
Provisions for court proceedings	18,248	12,495	18,228	12,475
Total	**18,248**	**12,495**	**18,228**	**12,475**

As at 31 December 2016, the Bank is in process of conducting executive, civil and bankruptcy proceedings to collect its receivables and other rights and interests. On the same day, there is a certain amount of litigation against the Bank, initiated by legal entities and individuals.

In order to collect receivables arising from loans, guarantees, letters of credit or other grounds the Bank as at 31 December 2016 the Bank conducts a total of 8,338 court cases, with a total disputes value of KM 215,884 thousand and the Department of Rehabilitation conducts a total of 25 active court cases, namely: Bank's claims for a total of 8 cases with total amount of KM 4,865 thousand and disputes for synthetic portfolio total of 15 cases with a total value of KM 20,297 thousand.

Provisions for restructuring

As at 14 November 2016, the Management Board of the Bank adopted the decision on moving organizational units of Addiko Bank d.d. Sarajevo from Mostar to Sarajevo, initiating move project and adoption of the Program on caring for surplus employees and conducting restructuring measures.

Accordingly, as stated in the previous paragraph, the Management adopted on the program of caring for surplus employees and conducting restructuring measures on 5 December 2016, in accordance with the provisions of the International Accounting Standard ("IAS") 37: "Provisions, Contingent Liabilities and Contingent Assets", and based on it formed new provisions for restructuring in the amount of KM 760 thousand.

The processes and activities on moving the Central office and decreasing the number of employees have been initiated by the end of 2016, and the completion is expected by the end of 2017.

Employees whose position is eliminated will not be offered a position in Sarajevo, while the others will be offered new employment contracts with the change of workplace.

The balance for November 2016 was taken into account for calculation of severance payments expense.

Employees who were offered a new position in Sarajevo had the legal deadline to decide on acceptance or non-acceptance of the new employment contracts with the change of workplace, and upon receiving all responses, a recalculation was created determining that an additional amount of KM 345 thousand will need to be provisioned.

The Management of Addiko Group informed the employees of the entire Group on the planned decrease of the number of employees in the entire Group in December 2016, and according to the number of employees to be additionally decreased in Addiko Bank d.d. Sarajevo, the Management decided on the provisions for restructuring measures in the amount of KM 541 thousand.

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

28. PROVISIONS (CONTINUED)

Provisions for restructuring (continued)

The following table presents the expected maturity period of provisions for restructuring:

	2016	2015
less than 1 year	1,977	750
1 to 5 years	-	-
Total	**1,977**	**750**

Provisions for severance payments

Significant actuarial assumptions for calculating present value of employees' severance payments are: discount rate, expected salary growth, and mortality rate.

The sensitivity analysis (0.5bp) in case of change in discount rate can be presented as follows:

			in KM
Discount rate	6%	5.50%	6.50%
Present value of liabilities (KM)	148	154	141
% deviation with respect to the used rate		4.65%	(4.28%)

If interest rate used for discounting would be 0.5% lower, the value of liabilities would have increased for 4.65%. If interest rate used for discounting would be 0.5% higher, the value of liabilities would have decreased for 4.28%.

The sensitivity analysis of severance payments in case of earnings change can be presented as follows:

			in KM
Average severance payment	current	0.5% lower	0.5% higher
Present value of liabilities (KM)	148	147	148.74
% deviation with respect to the used rate		(0.50%)	0.50%

A change in earnings directly proportionately affects the change in severance payments.

The sensitivity analysis of severance payments in case of mortality rate change can be presented as follows:

			in KM
Average age	current	1 year less	1 year more
Present value of liabilities (KM)	148	141	155
% deviation with respect to the used rate		(4.69%)	4.92%

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

28. PROVISIONS (CONTINUED)

Provisions for severance payments (continued)

The expected maturity period for severance payments can be presented as follows:

	2016	2015
In the following 12 months	-	4
1 to 5 years	23	20
5 to 10 years	122	21
Over 10 years	-	367
	149	**412**

29. PROVISIONS FOR FINANCIAL COMMITMENTS AND CONTINGENCIES

	GROUP		BANK	
	2016	2015	2016	2015
Unused loans	70,321	64,787	70,321	64,787
Payable guarantees	14,622	6,197	14,622	6,197
Performance guarantees	21,269	19,083	21,269	19,083
Letters of credit	1,179	1,420	1,179	1,420
Total	**107,391**	**91,487**	**107,391**	**91,487**
Provisions for financial commitments and contingencies	**1,588**	**2,706**	**1,588**	**2,706**

Changes in provisions for financial commitments and contingencies:

	GROUP		BANK	
	2016	2015	2016	2015
Balance as at 1 January	**2,706**	**3,579**	**2,706**	**3,579**
Release of provisions (Note 14)	(1,118)	(883)	(1,118)	(883)
FX effects	-	10	-	10
Balance as at 31 December	**1,588**	**2,706**	**1,588**	**2,706**

During its operations, the Bank and Group assume credit commitments, which are the accounts in off balance sheet, and are related to guarantees, letters of credit and undrawn loan commitments. The Bank and Group have formed provisions according to these exposures as indicated in the table above.

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

30. OTHER LIABILITIES

	GROUP		BANK	
	2016	2015	2016	2015
Liabilities for unallocated proceeds	6,328	4,934	6,328	4,934
Accrued expenses	2,542	2,234	2,542	2,234
Liabilities toward employees	1,215	1,169	1,199	1,169
Accrued bonuses	1,121	-	1,121	-
Limited assets	563	609	563	609
Liabilities for credit card operations	219	178	219	178
Protested guarantees	150	150	150	150
Deferred tax liability (Note 15)	150	24	150	24
Managed funds	94	-	94	-
Other tax liabilities	87	112	87	112
Trade payables	139	563	86	520
Deferrals	76	2,101	76	2,101
Other liabilities	342	305	305	259
	13,026	**12,379**	**12,920**	**12,290**

31. EQUITY

Shareholders' equity

Direct owner of the Bank is Addiko Bank AG Austria, while the ultimate owner is Advent International Corporation, United States of America.

Ownership structure of the Bank is as follows:

	31 December 2016		31 December 2015	
	Share capital	Ownership %	Share capital	Ownership %
Addiko Bank AG Austria	100,401	99.998	100,401	99.998
Other shareholders	2	0.002	2	0.002
	100,403	**100.00**	**100,403**	**100.00**

During 2016, the Bank covered accumulated loss in the amount of KM 91,014 thousand (the amount comprises loss for 2015). The coverage was performed by direct payment in the reserve fund (total amount before coverage was KM 98,808 thousand – payment of KM 46,000 in 2015 and KM 52,808 in 2016) and the reserve fund from profit (total amount before coverage was KM 5 thousand). The outstanding amount in a direct payment to the fund is KM 7,799 thousand.

Regulatory reserves

As at 31 December 2016, regulatory reserves amounted to KM 133,391 thousand (31 December 2015: KM 133,391 thousand). The Bank created more regulatory reserves than required in the amount of KM 110,615 thousand (31 December 2015: KM 112,045 thousand). In accordance with regulatory requirements, the Bank will take this into account only for the purpose of capital adequacy calculation.

As at 31 December 2016, the required amount of regulatory reserves was KM 22,776 thousand (31 December 2015: KM 21,346 thousand).

32. RELATED PARTY TRANSACTIONS

In accordance with the International Accounting Standard ("IAS") 24: "Related Party Disclosures", related parties are parties or entities that represent:

a) enterprises that directly, or indirectly through one or more intermediaries, control the reporting company or are under its control, i.e. which the reporting entity controls together with other entities (including holding companies, subsidiaries and fellow subsidiaries);

b) associated persons - companies in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

c) individuals who directly or indirectly have the voting rights in the Bank that gives them significant influence over the Bank, as well as any other entity which is expected to influence, or be influenced by the relating individual in their dealings with the Bank;

d) executives in key positions, i.e. individuals having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and members of their immediate families; and

e) companies in which any person described in (c) or (d) has a substantial interest in the voting rights or which is directly or indirectly owned by the mentioned individuals, or where the same may have a significant impact. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in both their company and in a same or similar positions at the Bank.

In considering each possible related party transaction, attention is directed to the essence of the relationship, not merely the legal form.

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

32. RELATED PARTY TRANSACTIONS (CONTINUED)

	GROUP		BANK	
	2016	2015	2016	2015
Receivables				
Placements - Addiko Bank AG (former Hypo Group AG Klagenfurt)	606	5,278	606	5,278
Placements - Addiko Bank a.d. Banja Luka (former Hypo Alpe-Adria-Bank a.d. Banja Luka)	14,689	-	14,689	-
Placements - Addiko Bank d.d. Zagreb (former Hypo Alpe-Adria-Bank d.d. Zagreb)	1,343	1,600	1,343	1,600
Other - Addiko Bank a.d. Banja Luka (former Hypo Alpe-Adria-Bank a.d. Banja Luka)	55	68	55	68
Placements - Addiko Bank d.d. Ljubljana (former Hypo Alpe-Adria-Bank d.d. Ljubljana)	172	284	172	284
Other - Addiko Bank AG Austrija (former Hypo Group AG Klagenfurt)	1	-	1	-
Placements - Addiko Bank a.d. Beograd (former Hypo Alpe-Adria-Bank a.d. Beograd)	4,976	9,808	4,976	9,808
Other - Addiko Bank a.d. Beograd (former Hypo Alpe-Adria-Bank a.d. Beograd)	4	-	4	-
Other - Addiko Bank a.d. Podgorica (former Hypo Alpe-Adria-Bank a.d. Podgorica)	6	6	6	6
	21,852	**17,044**	**21,852**	**17,044**
Liabilities				
Deposits - Addiko Bank AG (former Hypo Group AG Klagenfurt)	4,897	66,432	4,897	66,432
Other - Addiko Bank AG (former Hypo Group AG Klagenfurt)	88	287	88	287
Other - Addiko Bank a.d. Banja Luka (former Hypo Alpe-Adria-Bank a.d. Banja Luka)	3	17	3	17
Deposits - Addiko Bank d.d. Zagreb (former Hypo Alpe-Adria-Bank d.d. Zagreb)	104	90	104	90
Depoziti - Addiko Bank a.d. Beograd (former Hypo Alpe-Adria-Bank a.d. Beograd)	34	-	34	-
Deposits - Addiko Bank a.d. Banja Luka (former Hypo Alpe-Adria-Bank a.d. Banja Luka)	514	521	514	521
Other - Addiko Bank d.d. Zagreb (former Hypo Alpe-Adria-Bank d.d. Zagreb)	76	97	76	97
Other - Addiko Bank a.d. Beograd (former Hypo Alpe-Adria-Bank a.d. Beograd)	-	5	-	5
Deposits - Addiko Bank a.d. Podgorica (former Hypo Alpe-Adria-Bank a.d. Podgorica)	-	50	-	50
	5,716	**67,499**	**5,716**	**67,499**

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

32. RELATED PARTY TRANSACTIONS (CONTINUED)

	GROUP		BANK	
	2016	2015	2016	2015
Income				
Other income - Addiko Bank a.d. Banja Luka (former Hypo Alpe-Adria-Bank a.d. Banja Luka)	81	192	81	192
Other income - Addiko Bank AG (former Hypo Group AG Klagenfurt)	70	-	70	-
Fee and commission income - Addiko Bank a.d. Banja Luka (former Hypo Alpe-Adria-Bank a.d. Banja Luka)	448	210	448	210
Interest income - Addiko Bank d.d. Zagreb (former Hypo Alpe-Adria-Bank d.d. Zagreb)	5	-	5	-
Fee and commission income - Addiko Bank AG (former Hypo Group AG Klagenfurt)	-	-	-	-
Fee and commission income - Addiko Bank a.d. Podgorica (former Hypo Alpe-Adria-Bank a.d. Podgorica)	-	51	-	51
Interest income - Addiko Bank AG (former Hypo Group AG Klagenfurt)	25	43	25	43
Interest income - Addiko Bank a.d. Beograd (former Hypo Alpe-Adria-Bank a.d. Beograd)	33	6	33	6
Interest income - Addiko Bank d.d. Ljubljana (former Hypo Alpe-Adria-Bank d.d. Ljubljana)	20	-	20	-
	682	**502**	**682**	**502**
Expenses				
Interest expense - Addiko Bank AG (former Hypo Group AG Klagenfurt)	826	2,644	826	2,644
Administrative expenses - Addiko Bank AG (former Hypo Group AG Klagenfurt)	-	632	-	632
Fee and commission expense - Addiko Bank AG (former Hypo Group AG Klagenfurt)	6	124	6	124
Administrative expenses - Addiko Bank d.d. Zagreb (former Hypo Alpe-Adria-Bank d.d. Zagreb)	506	542	506	542
Administrative expenses - Addiko Bank a.d. Banja Luka (former Hypo Alpe-Adria-Bank a.d. Banja Luka)	44	82	44	82
Fee and commission expense - Addiko Bank a.d. Banja Luka (former Hypo Alpe-Adria-Bank a.d. Banja Luka)	21	45	21	45
Fee and commission expense - Addiko Bank d.d. Zagreb (former Hypo Alpe-Adria-Bank d.d. Zagreb)	4	4	4	4
Other expenses - Addiko Bank AG (former Hypo Group AG Klagenfurt)	246	-	246	-
Fee and commission expense - Addiko Bank a.d. Beograd (former Hypo Alpe-Adria-Bank a.d. Beograd)	1	-	1	-
	1,654	**4,073**	**1,654**	**4,073**

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

32. RELATED PARTY TRANSACTIONS (CONTINUED)

The remunerations to the Management Board and Supervisory Board members are presented as follows:

	GROUP		BANK	
	2016	2015	2016	2015
Management and Supervisory Board remunerations	792	507	792	507
Taxes and contributions on remunerations	622	398	622	398
	1,414	**905**	**1,414**	**905**

33. MANAGED FUNDS

The Bank manages funds as an agent and on behalf of third parties, so these are stated separately from bank's assets. For these services, the Bank charges commission in the amount of 1% of total placed cash.

	GROUP		BANK	
	2016	2015	2016	2015
Assets				
State institutions	655	630	655	630
Total	**655**	**630**	**655**	**630**
Liabilities				
Corporate loans	749	553	749	553
Total	**749**	**553**	**749**	**553**
Difference (Note 30)	**(94)**	**77**	**(94)**	**77**

34. LOSS PER SHARE

	GROUP		BANK	
	2016	2015	2016	2015
Net loss for the current year	(37,340)	(90,784)	(37,629)	(91,014)
Weighted number of shares	532,500	532,500	532,500	532,500
Basic loss per share in KM	**(70.12)**	**(170.5)**	**(70.6)**	**(170.9)**

Diluted loss per share was not determined because the Group and the Bank have no potential share dilution such as convertible debt and options.

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

35. OPERATING LEASE

Operating lease is mainly related to rent of branch offices, rent of leased space for ATM machines and rent for archiving space and apartments.

Future total minimum lease payments by the long-term operating lease agreement are:

	GROUP		BANK	
	2016	2015	2016	2015
Less than 1 year	453	167	453	167
1 to 5 years	526	786	526	786
Over 5 years	52	199	52	199
	1,031	**1,152**	**1,031**	**1,152**

Rent expense in business year 2016 for the Group and the Bank amount to KM 1,031 thousand, while in 2015 it amounted to KM 1,152 thousand.

Future total minimum expected operating lease collections are:

	GROUP		BANK	
	2016	2015	2016	2015
Less than 1 year	193	167	193	167
1 to 5 years	199	786	199	786
Over 5 years	-	199	-	199
	392	**1,152**	**392**	**1,152**

Lease income in business year 2016 for the Group and the Bank amount to KM 193 thousand, while in 2015 it amounted to KM 293 thousand.

36. APPROVAL OF THE FINANCIAL STATEMENTS

Signed on behalf of Addiko Bank d.d. Sarajevo, Sarajevo, on 24 March 2017:

Sanela Pašić
Director

Belma Sekavić-Bandić
Executive Director

Bodies of the Bank
On December 31, 2016

Supervisory board

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

Audit Committee

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

Uprava Banke

Sanela Pašić	Director
Belma Sekavić Bandić	Executive Director
Selma Omić	Executive Director

Internal Auditor: Ana Maria Sivrić

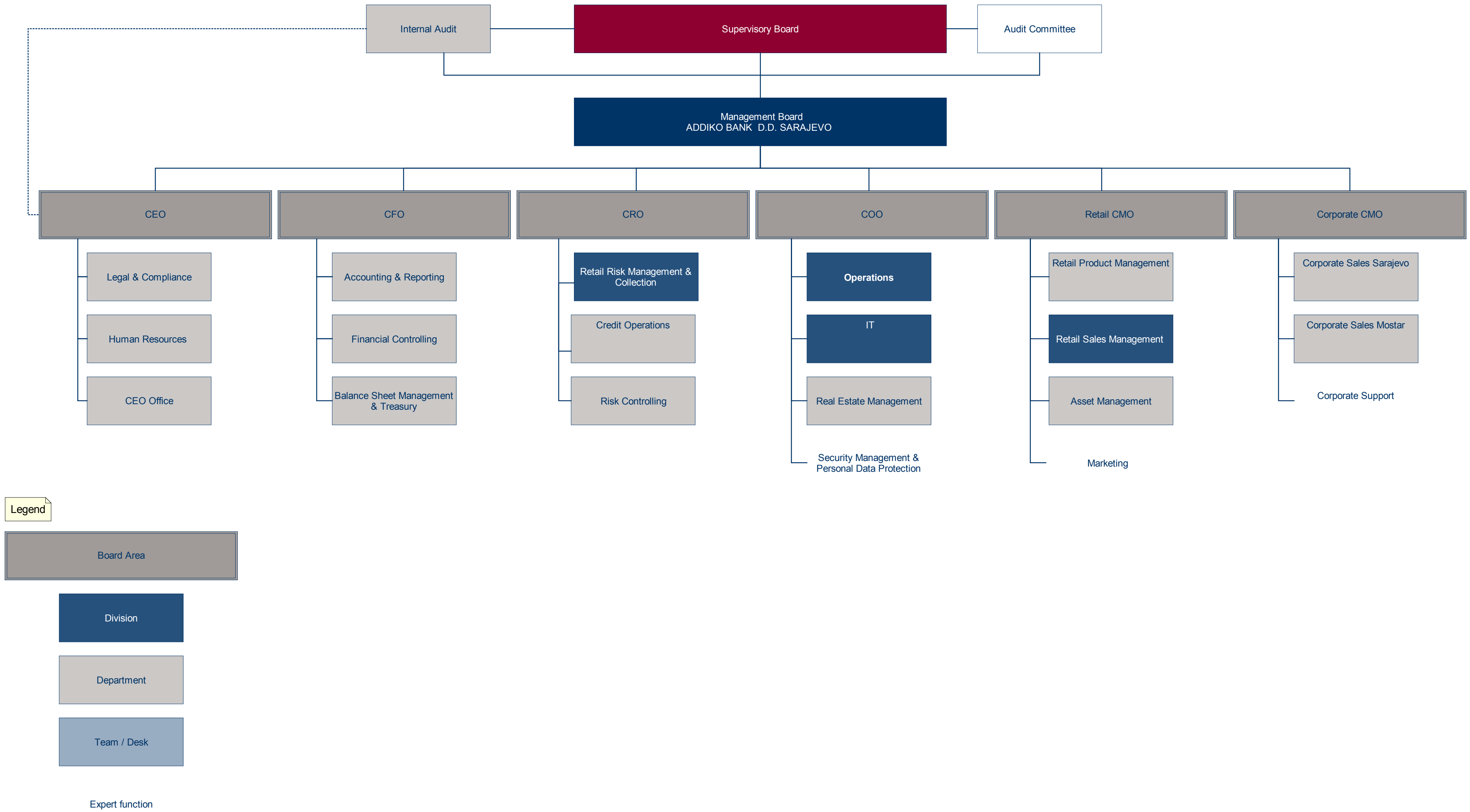
Organizational Structure

On 31 December, 2016

ADDIKO BANK d.d.

Trg solidarnosti 12
71 000 Sarajevo
Bosnia & Herzegovina

Valid as of 31.12.2016



Business Units of Addiko Bank d.d. Sarajevo

Addiko Bank d.d. Sarajevo
Headoffice, Trg Solidarnosti 12, 71 000 Sarajevo
+387 33 755 755
+387 33 755 855
info.fbih@addiko.com

Branches

Bihać
Bosanska b.b.,
77 000 Bihać,
Tel. + 387 37 229 761,
Fax +387 37 229 773

Bugojno
Sultan Ahmedova b.b.,
70 230 Bugojno,
Tel. +387 30 259 565,
Fax +387 30 259 564

Busovača
16. Kolovoza b.b.,
72 260, Busovača,
Tel. + 387 30 735 090,
Fax. + 387 30 735 091

Čapljina
Ante Starčevića b.b.,
88 300 Čapljina,
Tel. +387 36 808 292,
Fax +387 36 808 810

Čitluk
Broćanski trg 2,
88 260 Čitluk,
Tel. +387 36 640 420,
Fax +387 36 640 427

Domaljevac
Posavskih branitelja 148,
76 233 Domaljevac,
Tel. +387 31 719 900,
Fax +387 31 791 990

Gračanica
22. divizije b.b.,
75 320 Gračanica,
Tel. + 387 35 701 361,
Fax +387 35 701 368;

Gradačac
H. K. Gradaščevića b.b.,
76 250, Gradačac,
Tel + 387 35 821 490,
Fax + 387 35 821 495

Grude
Dr. Franje Tuđmana 4,
88 340 Grude,
Tel. +387 39 660 390,
Fax +387 39 661 745

Ilidža
Rustempašina b.b.,
71 210 Ilidža,
Tel. +387 33 770 293,
Fax +387 33 770 298;

Jajce
Kulina Bana 1,
70 101 Jajce,
Tel. +387 30 654 555,
Fax. +387 30 654 558

Kiseljak
Josipa Bana Jelačića b.b.,
71 250 Kiseljak,
Tel. + 387 30 877 288,
Fax. + 387 30 877 297

Konjic
Trg državnosti b.b.,
88 400 Konjic,
Tel. +387 36 735 300,
Fax +387 36 735 303

Kreševo
Fra Grge Martića 122,
71 260 Kreševo,
Tel. +387 30 800 603,
Fax +387 30 800 608

Livno
PC Forum Splitska b.b.,
80 101 Livno,
Tel. +387 34 208 613,
Fax +387 34 201 385

Lukavac
Lukavačkih brigada b.b, TZC "Omega",
75 300, Lukavac,
Tel. +387 35 551 101,
Fax +387 35 551 106

Ljubuški
Stube IV, lamela A,
88 320 Ljubuški,
Tel. +387 39 835 794,
Fax +387 39 835 795

Mostar
Stjepana Radića, lamela E,
88 000 Mostar,
Tel. +387 36 448 120/121,
Fax +387 36 335 877

Mostar
Trg Hrvatskih velikana b.b.-Rondo,
88 000 Mostar,
Tel. +387 36 449 850,
Fax +387 36 335 832

Novi Travnik
Ive Andrića 35,
72 270 Novi Travnik,
Tel.+ 387 30 795 212/211,
Fax, + 387 30 795 214

Orašje
V ulica 29,
76 270 Orašje,
Tel. +387 31 719-800/805,
Fax +387 31 719 808

Posušje
Fra Grge Martića b.b.,
88 240 Posušje,
Tel. +387 39 685 191,
Fax +387 36 335 876

Sarajevo
Dobrinja, Mustafe Kamerića 6-7,
71 000 Sarajevo,
Tel.+387 33 775 373,
Fax +387 33 775 378

Sarajevo
Ispostava Hrasno, Azize Šaćirbegović 122,
71 000 Sarajevo,
Tel.+387 33 715 027,
Fax +387 33 715 816

Sarajevo
Maršala Tita 18a,
71 000 Sarajevo,
Tel. +387 33 563 191,
Fax +387 33 217 285

Sarajevo
Pofalići, Zmaja od Bosne b.b.,
71 000 Sarajevo,
Tel. +387 33 723 604,
Fax +387 33 723 600;

Sarajevo
Stari Grad, Zelenih beretki 11,
71 000 Sarajevo,
Tel.+387 33 252 480,
Fax +387 33 252 488

Sarajevo
Trg solidarnosti 12,
71 000 Sarajevo,
Tel. +387 33 755 724,
Fax +387 33 755 725

Široki Brijeg
Fra Didaka Buntića b.b.,
88 220 Široki Brijeg,
Tel. +387 39 702 500,
Fax +387 39 702 508

Tomislavgrad
Mijata Tomića b.b.,
80 240 Tomislavgrad,
Tel. +387 34 352 311,
Fax +387 34 352 329

Travnik
Trg republike 11a,
72 270 Travnik,
Tel. +387 30 540 852/861,
Fax +387 30 540 660

Tuzla
Maršala Tita 2b,
75 101 Tuzla,
Tel +387 35 302 241,
Fax + 387 35 302 242

Tuzla
Trgovinsko zanatski centar b.b., Sjenjak,
75 101 Tuzla,
Tel.+387 35 302 320,
Fax +387 36 335 865

Uskoplje
Kralja Tomislava b.b.,
70 280 Uskoplje,
Tel. +387 30 496 420,
Fax +387 30 495 733

Visoko
Dr. Džananovića 8,
71 300, Visoko,
Tel. +387 32 731 001,
Fax +387 32 731 002

Vitez
Stjepana Radića 6,
72 250 Vitez,
Tel. +387 30 718 608,
Fax +387 30 718 603

Zenica
PSC Kamberovića polje,
72 000 Zenica,
Tel. + 387 32 449 733,
Fax. + 387 32 449 738

Živinice
Alije Izetbegovića 36,
75 270 Živinice,
Tel. + 387 35 743 190/191,
Fax +387 35 743 195

Responsible for content:

Addiko Bank d.d. Sarajevo
71 000 Sarajevo
Trg Solidarnosti 12
Tel. +387 70 340 340 , +387 33 755 755,
Fax +387 33 755 855
addiko-fbih.ba
e-mail: info.fbih@addiko.com

Important notice:

Addiko Bank