Raiffeisen BANK dd
Bosna i Hercegovina

25 YEARS OF STABLE GROWTH

ANNUAL REPORT 2017.

Survey of key data

Raiffeisen *BANK* d.d. Bosna i Hercegovina Monetary values in EUR million	2017	2016	Change
Income statement			
Net interest income after value adjustment and provisioning	52.5	44.0	119.3%
Net fee and commission income	35.0	35.0	100.1%
Trading income	6.4	7.1	89.7%
General administrative expenses	56.1	56.4	99.4%
Profit before tax	41.7	31.2	133.7%
Profit after tax	37.1	26.9	138.2%
Balance Sheet			
Loans and advances to banks	171.5	94.4	181.6%
Loans and advances to customers	1,126.1	1,068.2	105.4%
Deposits from banks	74.6	41.5	179.9%
Deposits from customers	1,681.8	1,630.5	103.1%
Equity (incl. profit)	280.1	266.0	105.3%
Total assets	2,115.0	2,005.8	105.4%
Regulatory information			
Risk-weighted assets	1,436.9	1,344.8	106.8%
Capital adequacy ratio	15.0%	15.6%	0.4 PP
Performance			
Return on equity before tax	17.29%	13.1%	(2.03) PP
Return on equity after tax	15.41%	11.3%	0.92 PP
Cost/income ratio	52.00%	53.3%	(3.33) PP
Return on assets before tax	2.02%	1.6%	0.44 PP
Resources			
Number of employees	1,320	1,312	0.6%
Business outlets	97	96	1.0%

Public invitation for sponsorships and donations

Once a year, Raiffeisen *BANK* d.d. Bosna i Hercegovina announces an invitation for sponsorships and donations and in response receives applications from numerous associations.

This invitation has proven to be very successful and through it, in line with our social responsibility strategy, we have been able to contribute to a range of projects that focus on children and adults under care. This involves the fields of charity work, culture, education and sport as well as ecological and environmental projects for the same target group.

According to the rules of the invitation, only citizens' associations and institutions with projects that support children and adults under care can apply.

This project has been implemented since 2007 and to date we have provided support for more than 470 different projects: In 2017 alone, 60 projects were supported financially.

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Thank you for placing your trust in us!

The Sarajevo Film Festival: A story of cooperation and a great friendship lasting 20 years

This cooperation is not special purely for its sponsorship concept but also for the wonderful human stories and anegdotes that span our more than two decades long friendship with the Sarajevo Film Festival (SFF). We made our first steps together and over the years we have grown into recognised and respected organisations. Since gathering 15,000 visitors at the first SFF, the Festival has become a meeting point for more than 100,000 film lovers. At the same time, Raiffeisen *BANK* d.d. Bosna i Hercegovina has become a recognisable financial institution enjoying the trust of over 450,000 customers during its 25 year presence on the BiH market. As main sponsor of the Sarajevo Film Festival, each year we prepare interesting content, prize competitions for visitors and a party for both our customers and the Festival guests. We are especially proud that in 2017 all visitors could enjoy movies under the stars thanks to the redesigned Raiffeisen Open Air cinema.

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Raiffeisen at a Glance

Report of the Supervisory Board

Ladies and Gentlemen

The 2017 financial year saw a positive overall macroeconomic trend and favorable market environment. This contributed to the strong year-on-year improvement in RBI's consolidated profit, which more than doubled compared to last year. The main positive impact on this improved operating result was lower risk costs. Alongside the successful sale of non-performing loans, this was also due to a notable decrease in net provisioning for impairment losses. The result achieved by RBI in 2017 confirms that the strategic decisions taken over the past years played a key role in helping the Group to emerge successful and with increased strength from a highly challenging period of transformation. Further demonstration of this lies in the steady strengthening of the capital base, balanced risk profile and considerably reduced non-performing loans ratio: down from 8.7 per cent (2016 pro forma) to 5.7 per cent in 2017. This improvement in asset quality was based not least on the determined reduction of non-performing loans over recent years.

The merger of Raiffeisen Zentralbank Österreich AG and RBI AG was put into effect on schedule entering into the commercial registry on March 18, 2017. Following the merger and as the leading universal banking group in CEE and Austria, RBI will continue to pursue its strategy with the primary objective of creating long-term value. Selective growth is planned for the coming years in specific markets that demonstrate stability and offer good economic prospects. Effective capital and risk management as well as the further reduction of non-performing loans will remain crucial in the future. There will be increased focus on the challenges in 2018, in the form of ongoing regulatory requirements, political risks, progress in digitalization and the related changes to the competitive environment.

As far as Raiffeisen *BANK* d.d. Bosna i Hercegovina is concerned, I am glad to state that it ended 2017 with very good results, even in the face of a continued difficult and turbulent business environment.

Notwithstanding numerous external and internal risks it was exposed to, Bosnia and Herzegovina managed to retain its macroeconomic and fiscal stability and post a solid economic growth throughout 2017. Of course, the strongest contributors to the BiH economic growth in 2017 were favorable regional developments which underlay strong growth of export of goods and services and export-oriented production industry. Actually, these two categories became the key instigators of the BiH economic development over the last decade.

Regardless of such challenging macroeconomic circumstances, this was one of the most successful years of the BiH banking sector in the late BiH history. Intensified lending activities of the BiH banks ensured rise of the banking sector's profitability and, consequently, a noteworthy growth of loans advanced in the year behind. Both key institutional business segments – retail and corporate – equally contributed to the overall loan portfolio growth in 2017. The stability of the banking sector was manifested in the constant improvement of the financial health indicators. Thus, 2017 saw a considerable decrease of non-performing (NPL) loans which indicated the strong commitment of the banks to stabilization and cleaning of their balances but also a significant slowdown in the inflow of non-performing loans. To my great pleasure, Raiffeisen *BANK* d.d. Bosna i Hercegovina posted a very good result based on continuous adjustment of their offer to the customer demands and wishes, compliance with the digitalization trends and service upgrade.

I would like to use this opportunity to thank all employees of Raiffeisen *BANK* d.d. Bosna i Hercegovina for their hard work and constant efforts invested throughout 2017. At the same time, I would like to ask them to stay committed to handling all their future challenges.

On behalf of the Supervisory Board,
Hannes Moesenbacher,
Supervisory Board

Preface of the Chairman of the Management Board

The year behind us was another successful business year for Raiffeisen *BANK* d.d. Bosna i Hercegovina and was marked by excellent results. We celebrated twenty-five years of stable and successful business operations in Bosnia and Herzegovina during which we have grown together with our customers to become one of the leading banks in this market.

I would like to take this opportunity to thank both our customers and our business partners for the trust they place in us. I would also like to thank our committed employees whose contribution on a daily basis to the work of our company has made Raiffeisen *BANK* d.d. Bosna i Hercegovina a success for more than two decades in this market.

We finished the year with a total net profit of BAM 72.6 million, capital amounting to BAM 547.7 million and assets worth BAM 4.1 billion.

If the previous decade was marked by loan expansion then this one is marked by digitalization. We not only see digital trends as a challenge but as a means to enable an innovative, simple and personalized approach to using of our services for our customers. In line with this strategy, we have introduced a new customer service: Raiffeisen Banking on Viber.

In addition to digital services, for which more information is available on our redesigned web site, our branches continue to follow digital banking trends. In 2017, we redecorated six branches and will continue this in 2018. We opened a new branch in Banja Luka and thus at the end of the year our branch network numbered ninety-seven.

I would like to stress that we continue to pay special attention to ensuring that our customers have a positive user experience during each contact with our bank, regardless of the point of contact. Increasing the level of customer service is a key driver of our values and helps strengthen our brand, ensuring reliability, safety, trust and partnership for our customers.

I would like to point out several awards that we received this year. Global Finance awarded Raiffeisen *BANK* d.d. Bosna i Hercegovina the title 'Best Digital Bank in BiH in 2017', which further confirms the orientation of the bank towards the digital banking strategy. Global Finance honored us with the award 'Best Bank in BiH', while the same title was also awarded to us by the magazine Euromoney.

I am very proud of the fact that we have supported ninety-five different socially responsible projects within our Sustainability Strategy. Our goal is not only to support the BiH economy but also to support the most vulnerable social categories through socially responsible activities. I am very happy to say that our customers have responded positively to this practice and that none of this would have been possible without them.

Many expectations and ambitious plans lay ahead of us, yet I am convinced that we will continue to grow and develop over the forthcoming period and at the same time help shape the borders of the banking industry in line with our mission.

Karlheinz Dobnigg,
Chairman of the Management Board

Macroeconomic Overview

Notwithstanding the numerous external and internal risks to which it was exposed, Bosnia and Herzegovina (BiH) managed to retain its macroeconomic and fiscal stability and post solid economic growth throughout 2017. According to the available macroeconomic indicators for the past year, BiH retained its economic growth at the level achieved in the two previous years (2015 and 2016) with the same or similar growth generators. The first preliminary data announced by the Agency for Statistics of BiH indicates that in 2017 the BiH economy recorded actual growth (gross domestic product) of 3.0 per cent on the previous year's figure. This complies with our and the projections of the majority of financial institutions in the country and abroad. Of course, the strongest contributors to BiH economic growth in 2017 were favorable regional developments that underlay strong growth in the export of goods and services (the key category, according to the GDP expense methodology) and the export-oriented production industry (the key category, according to the GDP production methodology). Over the last decade, these two categories have become the major instigators of economic growth in BiH; meanwhile, the impact of other internal factors on economic trends in the country has declined regardless of their high potential for stirring economic expansion (primarily gross investment).

Industrial production, which generates more than 18 per cent of the total annual GDP of BiH and accounts for 26.8 per cent of the total employed population, increased by 3.1 per cent yoy in 2017. This was the fifth year in a row where industrial expansion was recorded. Export-oriented production rose by 5.3 per cent and was thus a leader of the industrial growth over the previous year's figure.

Growth in industrial production correlated fully with the export of BiH goods and resulted in a new record high value for foreign trade turnover. BiH exported goods worth BAM 11.05 billion in 2017, up by a strong 17.4 per cent compared to 2016. A particularly important factor is that the increase in goods exported was supported by almost all export categories and not just by those segments that traditionally have a significant comparative advantage in the BiH economy (metal products, wood products, chemical products, etc.). Exported goods also saw record values in relation to all major markets for BiH producers (Germany, Croatia, Austria, Slovenia, Serbia, etc.). This expansion in exported goods was also followed by accelerated growth in the export of services, which is becoming an increasingly important category in the BiH economy. BiH exported services worth BAM 3.19 billion in 2017, up by 9 per cent compared to 2016.

Positive trends related to travel services, which accounted for almost 50 per cent of overall services exported in 2017, had the greatest effect on this increase in the export of services. The relevance of exports to the BiH economy is best seen in the fact that the export of goods and services rose from 26 per cent in 2009 (i.e. in the period prior to the global crisis) to 34 per cent in 2017. At the same time, BiH also imported record high values of goods and services. This shows an increase in local demand and consumption on the one hand and reflects the results of global market price adjustments on the other. In other words, BiH imported a record high value of goods of BAM 18.13 billion (12.2 per cent yoy) and services of BAM 957 million (8.8 per cent yoy) over the previous year. Although all trade categories supported this increase in the import of goods, according to the methodology of the Agency for Statistics of BiH (i.e. 22 categories), the biggest contributor to the increase in the import of goods relates to mineral products. This was the direct result of an increase in the price of oil on global markets.

The biggest contributors to the increase in imported services were seen in the transportation segment, which accounted for nearly 30 per cent of total BiH service imports. The resulting foreign trade deficit was the main factor of imbalance in the BiH economy, rising nominally by 5.0 per cent yoy to BAM 7.08 billion. Yet when compared to GDP it fell to a historical low of 22.4 per cent. This can be viewed as one of the most positive economic trends of 2017. It is also noteworthy that import/export coverage during the same year reached a record high of 61 per cent. At a mere 4.8 per cent of GDP, the current account deficit posted the lowest value in the recent history of the BiH economy. Apart for the positive trends seen in the foreign trade segment, an elevated level of remittances from abroad (going up by 7.0 per cent to BAM 3.7 billion) had a considerable affect on the reduction in the current account deficit.

Under circumstances of high unemployment and low average salaries, remittances from abroad represent a major source of purchasing power for BiH citizens and greatly affect the trends related to private consumption and overall growth in the BiH economy. According to preliminary data of the Agency for Statistics of BiH for 2017, private consumption posted a real increase of 2.6 per cent yoy. This is the highest growth rate since the time before the global financial crisis. However, it is worth noting that despite real growth in private consumption its share of the BiH economy is gradually dropping. Hence, private consumption's share of GDP (as per the expense methodology) went from 83.0 per cent at the time before the global financial crisis to 76 per cent as per the latest data available for 2017.

Remittances from abroad and an increase in the lending rate of banks in BiH rather than labor market strengthening had the greatest impact on the increase in private consumption. That is to say, despite the decrease in the BiH unemployment rate from 25.4 per cent in 2016 to 20.5 per cent in 2017 this rate still represents the weakest link in the BiH economic system and a key obstacle to achieving better growth rates in the overall economy. Namely, the cause of this strong decrease in the unemployment rate was a reduction in the overall labor force (migrations) as opposed to a strengthening of the labor market via new job openings; the latter remains insufficient. Average salaries in BiH remained low in 2017 with the resulting purchasing power of BiH citizens representing a mere 32 per cent of the EU average.

Despite expectations, a section of the BiH economy that saw no major progress in 2017 was the creation of a better investment climate and environment. According to the 2017 Doing Business Report by the World Bank, BiH fell behind by seven places and now ranks 86 out of the 190 countries covered by this report. This is much worse than the countries of this region (Serbia, Croatia, Albania, Macedonia, Bulgaria, etc.).

According to indicators of the World Economic Forum (WEF) regarding global competitiveness, BiH ranks 103 among 137 countries in the sense of overall competitiveness. Hence, it progressed four places compared to 2016. The poor investment climate is one of the key reasons for the share of direct foreign investment in GDP remaining at a modest 2.1 per cent or EUR 340 million. Total gross investment in this country also posted a decrease of 2.8 per cent yoy in 2017. This is the result of a standstill in terms of implementation of large investments in the country's infrastructure projects. An improved investment environment and reforms in this segment were cited as one of the key objectives of the agreement that was signed with the International Monetary Fund (IMF) in September 2016. Because of political discord regarding the Excise Law (finally adopted in December 2017) BiH was unable to draw additional tranches from the IMF Program in 2017. Yet even without IMF funding, BiH successfully maintained its fiscal stability. This was thanks to auctions on the primary capital market as well as a tax collection rate that exceeded expectations. This enabled additional budget funds and therefore BiH posted a consolidated budget surplus of 1.0 per cent.

Yet regardless of such challenging macroeconomic circumstances, this was one of the most successful years for the BiH banking sector in recent history. Banks in BiH ended the previous year with a net profit of BAM 385.8 million, up by 50.6 per cent compared to 2016. Intensified lending activities amongst BiH banks ensured a rise in the profitability of the banking sector and consequent noteworthy growth in terms of loans advanced in the past year. Hence, total loans advanced by BiH banks stood at BAM 18.4 billion as of December 31, 2017, up by 7.1 per cent compared to YE 2016. Both key institutional business segments (retail and corporate) contributed equally to overall loan portfolio growth in 2017. Hence, retail loans reached BAM 8.6 billion, up by 6.7 per cent, while corporate loans arrived at BAM 8.7 billion, up by 8.0 per cent compared to YE 2016. On the liabilities side of the balance sheet, the increase in deposits is a clear sign of continued trust in the stability of the BiH banking sector with respect to both the retail and corporate segments. Total deposits equaled BAM 19.67 billion at the end of 2017, which represents an annual increase yoy of 10.8 per cent. Retail savings amounted to BAM 11.27 billion and thus accounted for 56.7 per cent of total deposits. This was 5.4 per cent more than in 2016. Corporate deposits posted an increase of 17.6 per cent yoy, thus reaching BAM 4.7 billion or 24 per cent of total deposits.

A steady improvement in financial indicators further attest to the stability of the banking sector. Non-performing loans (NPLs) dropped significantly to 10.0 per cent in 2017 (being at the lowest level since 2010) indicating strong activity on the part of the banks to stabilize and clean up their balance sheets as well as to slow down the inflow of non-performing loans. The banking sector's capitalization rate also remained high at 15.7 per cent and therefore far above the legal minimum of 12.0 per cent. Lastly, it is worth noting that the total assets of the BiH banking sector as of YE 2017 reached BAM 27.3 billion (9.0 per cent yoy) or 86.4 per cent of GDP in 2017. Total capital of the BiH banking sector was BAM 3.8 billion at the end of 2017, up by 6.5 per cent compared to YE 2016. As a result, the BiH banking sector ended 2017 with respectable key profitability ratios where Return on Assets (ROA) was at 1.5 per cent and Return on Equity (ROE) at 10.3 percent. The BiH banking market discontinued its consolidation process in 2017 and therefore the number of banks at the end of the year remained unchanged compared with the previous year (23 banks). However, the banking market continues to be characterized by high concentrations. This means that three main banking groups still hold a very high share (nearly 50 per cent) of total assets and loans. Therefore, further consolidation and a reduction in the number of banks is inevitable over the forthcoming period.

Key Economic Data

	2013	2014	2015	2016	2017	2018f
Nominal GDP (EUR billions)	13.7	14.0	14.6	15.3	16.1	16.9
Real GDP (% yoy)	2.3	1.2	3.1	3.1	2.5	2.8
GDP per capita (EUR)	3,531	3,614	3,784	3,967	4,179	4,399
GDP per capita (EUR in PPP)	7,200	7,300	7,500	7,900	8,300	8,800
Private consumption (real growth % yoy)	0.0	1.9	1.8	1.7	1.9	1.7
Gross investment (real growth % yoy)	(3.0)	8.2	2.9	10.8	5.8	8.0
Industrial output (% yoy)	6.7	0.1	2.6	4.3	3.1	4.8
Production prices (avg % yoy)	(2.2)	(0.2)	0.6	(2.3)	3.0	2.5
Consumer prices – inflation (avg % yoy)	(0.1)	(0.9)	(1.0)	(1.1)	1.3	1.8
Average gross salaries in industry (% yoy)	(0.5)	0.3	0.0	0.9	1.4	5.1
Unemployment rate (avg %)	27.5	27.5	27.7	25.4	20.5	18.0
Budget deficit (% GDP)	(2.2)	(2.0)	0.7	1.2	1.0	(0.5)
Public foreign debt (% GDP)	38.9	42.1	41.8	40.4	37.5	37.0
Trade deficit (% GDP)	(25.4)	(27.5)	(24.0)	(22.6)	(22.5)	(22.9)
Current account deficit (% GDP)	(5.3)	(7.4)	(5.7)	(5.1)	(5.0)	(5.9)
Net foreign investment (% GDP)	1.3	2.9	1.7	1.6	2.2	2.7
Foreign reserves (EUR billions)	3.6	4.0	4.4	4.9	5.4	5.5
Gross foreign debt (% GDP)	52.1	51.7	53.4	54.4	54.2	54.4
EUR/BAM (eop)	1.96	1.96	1.96	1.96	1.96	1.96
EUR/BAM (avg)	1.96	1.96	1.96	1.96	1.96	1.96
USD/BAM (eop)	1.42	1.62	1.80	1.85	1.63	1.50
USD/LCY (avg)	1.47	1.47	1.76	1.77	1.73	1.56

Source: Central Bank of BiH, Statistics Agency of BiH, Raiffeisen *RESEARCH*

Overview of Banking Trends

	2017	2016	2015	2014	2013	2012
Aggregate balance sheet data						
Total assets, EUR million	14,447.1	13,343.6	12,756.0	12,298.8	11,794.3	11,210.3
growth in % yoy	8.3%	4.6%	3.7%	4.3%	5.2%	2.0%
Total loans, EUR million	9,419.3	8,794.8	8,623.9	8,422.8	8,194.2	7,946.8
growth in % yoy	7.1%	2.0%	2.4%	2.8%	3.1%	4.3%
Total deposits, EUR million	10,056.5	9,076.4	8,452.1	7,861.2	7,285.5	6,813.3
growth in % yoy	10.8%	7.4%	7.5%	7.9%	6.9%	2.6%
Loan to deposit ratio in %	93.7%	96.9%	102.0%	107.1%	112.5%	116.6%
Structural information						
Number of banks	23	23	26	26	27	28
Market share in % of state-owned banks	1.5	2.1	2.9	2.7	2.1	1.0
Market share in % of foreign-owned banks	85.7	85.5	84.4	84.4	90.3	92.0
Profitability and efficiency						
Return on assets (RoA)	1.5	1.1	0.3	0.8	(0.1)	0.7
Return on equity (RoE)	10.3	7.3	2.0	5.4	(0.5)	5.1
Non-performing loans (% of total loans)	10.0	11.8	13.7	14.2	15.1	13.5

Raiffeisen Bank International at a Glance

Raiffeisen Bank International AG regards Austria, where it is a leading corporate and investment bank, as well as Central and Eastern Europe (CEE) as its home market. Subsidiary banks cover 14 markets across the CEE region. In addition, the Group includes numerous other financial service providers active in areas such as leasing, asset management and M&A.

In total, nearly 50,000 employees serve RBI's 16.5 million customers in more than 2,400 business outlets, primarily in CEE. RBI AG shares have been listed on the Vienna Stock Exchange since 2005.

At year-end 2017, RBI's total assets stood at € 135 billion. The regional Raiffeisen banks hold approximately 58.8 per cent of RBI shares, with the remaining approximately 41.2 per cent in free float.

Following the merger in March 2017 with Raiffeisen Zentralbank Österreich AG (RZB AG), its former majority shareholder, RBI AG assumed all rights, obligations and functions of the transferring company RZB AG in their entirety, in particular, the role of central institution for the Austrian Raiffeisen Banking Group.

Raiffeisen GALLERY

The blend of art and banking has already become an affirmed concept all over the world. This is why we designed part of the Raiffeisen *BANK* d.d. Bosna i Hercegovina Head Office building in Sarajevo to serve as a gallery. Back in 2009, we established our very successful cooperation with the Academy of Fine Arts in Sarajevo. As part of this cooperation, each year the bank gives the best students of the Academy an opportunity to exhibit their work at the bank's premises and supports them through one-off scholarships.

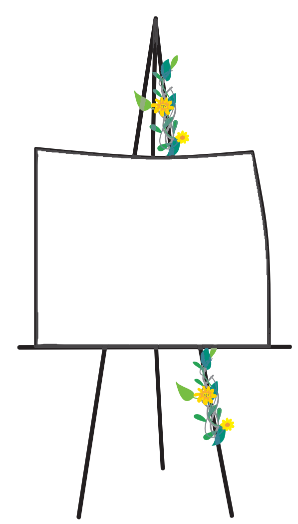
Our core values oblige us to help our community.

Being aware of the challenging position of arts and culture, we support young artists at the onset of their career by offering them a chance to present their work in a non-typical gallery premises such as a bank.

So far, we have hosted eight joint and almost fifty individual exhibitions. In 2017, the opportunity to exhibit their work at the Raiffeisen GALLERY was given to Aida Salkić, Amela Memić, Ante Babić, Berin Spahić, Hanna Dujmović and Mia Bučan.

Each exhibition is a sales opportunity that provides visitors with a chance to support these young artists by buying their works of art. It gives us great pleasure to see that the public is becoming increasingly aware of this project and that the number of purchases of these works of art has increased strongly in recent times.

Art lovers can admire these art exhibitions at the bank's head office located at Zmaja od Bosne every business day from 8 a.m. to 4 p.m.



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Thank you for placing your trust in us!

Raiffeisen *BANK* d.d. Bosna i Hercegovina

Raiffeisen *BANK* d.d. Bosna i Hercegovina is a subsidiary of Raiffeisen Bank International AG (RBI), one of the leading universal type banks in the region of Central and Eastern Europe (CEI) and one of the top commercial and investment banks in Austria.

The bank has operated as a financial institution since November 1992, when it was founded as Market banka d.d. Sarajevo with a dominant share of privately owned capital (above 90%).

Thanks to the quality of its business, it soon stood out as a very successful and profitable bank. Raiffeisen *BANK* d.d. Bosna i Hercegovina was a leading banking partner to numerous international financial organizations (World Bank, IFC, KfW, SOROŠ and EBRD) in the implementation of credit lines between 1996 and 2000.

Raiffeisen Zentralbank Österreich AG-Vienna acquired Market banka d.d. on July 21, 2000. It was then successfully integrated into the Raiffeisen network where it now operates as Raiffeisen *BANK* d.d. Bosna i Hercegovina. RZB became the sole shareholder of Hrvatska Poštanska banka in May 2001 and renamed it Raiffeisen *BANK* HPB. Since January 1, 2003, when Raiffeisen *BANK* HPB was successfully integrated into Raiffeisen *BANK*, the bank has been operating under the single name 'Raiffeisen *BANK* d.d. Bosna i Hercegovina'. This allowed Raiffeisen to strengthen its position in the local market and significantly expand its business network.

In the years that followed, Raiffeisen *BANK* d.d. Bosna i Hercegovina took on a pioneering role in the country's banking industry and was one of the first banks to sign a deposit insurance agreement. After the transfer of payment services from the Payment Transactions Authority to commercial banks Raiffeisen *BANK* d.d. Bosna i Hercegovina successfully made the transition and was one of the most active banks during the introduction of the euro. The bank was one of the first to launch card business, the first to offer online banking services and a SME program, and the first to negotiate and place foreign credit lines (DEG, KfW and IFC). It also became the first bank to operate in both entities of Bosnia and Herzegovina. Having established a presence in Banja Luka in March 2001, the bank continued to operate in the single market of Bosnia and Herzegovina (BiH).

Raiffeisen *BANK* Bosna i Hercegovina reaffirmed its leading position in the local banking market in 2004 when it became the first bank in the country with assets exceeding BAM 2.0 billion. In the years that followed its assets almost doubled reaching BAM 4.1 billion, as of December 31, 2017.

By that time, Raiffeisen *BANK* Bosna i Hercegovina operated 97 business outlets with 1,320 employees.

Numerous international and local awards attest to the successful business operations of Raiffeisen BANK Bosna i Herzegovina. These include the Global Finance 'Best Bank in BiH' and 'Best Digital Bank in BiH' awards, The Banker 'Bank of the Year' award, EMEA Finance 'Best Bank in BiH' award and the local awards the 'Golden BAM' and the 'Crystal Prism'.

Investment in new technology, experienced staff, the active development of its personnel, its focus on the individual customer approach and implementation of new sales channels and new state-of-the-art products and services are the key competitive advantages of Raiffeisen *BANK* d.d. Bosna i Hercegovina in the local market.

Shareholder Structure of Raiffeisen *BANK* d.d. Bosna i Hercegovina:

Raiffeisen SEE Region Holding GmbH	99.9951 per cent
Other shareholders	0.0049 per cent

In addition to Raiffeisen *BANK* d.d. Bosna i Hercegovina, the Raiffeisen Group in Bosnia and Herzegovina also comprises Raiffeisen *INVEST*, Raiffeisen *LEASING,* Raiffeisen *ASSISTANCE and* Raiffeisen *CAPITAL*.

Vision

- to be the strongest and most attractive bank on the market, providing superior quality to its customers;
- to be a responsible member of society.

Mission

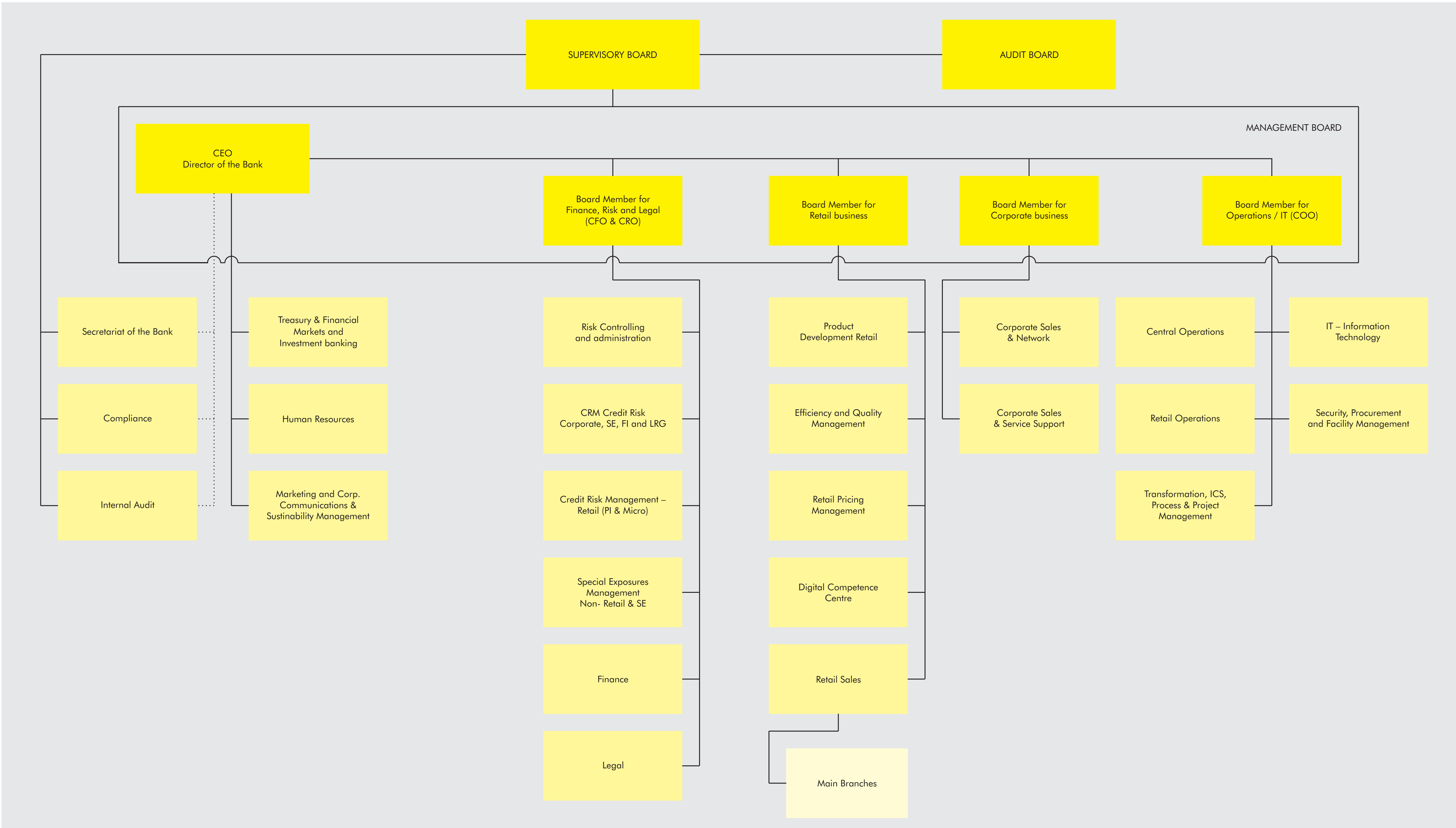
- maximize the customer experience and be their first-choice partner,
- continuously grow and develop in order to provide top banking solutions,
- meet shareholder expectations.

The gable cross is part of the trademark used by almost every company in the Raiffeisen Banking Group and RZB Group in CEE. It represents two stylized horse's heads, crossed and attached to the gable of a house. It is a symbol of protection rooted in old European folk tradition: a gable cross on the roof was believed to protect the house and its occupants from outside dangers and to ward off evil. It symbolizes the protection and security that the members of the Raiffeisen banks enjoy through their self-determined collaboration. Today, the gable cross is one of Austria's best-known trademarks and a well-recognized brand in CEE.

The Management Board

Ante Odak, Executive Director
Maida Zahirović Salom, Executive Director
Karlheinz Dobnigg, Chairman of the Management Board
Mirha Hasanbegović, Executive Director
Heribert Fernau, Executive Director

Organisational Structure



Balance Sheet

as at 31 December 2017 and 2016

	2017 (BAM 000)	2017 (EUR 000)	2016 (BAM 000)	2016 (EUR 000)
Assets				
Cash and cash equivalents	792,940	405,424	874,376	447,061
Legal reserve with the Central Bank of B&H	334,508	171,031	327,197	167,293
Loans and advances to banks	335,427	171,501	184,717	94,444
Loans and advances to customers	2,202,535	1,126,138	2,089,206	1,068,194
Assets held for sale	152	78	457	234
Financial assets available for sale	293	150	216	110
Financial assets at fair value through profit and loss	112,439	57,489	99,705	50,978
Financial assets held to maturity	132,346	67,667	139,723	71,439
Financial investments	11,050	5,650	12,507	6,395
Investments in associates	2	1	2	1
Deferred tax assets	291	149	816	417
Other assets and receivables	63,903	32,673	46,938	23,999
Tangible and intangible fixed assets	150,758	77,081	147,115	75,219
Total Assets	**4,136,644**	**2,115,032**	**3,922,975**	**2,005,785**
Liabilities				
Deposits from banks	145,842	74,568	81,074	41,452
Deposits from customers	3,289,275	1,681,780	3,188,890	1,630,454
Provisions	26,181	13,386	30,174	15,428
Other liabilities	65,788	33,637	40,756	20,838
Subordinated debt	61,823	31,610	61,798	31,597
Total Liabilities	**3,588,909**	**1,834,980**	**3,402,692**	**1,739,769**
Not Paid in				
Shareholder capital	247,167	126,374	247,167	126,374
Share premium	4,473	2,287	4,473	2,287
Revaluation reserves for investments	225	115	148	76
Regulatory reserves	102,443	52,378	102,443	52,378
Retained earnings	193,427	98,898	166,039	84,894
Equity	**547,735**	**280,052**	**520,270**	**266,010**
Total Equity and Liabilities	**4,136,644**	**2,115,032**	**3,922,962**	**2,005,779**
Commitments and Contingencies	**873,069**	**446,393**	**824,782**	**421,704**

Income Statement

for the years ended 31 December 2017 and 2016

	2017 (BAM 000)	2017 (EUR 000)	2016 (BAM 000)	2016 (EUR 000)
Interest and interest-like income	152,267	77,853	154,581	79,036
Interest expenses and interest-like expenses	(29,838)	(15,256)	(32,739)	(16,739)
Net interest income	**122,429**	**62,597**	**121,842**	**62,297**
Fee and commission income	86,070	44,007	84,054	42,976
Fee and commission expenses	(17,645)	(9,022)	(15,696)	(8,025)
Net fee and commission income	**68,425**	**34,985**	**68,358**	**34,951**
Net financial income	12,463	6,372	13,896	7,105
Other operating income	7,573	3,872	2,890	1,478
Operating income	**210,890**	**107,826**	**206,986**	**105,830**
Administrative expenses	(101,960)	(52,131)	(102,650)	(52,484)
Depreciation and amortization	(7,711)	(3,943)	(7,642)	(3,907)
Operating expenses	**(109,671)**	**(56,074)**	**(110,292)**	**(56,391)**
Earning before impairment losses, provisions and income tax	**101,219**	**51,752**	**96,694**	**49,439**
Provisioning for impairment losses	(24,084)	(12,314)	(40,825)	(20,873)
Recoveries	4,363	2,231	5,070	2,592
Profit before income tax	**81,498**	**41,669**	**60,939**	**31,158**
Income tax	(8,878)	(4,539)	(8,410)	(4,300)
Net profit for the year	**72,620**	**37,130**	**52,529**	**26,858**
Earnings per share (BAM)	73,45	37,55	53,13	27,16

Key financial ratios

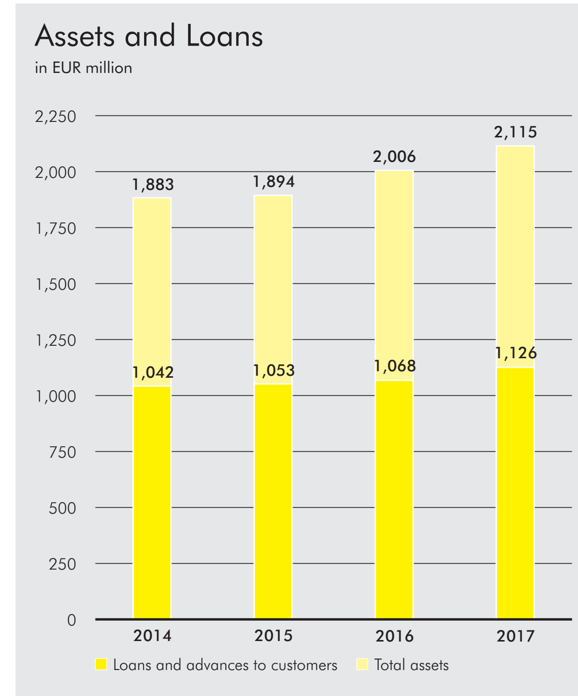
The presented data is stated or calculated on the basis of the bank's revised financial statements

	2017 (BAM 000)	2016 (BAM 000)	2015 (BAM 000)	2014 (BAM 000)
Year-end				
Total assets	4,136,644	3,922,975	3,703,548	3,683,752
Deposits from customers	3,289,275	3,188,890	2,935,840	2,881,072
Loans and advances to customers	2,202,535	2,089,206	2,059,096	2,038,895
Shareholder capital	251,640	251,640	251,640	251,640
Shareholder capital and reserves	547,735	520,270	529,232	530,164
Annual results				
Total revenues	215,253	212,056	207,858	212,425
Total operating expenses	133,755	151,117	132,695	151,397
Profit before tax	81,498	60,939	75,163	61,028
Profit after tax	72,620	52,529	67,009	53,833
Ratios				
Return on assets	2.0%	1.6%	2.0%	1.6%
Return on equity	15.4%	11.3%	13.5%	10.4%
Cost/income ratio	52.0%	53.3%	56.6%	57.9%

	2017 (EUR 000)	2016 (EUR 000)	2015 (EUR 000)	2014 (EUR 000)
Year-end				
Total assets	2,115,032	2,005,785	1,893,594	1,883,472
Deposits from customers	1,681,780	1,630,454	1,501,071	1,473,069
Loans and advances to customers	1,126,138	1,068,194	1,052,799	1,042,470
Shareholder capital	128,661	128,661	128,661	128,661
Shareholder capital and reserves	280,052	266,010	270,592	271,069
Annual results				
Total revenues	110,057	108,423	106,276	108,611
Total operating expenses	68,388	77,265	67,846	77,408
Profit before tax	41,669	31,158	38,430	31,203
Profit after tax	37,130	26,858	34,261	27,524
Ratios				
Return on assets	2.0%	1.6%	2.0%	1.6%
Return on equity	15.4%	11.3%	13.5%	10.4%
Cost/income ratio	52.0%	53.3%	56.6%	57.9%

Assets and Loans

Net loans to customers account for 53 per cent of total assets, the same as the previous year. Gross loans to customers account for 59 per cent, whereas gross PI loans make up 60 per cent of the total loan portfolio.



	2017 (BAM 000)	2016 (BAM 000)	2015 (BAM 000)	2014 (BAM 000)
Total assets	**4,136,644**	**3,922,975**	**3,703,548**	**3,683,752**
Loans and advances to customers	2,202,535	2,089,206	2,059,096	2,038,895

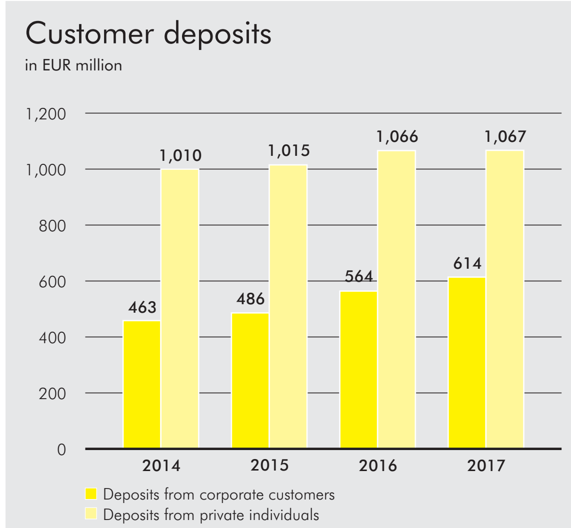
	2017 (EUR 000)	2016 (EUR 000)	2015 (EUR 000)	2014 (EUR 000)
Total assets	**2,115,032**	**2,005,785**	**1,893,594**	**1,883,472**
Loans and advances to customers	1,126,138	1,068,194	1,052,799	1,042,470

Lending

	2017 (BAM 000)	2017 (EUR 000)	2016 (BAM 000)	2016 (EUR 000)	Change %
Corporate loans	980,968	501,561	915,745	468,213	7.12%
Retail loans	1,418,618	725,328	1,384,855	708,065	2.44%
Gross loans	2,399,586	1,226,889	2,300,600	1,176,278	4.30%
Impairments	197,051	100,751	211,394	108,084	(6.78)%
Net loans	**2,202,535**	**1,126,138**	**2,089,206**	**1,068,194**	**5.42%**

Customer deposits

Deposits from private individuals make up 63 per cent of total deposits, which is an increase of KM 2,197 ths as a result of long-standing and successful business based on meeting customers' needs. Total deposits from private individuals consist of term deposits with a share of 40 per cent and sight deposits with a share of 60 per cent.

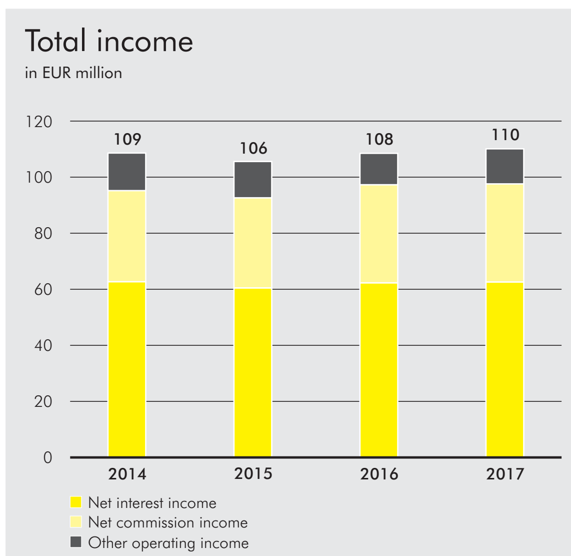


	2017 (BAM 000)	2016 (BAM 000)	2015 (BAM 000)	2014 (BAM 000)
Deposits from corporate customers	1,201,591	1,103,403	951,160	905,827
Deposits from private individuals	2,087,684	2,085,487	1,984,680	1,975,245

	2017 (EUR 000)	2016 (EUR 000)	2015 (EUR 000)	2014 (EUR 000)
Deposits from corporate customers	614,364	564,161	486,320	463,142
Deposits from private individuals	1,067,416	1,066,293	1,014,751	1,009,927

Total Income (with total income structure)

Total income comprises net interest income of 57 per cent and net commission income of 32 per cent, the same as the previous year. Interest income fell by 1 per cent compared to the previous year as a result of decreased interest rates. Interest expenses are 9 per cent lower than in the previous year as a result of decreased dues to banks and other financial institutions.

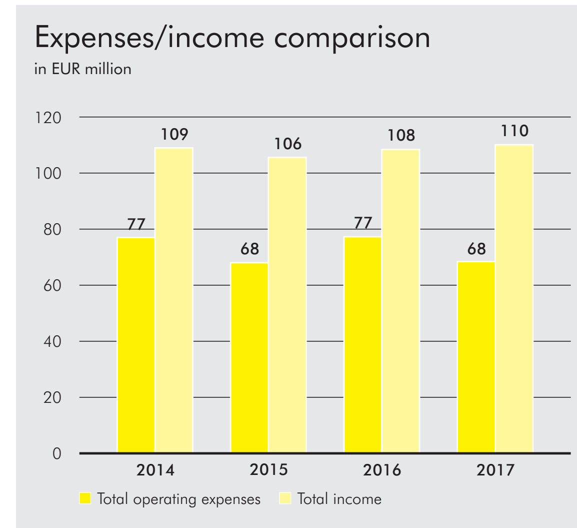


	2017 (BAM 000)	2016 (BAM 000)	2015 (BAM 000)	2014 (BAM 000)
Total revenues	**215,253**	**212,056**	**207,858**	**212,425**
Net interest income	122,429	121,842	119,090	122,653
Net commission income	68,425	68,358	63,292	63,588
Other operating income	24,399	21,856	25,476	26,184

	2017 (EUR 000)	2016 (EUR 000)	2015 (EUR 000)	2014 (EUR 000)
Total revenues	**110,057**	**108,423**	**106,276**	**108,611**
Net interest income	62,597	62,297	60,890	62,711
Net commission income	34,985	34,951	32,361	32,512
Other operating income	12,475	11,175	13,026	13,388

Operating expenses/total income comparison

Total operating expenses dropped significantly in the relevant period (2016 – 2017). Stricter cost control, by both cost organization and structure, resulted in an improvement of the cost/income ratio.



	2017 (BAM 000)	2016 (BAM 000)	2015 (BAM 000)	2014 (BAM 000)
Total operating expenses	133,755	151,117	132,695	151,397
Total revenues	215,253	212,056	207,858	212,425

	2017 (EUR 000)	2016 (EUR 000)	2015 (EUR 000)	2014 (EUR 000)
Total operating expenses	68,388	77,265	67,846	77,408
Total revenues	110,057	108,423	106,276	108,611

Supporting the most vulnerable social categories

Raiffeisen *BANK* d.d. Bosna i Hercegovina continues to implement its sustainability strategy as it has done throughout the years by assisting many projects for children and adults with special needs and by providing support to institutions that care for the most vulnerable social categories. We supported more than twenty-five humanitarian projects of various types in 2017. Our cooperation with some institutions has lasted for many years and in addition to the provision of financial support many of our employees also contribute by volunteering.

Our cooperation with the Association for Support to People with Intellectual Disabilities FBiH (**SUMERO**) began in 2005. As part of this cooperation, we supported the construction of a Rehabilitation Center for Persons with Disabilities in Vogošća. The Center provides support for people with disabilities as well as their families and works towards their efficient inclusion within their social community.

We have provided support to the association **'A Heart for Children with Cancer in FBiH'** since 2009.

In 2013, we began to donate waste paper to this association so that it could generate income for its activities through recycling. We supported the construction of a Parents' House in Sarajevo. The Parents' House allows the parents of children with malignant diseases to accompany their children during their treatment. In 2015, the bank's staff helped through donations and by volunteering to equip the Parents' House.

Our successful cooperation with the **SOS Children's Villages** dates back to 2003 and we have successfully implemented many joint activities and projects. SOS children's villages are committed to building families for children in need who are orphans or whose families are unable to care for them. The villages give these children the chance to create lasting ties in a SOS family.

Our customers support these three organizations indirectly because ten pfennigs from each transaction made using a MasterCard Shopping Card are allocated to supporting them.

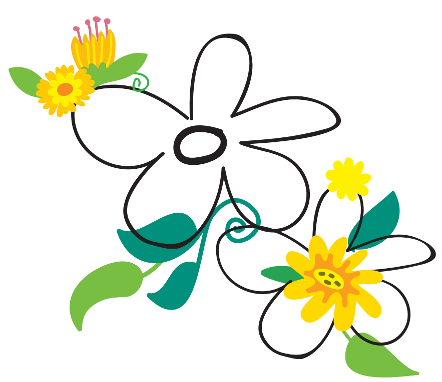
Donating 'Raffe the Giraffe' playgrounds

As part of our sustainability strategy focused on support for children, Raiffeisen *BANK* d.d. Bosna i Hercegovina continued through various initiatives to make a positive contribution to the community and environment in which it operates. In line with this commitment and in cooperation with Western Union, we have equipped children playgrounds since 2008. In so doing, we also mark World Savings Day. We inaugurated three playgrounds in 2017: one in Banovići, Cazin and Derventa. To date, we have donated twenty-seven playgrounds across Bosnia and Herzegovina.

All of the playgrounds are equipped with safe devices that are environmentally friendly and meet the highest technical and other standards. These devices make children happy and help them develop their skills in a playful way.

Our children's savings mascot Raffe the Giraffe is an essential part of each playground. Through various activities, we work to promote our permanent values and raise awareness among children about the importance of saving and its benefits for the economy and society.

We also have the tradition to celebrate World Savings Day each year on October 31 by hosting between 300 and 400 children at our branches. In 2017, we helped numerous kindergarten and schoolchildren to learn more about the benefits of saving and we gave them some presents to mark the occasion of World Savings Day.



25 YEARS OF STABLE GROWTH
Thank you for placing your trust in us!

Business Overview

Corporate Banking

The loan portfolio in the corporate segment grew by 11 per cent compared to the previous year.

The corporate segment focused on increasing and improving the quality of the loan portfolio and strengthening customer relationships in 2017. These activities increased performing assets by 17 per cent and decreased non-performing by 25 per cent compared to the previous year.

The bank retained its market presence in all regions in 2017, focusing on strengthening business relations with existing customers and acquiring new ones.

The corporate segment maintained its focus on developing good overall relationships with its customer base through intensive engagement in the promotion of loan products, trade finance and documentary business as well as cash management products: accounts and payments.

The deposit base increased by 5 per cent compared to the previous year, which reflects the trust our customers place in us through their continued placement of deposits.

Interest rates grew by 6 per cent compared to 2016. This was primarily due to an increase in the volume of performing assets and despite the challenge of decreasing the average exit interest rate on performing assets.

The loan portfolio for large local, international and GAMS customers increased by 11 per cent. Performing assets grew by 17 per cent, while non-performing assets fell by 19 per cent compared to 2016.

The SME loan portfolio increased by 12 per cent. Performing assets grew by 20 per cent, while non-performing assets fell by 33 per cent compared to 2016.

In line with corporate trends, Raiffeisen *BANK* d.d. Bosna i Hercegovina continued to maintain its good business practices by becoming closer to its customers. Numerous events with customers were held in all key areas of the bank's operations.

Our bank followed the changes to legal regulations within the corporate banking segment and accordingly and in a timely manner took certain measures to adjust the existing document base to meet the requirements of the new Law on Banks.

Providing active customer support not only enabled the bank to keep its existing customers but also to acquire new ones: the bank had 2,979 corporate customers by the end of 2017.

SME Business

Raiffeisen *BANK* d.d. Bosna i Hercegovina works constantly to build and maintain long-standing business relations with existing customers and to acquire and build relationships with potential new customers within the SME segment. In order to establish and strengthen comprehensive high quality relationships with our customers the bank focused on improving the quality of service and adjusting to customer and market demands in 2017.

Raiffeisen *BANK* d.d. Bosna i Hercegovina has for many years applied a segmented approach to its SME customers. This implies support to legal entity operations by means of uniform treatment of customers with similar needs. Moreover, the bank has developed a special credit line for its SME customers that allows for working capital and investment financing under preferential terms and conditions.

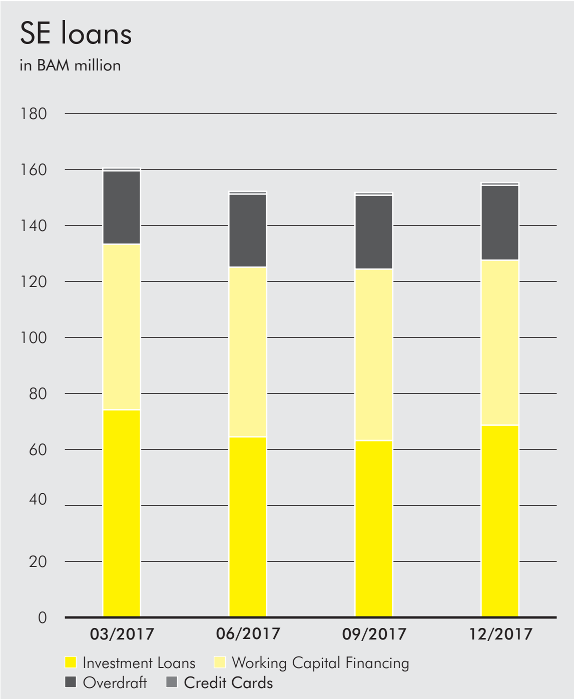
In order to hear the voice of its customers, namely their opinions and proposals for improvement, the bank organized business events for its SME customers. At these events, the bank presented its new products and invited customers to propose possible improvements in relation to their cooperation with the bank.

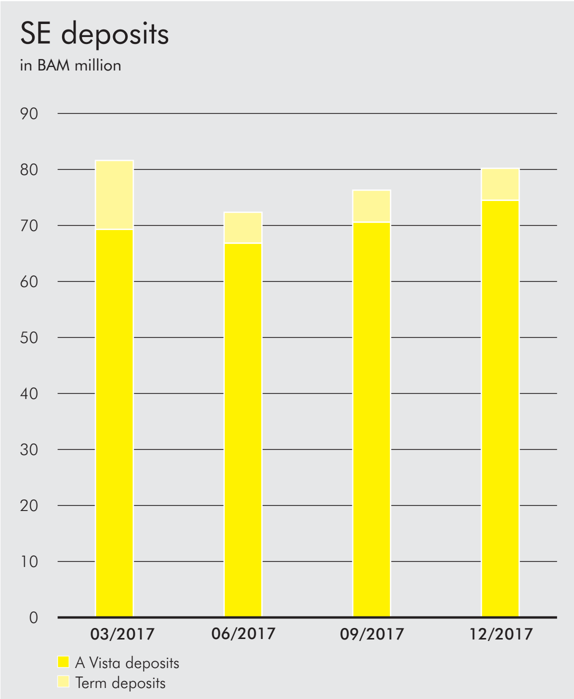
Development of the Loan and Deposit Portfolios (SE segment):

'000 BAM	March 2017	June 2017	September 2017	December 2017
Credit Cards	1,030	953	961	1,007
Overdraft	26,205	26,102	26,428	26,739
Working Capital Financing	59,135	60,604	61,158	58,881
Investment Loans	74,229	64,506	63,215	68,742

The total value of the SE loan portfolio stood at BAM 155.4 million as of December 31, 2017. Compared to the same date during the previous year, the highest growth was recorded in the overdraft product at 10.5 per cent. As of December 31, 2017, SE deposits climbed to BAM 80.2 million; their structure was dominated by a vista deposits, which grew constantly during 2017.

'000 BAM	March 2017	June 2017	September 2017	December 2017
Term deposits	12,341	5,517	5,682	5,723
A Vista deposits	69,287	66,857	70,585	74,457



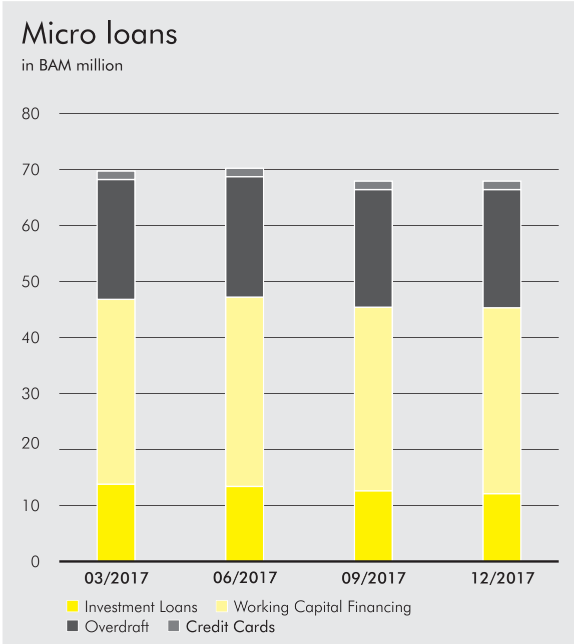


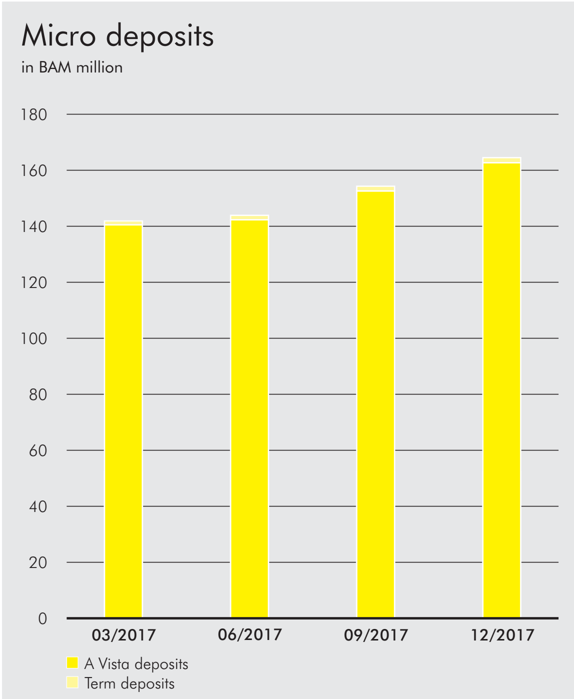
Development of the Loan and Deposit Portfolios (Micro segment):

'000 BAM	March 2017	June 2017	September 2017	December 2017
Credit Cards	1,516	1,465	1,455	1,450
Overdraft	21,434	21,514	20,996	21,080
Working Capital Financing	32,973	33,838	32,730	33,234
Investment Loans	13,832	13,422	12,589	12,147

The total loan portfolio of the Micro segment amounted to BAM 67.9 million as of December 31, 2017. Loans for financing working capital grew by 6.8 per cent and were thus the growth leaders compared to the previous year's figures. The micro deposit portfolio reached a value of BAM 164.5 million as of December 31, 2017 and was dominated by a vista deposits, whose upward trend was evident throughout 2017.

'000 BAM	March 2017	June 2017	September 2017	December 2017
Term deposits	1,388	1,575	1,696	1,819
A Vista deposits	140,485	142,290	152,562	162,665





Retail Banking

Raiffeisen *BANK* d.d. Bosna i Hercegovina constantly implements the latest technological solutions in order to improve the quality of its services, develop new products and adjust its existing deposit, loan and card products to the demands of PI customers.

In order to respond to even the most specific demands of its customers the bank has developed a special segment of retail banking, namely Premium Banking, which ensures individualized customer treatment and specialized premium services.

Neutral Business

The neutral business segment posted the following results in 2017:
- Income from exchange services rose by 2.7 per cent, based on an increase in turnover of the exchange offices of 15.9 per cent in 2017.
- Western Union transactions rose by 1.3 per cent compared to the figure for 2016.
- There was an increase in active Account Sets of 17.4 per cent with generated revenue up by 11.8 per cent compared to the revenue generated in 2016.

Deposits from Private Individuals

Compared to 2016, total deposits of private individuals placed with Raiffeisen *BANK* d.d. Bosna i Hercegovina grew by 0.30 per cent in 2017.

Overview of deposits from private individuals

'000 BAM	2017	Change	2016	Change	2015	Change	2014
Term deposits	1,213,270	19.6%	1,014,346	(5.6)%	1,074,113	(9.7)%	1,189,725
A Vista deposits	873,283	24.2%	703,286	14.0%	616,676	13.5%	543,472
Current accounts	388,123	9.0%	356,034	26.3%	281,970	22.3%	230,550
Total	**2,474,676**	**19.3%**	**2,073,666**	**5.1%**	**1,972,769**	**0.5%**	**1,963,747**

Private Lending

In order to respond to the demands of the market, Raiffeisen *BANK* d.d. Bosna i Hercegovina introduced additional benefits for its loan products in 2017. This was supported by corresponding marketing campaigns.

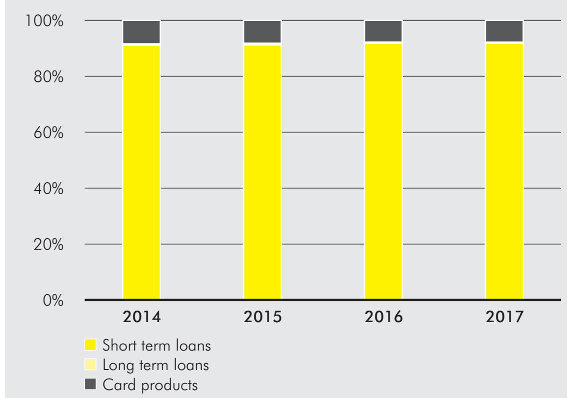
The new benefits ensured target achievement, contributed to customer retention, attracted new customers and provided for implementation of 'Smart lending' for the following customer groups:

a) customers holding their salary accounts with Raiffeisen *BANK* d.d. Bosna i Hercegovina,
b) customers whose relationship with Raiffeisen *BANK* d.d. Bosna i Hercegovina is founded on CRM activities,
c) customers employed by selected companies and public sector entities targeted by special offers of Raiffeisen *BANK* d.d. Bosna i Hercegovina.

The loan portfolio was dominated by purpose and non-purpose loans, whose share stood at 92.29 per cent. Mortgage loans participated in the loan portfolio with a 5.77 per cent share and Lombard loans with a 1.94 per cent share.

The highest demand was recorded among non-purpose loans, especially the following:
- pre-approved consolidation loans, which comprised 29.18 per cent of total lending;
- non-purpose cash loans, which accounted for 26.78 per cent of total lending;
- XXL non-purpose loans, which comprised 21.67 per cent of total lending.

Structure of the PI loan portfolio



Overview of the Retail loan portfolio

'000 BAM	2017	Change	2016	Change	2015	Change	2014
Short term loans	4,028	(24.1)%	5,306	(33.8)%	8,020	26.1%	6,361
Long term loans	1,295,209	4.2%	1,243,627	2.8%	1,209,503	3.9%	1,164,662
Card products	102,964	(2.7)%	105,810	(2.1)%	108,121	0.4%	107,667
Total	**1,402,202**	**3.5%**	**1,354,742**	**2.2%**	**1,325,644**	**3.7%**	**1,278,690**

Card Business

Cards

The card portfolio showed an upward trend throughout 2017. Hence, by year's end there were 924,225 issued cards (cumulative figure) with 69,121 thereof issued in 2017. This translates into growth of 8 per cent over the cumulative card figure from 2016.

The 'VISA Magic Card' was the leader among new cards. This card has proven to be an attractive product as it allows customers to pay in instalments and withdraw cash from Raiffeisen ATMs free of charge.

Constant efforts to acquire public sector entities and companies in terms of routing their salaries through debit card accounts with Raiffeisen *BANK* d.d. Bosna i Hercegovina contributed strongly to the placement of debit cards. The contactless 'MasterCard Debit Card' dominated new debit card volume. The benefits enjoyed by holders of the two card leaders within the new card volume generated in 2017 are listed below.

Contactless MasterCard Debit Card:
- payment of goods and services within the country and abroad,
- cash withdrawal at Raiffeisen ATMs within the country and abroad,
- online payments,
- contactless payment functionality.

Contactless VISA Magic Card:
- payment of goods and services within the country and abroad in up to 36 instalments,
- cash withdrawal at Raiffeisen ATMs free of charge,
- cash advances at ATMs within the country and abroad repayable in up to 36 instalments,
- online instalment payments,
- interest-free loans of up to 50 BAM for the payment of goods and services,
- contactless payment functionality,
- availability of the account set products,
- insurance package.

The contactless payment functionality, which allows customers to pay for goods and services using contactless technology, i.e. to exchange the card data with the card reader without swiping the card, has been implemented for all card products.

The contactless payment functionality allows card holders the following benefits:
- to have full control over their transactions as their cards remain in their possession during transactions,
- to make transactions of up to BAM 30 without having to enter their PIN (the PIN is required only for transactions above the said limit).

Card Acceptance at Point of Sale (POS)

The Card Acceptance Unit saw another year of positive trends in all of its business segments. The POS network that enables usage of the contactless payment functionality continued to expand with an increased number of merchants and locations equipped with POS devices of Raiffeisen *BANK* d.d. Bosna i Hercegovina.

Thus, by the end of 2017 there was a total of 4,338 POS devices allowing contactless payments at 3,130 points of sale. Compared to 2016, the volume of card transactions increased by 17.50 per cent and commissions from card transactions by 11.40 per cent.

In order to encourage both merchants and cardholders to use contactless card transactions intensively, several campaigns were implemented that brought certain benefits to all process participants: merchants, cardholders and the bank. POS devices of Raiffeisen *BANK* d.d. Bosna i Hercegovina were installed for 273 new merchants.

In pursuing this approach the bank once again confirmed its orientation towards establishing long-standing partner relationships with merchants and cardholders.

Card Acceptance at ATMs

This year saw the activation of one new ATM. This brought the total number of active ATMs to 269 as of December 31, 2017.

Observed against the figures from 2016, the volume of cash withdrawals from ATMs grew by 1.41 per cent and the number of ATM transactions by 1.01 per cent.

To improve the quality of ATM services and the ATM configuration, several actions were taken in 2017. These included the optimization of the ATM transaction duration and an increase in the maximum amount of a single transaction value to BAM 2,000.

Business Network Coordination

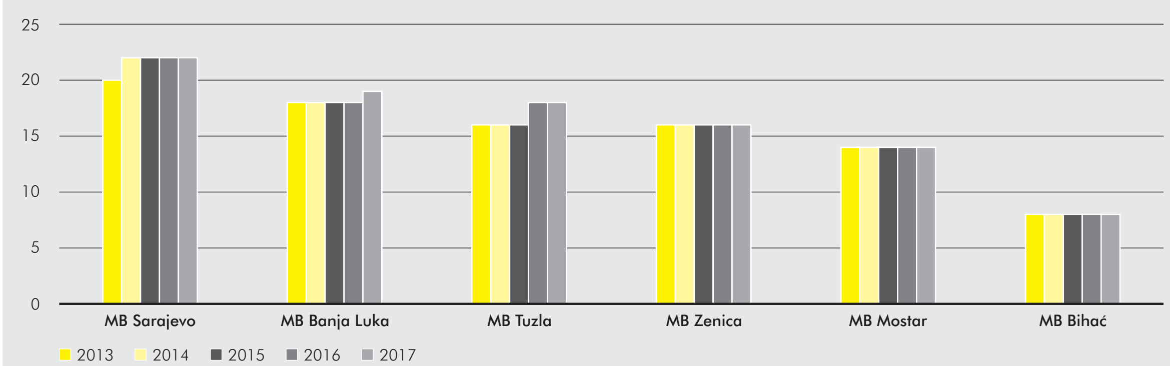
Whereas the period from 2002 to 2008 was characterized by an extensive expansion of the branch network, the last few years have focused on consolidation in response to market conditions. Hence, the optimization of the number of branches of Raiffeisen *BANK* d.d. Bosna i Hercegovina over this period.

In order to acquire new customers and improve the quality of service a new branch was opened within the Main Branch Banja Luka in 2017.

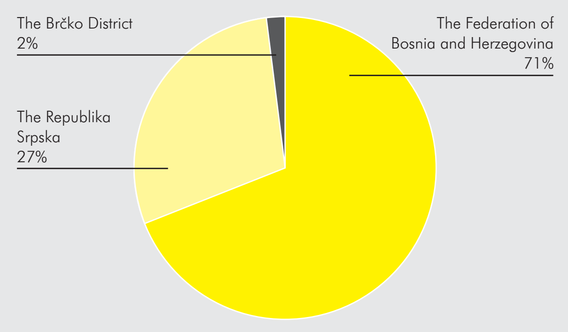
The branch network comprised 97 business units performing sales and service related activities and six main branches acting as regional branch network centers as of December 31, 2017.

The main branches are located in the administrative and political centers of Bosnia and Herzegovina and provide administrative and professional support to the branch network.

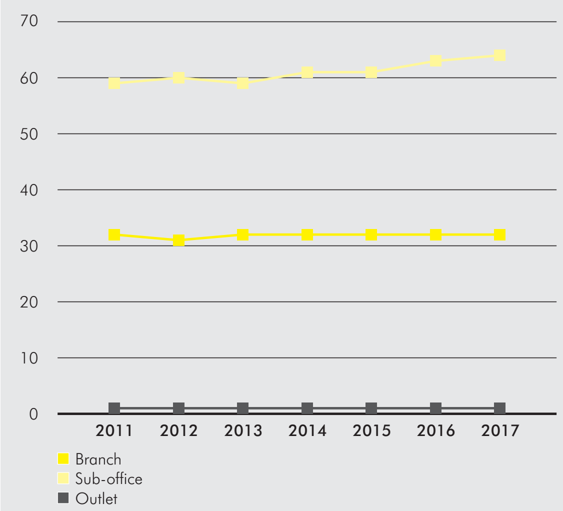
Development of the branch network from 2013 to 2017



Regional coverage of the branch network



Structure of business outlets across time



Quality Management

Raiffeisen *BANK* d.d. Bosna i Hercegovina considers the high quality of its services as crucial to its success and therefore a major business priority. The key business target is to satisfy the needs of all the bank's customers and to constantly invest in and improve the level and quality of service.

To achieve the ultimate aim, namely customer satisfaction, the bank has developed a Quality Policy through which the Management Board confirms its commitment to the continuous upgrading the quality of the bank's services and operating procedures.

With the aim to ensure business development, high quality services and customer satisfaction, the bank implemented the ISO 9001:2015 quality management system in all of its business segments in 2017. This quality management system is objective evidence of the bank's implementation of an efficient quality management methodology and its commitment to satisfy all of the requirements of the relevant standard.

The bank greatly appreciates the voice of its customers and takes it into consideration whenever taking important decisions on product, service and process development. The bank conducts regular customer surveys in order to respond adequately to the demands of its precious customers.

Complaints, suggestions and recommendations also represent important guidelines for us in terms of the further improvement of our operations. This is why we analyze them on a regular basis and implement the relevant corrections.

Raiffeisen *BANK* d.d. Bosna i Hercegovina employees strive on a daily basis to meet the needs and requests of our customers and whenever possible to exceed their expectations. We work towards this objective through continuous professional development and training as well as the establishment of the key competencies of our employees in their approach to PI and corporate customers.

Digital Banking Center

Digital Services

In 2017, the goal of the Digital Banking Center was to increase the number of active users and electronic orders within the private individuals and corporate segments. This objective was in fact achieved as the digital service segment maintained its positive trend in terms of the number of users and online and mobile banking orders in 2017.

Throughout 2017, the Center's activities focused mostly on projects aimed at improving the existing digital services and development of overtly new ones. Thus, further strengthening the bank's leading market position in the segment of digital innovation.

We have created an entirely new digital service: Raiffeisen Viber Banking. This service offers a quite special user experience via the simple and well-known Viber format and has numerous functionalities:

- send money to anyone from your Viber contact list who holds an account in Bosnia and Herzegovina, even if they are not a Raiffeisen customer;
- receive money into an account of your choice in Bosnia and Herzegovina, even at banks other than Raiffeisen;
- check the balance on all of your Raiffeisen card and sight accounts as well as the last five transactions on any of these accounts;
- move funds between your personal Raiffeisen card and sight accounts;
- pay your dues on Raiffeisen credit cards;
- check your payment orders executed through the Viber application.

Online Banking

The number of corporate online banking customers was 11,216 by the end of 2017, which represents an annual increase of 5.43 per cent. A total of 3,461,851 electronic orders were carried out via this service in 2017, which translates into an annual growth rate of 9.26 per cent.

The number of personal online banking customers was 86,275 by the end of 2017, which is an increase of 10.96 per cent compared to the previous year. A total of 406,554 PI electronic orders were carried out online, which represents an increase of 11.68 per cent over the previous year.

Mobile Banking

Raiffeisen Mobile Banking (R'm'B) enables customers to access their accounts and other details related to their business dealings with Raiffeisen *BANK* d.d. Bosna i Hercegovina and to make financial transactions at any time via their mobile phone.

The number of customers using this service at the end of 2017 was 41,756, up by 33.18 per cent on the previous year. The number of orders carried out through this service rose by 66.86 per cent compared to 2016.

Viber Banking

Raiffeisen Viber Banking was implemented by mid-2017 and we reached 7,971 active customers by the end of the same year.

Treasury, Financial Markets and Investment Banking

Trading and Sales

Trading and Sales activities conducted by Raiffeisen *BANK* d.d. Bosna i Hercegovina for the purpose of FX risk management in 2017 focused on risk identification, daily FX position monitoring and risk control model improvement. This department also proposed and defined limits and performed relevant internal and external reporting.

According to the regulatory requirements of the Federal Banking Agency (FBA), Trading and Sales maintained, on a continuous basis, its foreign currency position within the permissible limits. Throughout the year, FX risk indicators remained within the legally defined limits in relation to its core capital; Raiffeisen *BANK* d.d. Bosna i Hercegovina is required to ensure on a daily basis that its total net open FX position does not exceed 30 per cent of its capital.

During 2017, Raiffeisen *BANK* d.d. Bosna i Hercegovina also ensured compliance with the RBI limits regarding the maximum permissible overnight exposure for all currencies as well as the respective Euro and BAM limits.

Despite the high level of volatility among currencies on the global market, 2017 ended with a record high FX-based profit; this stemmed from the optimization of FX risk combined with maintaining profit orientation.

In 2017, Trading and Sales paid special attention to large and medium size companies in the segment of currency trading. Through its Customer Desk service Raiffeisen *BANK* d.d. Bosna i Hercegovina is one of the key service providers to import/export oriented companies. Its professional team of dealers acts in synergy with customer relations managers. The dedication and experience of our employees provides professional assistance to our customers when negotiating favorable exchange rates and enabling direct access to global markets. This is of utmost importance for our import/export oriented customers. A positive trend of customers approaching the Customer Desk service in 2017 resulted in 135 active customers placing their trust in Raiffeisen *BANK* d.d. Bosna i Hercegovina as a partner bank for FX dealings.

Special attention was paid to protecting customers against FX risk through continuous customer education on the products offered by the Trading and Sales Department.

One important role of the Trading and Sales Department in money trading in 2017 was to adopt an individualized approach to customers (local banks) and to optimize cash management costs.

Throughout the year, our customers again showed how much they appreciate the quality of the services offered by Raiffeisen *BANK* d.d. Bosna i Hercegovina and its focus on satisfying the needs of its customers. The result of significant improvements by year's end was an increase in the number of banks that place their trust in us for money trading.

Funding and Financial Institutions

At the beginning of May 2017, an agreement was signed with the European Investment Bank (EIB) on financing investment of small and medium enterprises, medium capitalized companies and the public sector. Two tranches of the loan were drawn in the second half of 2017. Because of its attractive terms, it is planned to prolong the credit line beyond its availability period: ending in May 2018.

In the first quarter of 2017, a new loan for micro and small enterprises was arranged with the European Fund for Southeast Europe (EFSE) to the amount of € 5 million. The loan proceeds were on lent during 2017.

The second half of 2017 was marked by extensive price negotiations with creditors, which led to major results.

Over the last quarter of 2017, Raiffeisen *BANK* d.d. Bosna i Hercegovina began preparations for negotiations related to these new credit lines for 2018.

- A credit line amounting to € 15 million was concluded with Kreditanstalt fur Wiederaufbau (KfW) for home improvements intended to raise energy efficiency and included benefits for the final beneficiaries of these loans.

- A housing credit line with a fixed interest rate was concluded with the European Bank for Reconstruction and Development (EBRD) to the amount of € 10 million.
- A credit line for 'Women in Business' was concluded with the European Bank for Reconstruction and Development (EBRD) to the amount of € 1.5 million.

In terms of negotiating adequate international payment channels in 2017, we initiated negotiations with Citi Bank to open a USD account.

In order to meet customer needs and demands, Raiffeisen *BANK* d.d. Bosna i Hercegovina invested continuous effort into ensuring adequate limits for banks.

Investment Banking

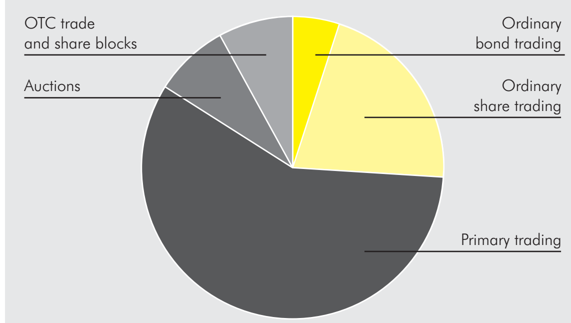
Total turnover on the Sarajevo Stock Exchange (SASE) in 2017 was BAM 532.61 million and thus around 29.5 per cent less than in 2016. The primary market saw only fifteen public issues of debt instruments, worth altogether BAM 308.62 million. This predominantly caused a total turnover decrease compared to the turnover rate of BAM 460.34 million generated in this segment in 2016.

Over the course of the year, the Government of the Federation of BiH (FBiH) organized eleven auctions of T-bills with tenor ranging from three to twelve months and thus collected BAM 259.83 million; the highest yield of 0.27 per cent was earned on three-month tenor T-bills issued during the first quarter of the year. Due to the satisfactory liquidity situation, the Finance Ministry of the FBiH cancelled all planned auctions for the second quarter of the year. However, in the third quarter in addition to the planned T-bill issues it issued another BAM 30 million of bonds with a five-year tenor and an average yield of 1.2 per cent.

The positive effects of capital market financing were also recognized by the Finance Ministry of Sarajevo Canton. The Ministry organized three public bonds issues via SASE worth altogether BAM 18.79 million, where three-year tenor bonds bore an average yield of 2.85 per cent and five-year tenor bonds a yield of 3.3 per cent. The investor structure was similar across all public issues of debt instruments and was dominated by banks, followed by insurance companies and funds.

Ordinary turnover on the SASE reached BAM 136.48 million in 2017, which was 23.2 per cent below the figure for the previous year. Ordinary turnover had a 25.6 per cent share of total turnover, which remained insufficient in terms of strengthening the capital market and attracting new investors to this market. The weak rate of bond trading on secondary markets that posted a figure of BAM 23.66 million (down by 64.1 per cent over the previous period) had the greatest effect on the decrease in turnover in this segment. Despite constant demand for long-term debt securities, the offer was quite poor and thus led to new record low yields in the market. The most liquid securities of this segment were the FBiH wartime claims bonds. Observed individually, the most traded series in 2017 was the FBiHK1A series (FBiH wartime claims bonds) with tenor in 2019 that generated a trading volume of BAM 4.94 million at an average price of 97.86 per cent of the nominal value and with an average yield of 3.37 per cent.

Structure of total turnover on SASE in 2017 (BAM 532.6 million)



Regular trading in shares in the past year reached BAM 112.82 million. Almost 50 per cent thereof accounted for the primary free market ST1 in which shares of thirty issuers belonging to the most liquid securities were traded on the free market. Observed individually according to the turnover generated, Energonova d.d. Sarajevo (EGNSR) was the leader with a share trade value of BAM 11.22 million. The most recent share price for the relevant period was BAM 57, which translates into a price increase of 23.9 per cent yoy. Energonova d.d. Sarajevo is a relatively new issuer that has been listed since 2016 and is majority owned by the company Jadranska Ulaganja d.o.o. Zagreb.

There were 12 extraordinary auctions held during the year via the stock exchange to a total value of BAM 43.11 million and 62 OTC transactions and 10 blocks of shares to a total value of BAM 44.40 million.

As for the main indices on SASE, the Investment Fund Index BIFX fell by 25.1 per cent, SASX-10 fell by 18.3 per cent while the value of the SASX-30 index rose by 0.58 per cent yoy.

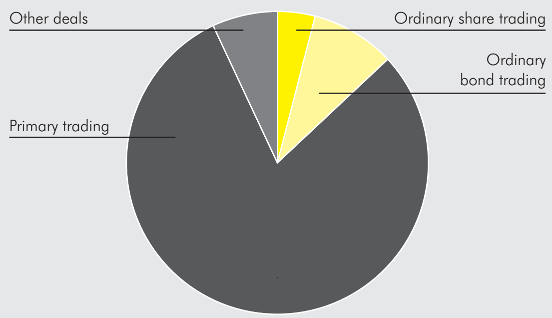
The share of SASE members in total turnover in 2017 shows that the largest turnover was generated by Raiffeisen *BANK* d.d. Bosna i Hercegovina.

Total turnover on the Banja Luka Stock Exchange (BLSE) was BAM 486.87 million, which implies a decrease in total turnover of 22.1 per cent compared to 2016.

Total turnover generated through seventeen auctions of T-bills and bonds of the Government of Republika Srpska in 2017 amounted to BAM 366.49 million, a drop in turnover in this segment of 21.6 per cent compared to 2016. The Government of Republika Srpska generated BAM 143.15 million instead of the budgeted amount of BAM 131 million through nine auctions of T-bills with maturities between six and twelve months. Yields on T-bills of the Government of Republika Srpska were higher than those issued by the Government of the Federation of BiH. They ranged between 0.3 per cent on six-month T-bills and 1.0 per cent on the twelve-month T-bills. The Government of Republika Srpska generated BAM 223.34 million via bond issues for the periods of three, five, seven and ten years from yields: 2.74 per cent on three-year, 2.5 to 3.49 per cent on five-year, 3.5 to 3.78 per cent on seven-year and 4.0-4.34 per cent on ten-year bonds.

Overall, regular turnover on the BLSE amounted to BAM 59.49 million; this represents a decrease of 53.5 per cent on the same period in the previous year. Turnover fell in all segments with the exception of the official market List B, which had turnover of BAM 9.58 million and 14 per cent growth yoy.

Structure of total turnover on BLSE in 2017 (BAM 486.9 million)



Bond and T-bills trading on the secondary market was BAM 42.28 million, falling sharply in comparison to 2016 when BAM 106.92 million was traded in the same segment. The highest turnover was in bond series of Republika Srpska on war damage compensation 11 (RSRS-O-K). It was traded to a total amount of BAM 9.48 million due in 2029. The last price in 2017 was 87.7 per cent of the nominal value with a 3.4 per cent yield.

With a total value of BAM 17.21 million ordinary share trading on the BLSE fell short by 17.8 per cent compared to the 2016 figure. Telekom Srpske a.d. Banja Luka (TLKM-R-A) remained the most sought after issuer with a total share trading of BAM 5.33 million, with an average price between BAM 1.03 and BAM 1.25.

The stock exchange Blue-Chip Index (BIRS) on the Banja Luka Stock Exchange ended the year with a value of 543.38 index points, which was down by 0.84 per cent on the beginning-of-year figure. The Investment Fund Index (FIRS) had a value of 1,765.59 index points on the last trading date of September 22, 2017, which represents an increase of 12 per cent. The Banja Luka Stock Exchange then decided to stop calculating and announcing the values of the FIRS indices because of the obligation to convert closed-end into open-end investment funds.

The changes in legal regulations that define the area of the investment funds in Republika Srpska prescribe the obligation to transform closed-end investment funds into open-end investment funds with a two-year adaptation period. Only three closed-end investment funds completed their conversion processin 2017: ZIF Kristal Invest Fond a.d. Banja Luka, ZIF Zepter Fond a.d. Banja Luka, and ZIF Invest Nova Fond a.d. Bijeljina. Total turnover on the segment of open-ended investment funds in the last quarter 2017 was BAM 1.75 million. The shares thereof in DUIF Kristal Invest a.d. – OMIF Future Fund (FTRP-U-A) were the most traded amounting to BAM 1.10 million.

The project to link the regional stock exchanges into a SEE Link Platform seated in Skopje was implemented in 2017 with the support of the European Bank for Reconstruction and Development (EBRD). The platform now includes the Athens, Banja Luka, Belgrade, Bulgarian, Macedonian, Ljubljana, Sarajevo and Zagreb stock exchanges. The individual stock exchanges will not suffer any loss of legitimacy or identity but will be linked via a common platform that contains all of the companies listed on the individual stock exchanges.

Despite the challenging circumstances in the local capital market, this was another successful year for the Investment Banking Department. Income increased and the number of customers remaining stable showed an upward trend in all business segments.

Custody-GSS had a very successful business year seeing a rise of 29 per cent in the number of customers. This justifies the trust placed in it by both existing and new customers. Annual research organized by the renowned magazine Global Custodian verified and acknowledged the high level of service quality and the success of the Raiffeisen *BANK* d.d. Bosna i Hercegovina custody business, while our customers gave us high grades and marked us as their bank of choice.

In 2017, the Fund Administration and Depository Business segment successfully performed depository transactions under issuance and the trade in securities for its customers. Focus in the fund administration area was placed on the acquisition of and providing depository services for open-ended investment funds, which resulted in new customers. The licenses for depository operations under issuance and the trade in securities and for the depository of funds were successfully renewed. The FBiH Securities Commission thereby confirmed that the bank continues to satisfy all of the legal requirements for the provision of depository banking services.

The Proprietary Trading Team continued its activities related to the purchase and sale of securities on the account of the bank and despite the considerably lower offer of domestic market securities and unfavorable yields on the global market closed another concurrent successful business year. The bank remained an active player in both the FBiH and RS debt securities markets, focusing on local market investments.

In the Brokerage Business Segment, as a professional intermediary on the Sarajevo Stock Exchange, the bank ranked first according to turnover achieved and second according to the number of executed transactions in 2017.

The number of local market transactions executed for the bank's customers also grew and led to a major increase in income from regular brokerage services. The highest level of interest among customers in the domestic market related to trading in wartime claims bonds and pre-war foreign currency savings. Customers were kept up-to-date on significant events in the local market, especially in the area of public securities issues, through regular reports aimed at encouraging existing customers and acquiring new ones to invest in debt securities and strengthen the capital market.

The Research and Consulting Team successfully completed its agency operations under issue of the Federal Ministry of Finance, which included four auctions in 2017 that generated BAM 90 million to the issuer. The team was actively engaged in intensifying activities at all levels of government and various investor structures in order to generate funds through capital markets in 2017. To that end, numerous highly productive meetings were arranged with potential issuers.

The bank offered the service of mediation as an alternative form for corporate customers to finance the extension of their businesses through investment in the further development of their companies and in BiH as a whole. These transactions had a positive outcome on the targeted domestic companies whose growth was recognized as one of the important factors in overall economic growth in BiH. The diversified and professional approach of Raiffeisen *BANK* d.d. Bosna i Hercegovina to individual customers allowed for a high level of service and cooperation and made the bank ever more prominent in the market.

Moreover, the bank's experienced analysts monitor economic and market developments on a daily basis. This allows them to provide the bank, its customers and the public with informed forecasts primarily for the BiH economy and financial market but also for the EU and US markets. The latter underlies budget development activities, business, investment and other decisions. The reliability of the reports of the bank's analysts is confirmed by the list of its beneficiaries, which includes rating agencies, international financial institutions, the media, and numerous corporate and institutional customers.

The Institutional Customers segment continued its activities to improve the quality of service and strengthen business relationships with our customers. This ensured that the stability of the payment transactions volume was maintained and that the total volume of deposits increased. Despite the fact that interest rates continued to fall in 2017 our customers recognized the reliability of Raiffeisen *BANK* d.d. Bosna i Hercegovina and increased their total deposits held by the bank by 24 per cent compared to the previous year. The bank has the predominant share in the market in terms of operations with institutional customers. In terms of the trust our customers have in us, 2017 was very stable year and it concluded with 131 active customers in this segment.

Special attention was paid to the sector of micro-credit organizations in 2017 and special emphasis was given to actively contributing to their businesses through selective financing.

Financial Statements

Responsibility for the unconsolidated financial statements

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

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

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

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

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

Signed on behalf of the Management Board

Karlheinz Dobnigg, Director

Raiffeisen *BANK* dd Bosna i Hercegovina
Zmaja od Bosne bb
71000 Sarajevo
Bosnia and Herzegovina

27 February 2018

Independent Auditor's report

To the shareholders of Raiffeisen Bank dd Bosna i Hercegovina:

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

We draw the attention to the fact that the consolidated financial statements have not been published by the Bank by the date of this report. Note 3 to the unconsolidated financial statements states that the Bank is the parent company Raiffeisen Bank Group (Group) and that the consolidated financial statements of the Group prepared in accordance with the International Financial Reporting Standards will be issued separately. Better understanding of the financial position of the Group can be obtained by reading the consolidated financial statements of the Group, and the opinion on the consolidated financial statements is expected to be issued by the end of April 2018. Our opinion is not qualified in respect of this matter.

Key Audit Matters

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

Impairment losses on loans to clients

Refer to Note 3 on pages 14 to 17 of the unconsolidated financial statements for the accounting policies, and Note 4 on pages 22 to 23 and pages 28 to 29 for the additional information respectively.

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

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

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

How our audit addressed the key audit matter

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

Our audit procedures were focused on and included the following:

Operating effectiveness of controls

We tested the design and implementation of key controls and tested their operating effectiveness, which are related to testing of impairment losses, with the special focus on:
- control of the counter of days to maturity and probability of default;
- control of input of data in the system on approved loans to clients, and value of collateral;
- control of parameters used for calculation of impairment losses on a group basis.

Automatic controls

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

Individual assessment of impairment losses

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

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

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

Collective assessment of impairment losses

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

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

Responsibilities of the Management and Supervisory Boards for the Unconsolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Unconsolidated Financial Statements

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

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

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

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

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

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

Deloitte d.o.o.

Sead Bahtanović, director and licensed auditor

Sabina Softić, partner and licensed auditor

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

Sarajevo, Bosnia and Herzegovina
16 March 2018

Unconsolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2017
(All amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	2017	2016
Interest and similar income	5	152,267	154,581
Interest and similar expenses	6	(29,838)	(32,739)
Net interest income		**122,429**	**121,842**
Fee and commission income	7	86,070	84,054
Fee and commission expenses	8	(17,645)	(15,696)
Net fee and commission income		**68,425**	**68,358**
Net investing income	9	12,463	13,896
Other operating income	11	7,573	2,890
Operating income		**210,890**	**206,986**
Administrative expenses	12	(101,960)	(102,650)
Depreciation and amortization	25, 26	(7,711)	(7,642)
Operating expenses		**(109,671)**	**(110,292)**
Profit before impairment losses, provisions and income tax		**101,219**	**96,694**
Impairment losses and provisions, net	13	(24,084)	(40,825)
Recoveries	10	4,363	5,070
		(19,721)	**(35,755)**
PROFIT BEFORE INCOME TAX		**81,498**	**60,939**
Income tax	14	(8,878)	(8,410)
NET PROFIT		**72,620**	**52,529**
Other comprehensive income:			
Items that will be subsequently reclassified in the statement of profit or loss when specific conditions are met:			
Effects of change in fair value of financial assets available for sale, net	19	77	24
		77	**24**
TOTAL COMPREHENSIVE INCOME		**72,697**	**52,553**
Earnings per share (in KM)	33	**73.45**	**53.13**

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

Unconsolidated statement of financial position

as of 31 December 2017
(All amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	31/12/ 2017	31/12/ 2016
ASSETS			
Cash and cash equivalents	15	792,940	874,376
Obligatory reserve at the Central Bank of BiH	16	334,508	327,197
Placements with other banks	17	335,427	184,717
Loans to customers	18	2,202,535	2,089,206
Assets held for sale		152	457
Financial assets available-for-sale	19	293	216
Financial assets at FVTPL	20	112,439	99,705
Financial assets held-to-maturity	21	132,346	139,723
Investments in subsidiaries	22	11,050	12,507
Investments in associates	23	2	2
Deferred tax assets	14	291	816
Prepaid income tax		2,977	4,292
Other assets and receivables	24	60,926	42,646
Tangible and intangible assets	25	115,491	111,340
Investment property	26	35,267	35,775
TOTAL ASSETS		**4,136,644**	**3,922,975**
LIABILITIES			
Due to other banks and financial institutions	27	145,842	81,074
Due to customers	28	3,289,275	3,188,890
Subordinated debt	29	61,823	61,811
Provisions	30	26,181	30,174
Other liabilities	31	65,788	40,756
TOTAL LIABILITIES		**3,588,909**	**3,402,705**
EQUITY			
Share capital	32	247,167	247,167
Share premium		4,473	4,473
Revaluation reserves for financial assets		225	148
Regulatory reserves		102,443	102,443
Retained earnings		193,427	166,039
TOTAL EQUITY		**547,735**	**520,270**
TOTAL LIABILITIES AND EQUITY		**4,136,644**	**3,922,975**
COMMITMENTS AND CONTINGENCIES	30	**873,069**	**824,782**

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

Signed on behalf of the Bank on 27 February 2018:

President of the Management Board
Karlheinz Dobnigg

Raiffeisen BANK DD BOSNA I HERCEGOVINA 0

Executive Director for Finance, Risk and Legal Affairs (CRO & CFO)
Heribert Fernau

Unconsolidated statement of cash flows

for the year ended 31 December 2017
(All amounts are expressed in thousands of KM, unless otherwise stated)

	2017	2016
OPERATING ACTIVITIES		
Profit before taxation	81,498	60,939
Adjustments for:		
Depreciation and amortization	7,711	7,642
Impairment losses and provisions, net	24,084	37,577
Gain on disposal of tangible and intangible assets	(10)	(77)
Realized losses and fair value adjustments on financial assets at FVTPL	2,482	1,106
Impairment losses on investments in subsidiaries	-	3,248
Release of accrued expenses from previous year	(1,102)	(492)
Written-off liabilities	(695)	(12)
Accrued interest on financial assets at FVTPL recognized in the statement of profit or loss and other comprehensive income	17	(278)
Dividend income recognized in the statement of profit or loss and other comprehensive income	(1,484)	(2,126)
Changes in operating assets and liabilities:		
Net increase in obligatory reserve at CBBH	(7,311)	(76,735)
Net increase in placements with other banks	(150,710)	(32,969)
Net increase in loans to customers, before impairment losses	(130,562)	(52,795)
Net increase in other assets and receivables, before impairment losses	(18,910)	(9,266)
Net decrease in assets available for sale	455	-
Net increase / (decrease) in liabilities toward banks – deposits	70,822	(21,316)
Net increase in liabilities toward customers	100,385	253,050
Net increase in other liabilities and payables	27,004	7,743
	(5,326)	**175,239**
Income tax paid	(8,353)	(8,395)
NET CASH (USED IN) / FROM OPERATING ACTIVITIES	**(13,679)**	**166,844**
INVESTING ACTIVITIES		
(Purchase of) / proceeds from financial assets at FVTPL, net	(15,233)	1,904
Proceeds from / (purchase of) financial assets held-to-maturity, net	7,377	(3,170)
Investments in subsidiaries	-	(5,126)
Dividends received	1,484	2,126
Purchases of tangible and intangible assets	(11,689)	(8,110)
Proceeds from tangible assets sold	133	122
NET CASH USED IN INVESTING ACTIVITIES	**(17,928)**	**(12,254)**
FINANCING ACTIVITIES		
Repayments of borrowings, net	(4,597)	(23,171)
Dividends paid	(45,232)	(61,515)
NET CASH USED IN FINANCING ACTIVITIES	**(49,829)**	**(84,686)**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(81,436)**	**69,904**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**874,376**	**804,472**
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**792,940**	**874,376**

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

Unconsolidated statement of changes in equity

for the year ended 31 December 2017
(All amounts are expressed in thousands of KM, unless otherwise stated)

	Share capital	Share premium	Revaluation reserves for financial assets	Regulatory reserves	Retained earnings	Total
Balance as of 31 December 2015	**247,167**	**4,473**	**124**	**102,443**	**175,025**	**529,232**
Dividend paid	-	-	-	-	(61,515)	(61,515)
Net profit for the year	-	-	-	-	52,529	52,529
Other comprehensive income	-	-	24	-	-	24
Total comprehensive income	**-**	**-**	**24**	**-**	**52,529**	**52,553**
Balance as of 31 December 2016	**247,167**	**4,473**	**148**	**102,443**	**166,039**	**520,270**
Dividend paid					(45,232)	(45,232)
Net profit	-	-	-	-	72,620	72,620
Other comprehensive income	-	-	77	-	-	77
Total comprehensive income	**-**	**-**	**77**	**-**	**-**	**72,697**
Balance as of 31 December 2017	**247,167**	**4,473**	**225**	**102,443**	**193,427**	**547,735**

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

Notes to the unconsolidated financial statements

for the year ended 31 December 2017
(All amounts are expressed in thousands of KM, unless otherwise stated)

1. General

History and incorporation

Raiffeisen Bank dd Bosna i Hercegovina, Sarajevo (the "Bank") is a joint stock company incorporated in Bosnia and Herzegovina and it commenced operations in 1993. Principal activities of the Bank are:

1. accepting deposits from the public and placing of deposits;
2. providing current and term deposit accounts;
3. granting short- and long-term loans and guarantees to the local municipalities. corporate customers. private individuals and other credit institutions dealing with finance lease and foreign exchange transactions;
4. money market activities;
5. performing local and international payments;
6. foreign currency exchange and other banking-related activities;
7. providing banking services through an extensive branch network in the Bosnia and Herzegovina.

The Bank considers that it operates in a single business segment, and a single geographical segment, that is the provision of banking services in Bosnia and Herzegovina.

The registered address of the Bank is Zmaja od Bosne bb, Sarajevo. As at 31 December 2017, the Bank had 1,320 employees (31 December 2016: 1,312 employees).

Supervisory Board

Hannes Moesenbacher	Chairman
Peter Lennkh	Deputy Chairman
Peter Jacenko	Member
Johannes Kellner	Member
Markus Kirchmair	Member
Zinka Grbo	Independent Member since 19 January 2018
Jasmina Selimović	Independent Member since 19 January 2018

Management Board

Karlheinz Dobnigg	Director, Management Board member
Heribert Fernau	Executive Director
Mirha Hasanbegović	Executive Director
Maida Zahirović Salom	Executive Director
Ante Odak	Executive Director

Audit Committee

Wolfgang Kettner	President
Fikret Hadžić	Member
Nedžad Madžak	Member
Abid Jusić	Member
Vojislav Puškarević	Member

2. Adoption of new and revised standards

2.1. Standards and Interpretations effective in the current period

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

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

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

2.2. Standards and Interpretations in issue not yet adopted

At the date of authorization of these unconsolidated financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018);
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019);
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time);
- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018);
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019);

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

2.3. IFRS 9: "Financial Instruments"

Entity's business model for financial assets management and contractual characteristics of cash flow from financial assets are used basis for classification of debt assets. Accordingly, debt instruments should be measured at amortized cost if:
a) business model is holding financial assets exclusively for obtaining contractual cash flows,
b) contractual cash flows exclusively maintain payments of principal and interest.

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

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

The Bank is in the process of reviewing the contractual characteristics of the portfolio, and has determined that the majority of the portfolio of loans to clients will be measured at amortized cost, and the portfolio of securities at fair value. Estimates demonstrate that the transition to the new standard does not have significant effects on the impairment losses on assets and contingent liabilities (the estimated amount is KM 5,584 thousand, or 1.02% of total share capital as at 31 December 2017).

3. Summary of significant accounting policies

Statement of compliance

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

Going concern

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

Basis for preparation

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

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

Fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these unconsolidated financial statements is determined on such basis, except for measurement that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date; fair value indicators are those derived from quoted prices in active markets;
- Level 2 inputs are inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

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

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

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

The Bank is the parent company Raiffeisen Bank Group (Group) and the consolidated financial statements of the Group will be issued separately.

The accounting policies set out below have been applied consistently to all periods presented in these unconsolidated financial statements.

Interest income and expense

Interest income and expense are recognized in statement of profit or loss and other comprehensive income as they accrue using the effective interest rate method. Effective interest rate is the rate that discounts estimated future cash flows of financial assets or liabilities (including all paid or received transaction costs, fees and points, which are an integral part of the effective interest rate) over the life of the financial assets / liabilities or, if appropriate, a shorter period.

Fee and commission income and expense

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

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

Taxation

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

Current income tax

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

Deferred income tax

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the statement of profit and loss and other comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

Investments in subsidiaries

A subsidiary is an entity which is controlled by the Bank. The Bank controls the subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

Investments in subsidiaries in these unconsolidated financial statements are stated at cost less any impairment in the value of individual investments if needed.

Investments in associates

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

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

Cash and cash equivalents

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

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

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

a) Financial assets

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

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

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

Effective interest rate method

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

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

Loans and receivables

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

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

Financial assets at FVTPL

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

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in statement of profit or loss and other comprehensive income. The net gain or loss recognised in statement of profit or loss and other comprehensive income incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 37.

Held-to-maturity investments

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

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

Listed shares and listed redeemable notes held by the Bank that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in the Note 37. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognized directly in statement of profit or loss and other comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in statement of profit or loss and other comprehensive income for the period.

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

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

Impairment of financial assets

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

Objective evidence of impairment could include:
- significant financial difficulty of the counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

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

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

Derecognition of financial assets

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

b) Financial liabilities and equity instruments issued by the Bank

Classification as debt or equity

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

Equity instruments

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

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:
- the amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions. Contingent Liabilities and Contingent Assets"; or
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out at above.

Financial liabilities

Financial liabilities are classified either as "financial liabilities at FVTPL" or "other financial liabilities". The Bank has no financial liabilities at fair value through profit or loss.

Other financial liabilities

Other financial liabilities, including due to banks, due to customers and subordinated debt, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

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

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and any recognized accumulated impairment losses. The purchase cost includes the purchase price and all costs directly related to bringing the asset into operating condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalised. Properties in the course of construction for supply or administrative purposes are carried at cost, less any recognised impairment loss.

Cost includes also professional fees. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use.

Depreciation is charged from the moment the fixed asset is ready for its intended use. It is calculated in the basis of the estimated useful life of the asset, using the straight-line method as follows. Estimated depreciation rates were as follows:

Buildings	1.3%
Furniture and vehicles	10%-14%
Computers	33.3%
Other equipment	7%-15%
Intangible assets	20%-100%

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

Impairment

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

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

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

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.

Intangible assets

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

Investment property

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

Buildings	1.3%

Employee benefits

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

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

Retirement severance payments

The Bank makes provision for retirement severance payments in the amount of either 3 average net salaries of the employee disbursed by the Bank or 3 average salaries of the Federation of Bosnia and Herzegovina as in the most recent published report by the Federal Statistics Bureau, depending on what is more favourable to the employee.

The cost of retirement severance payments are recognized when earned.

Foreign currency translation

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

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

31 December 2017	EUR 1 = KM 1.95583	USD 1 = KM 1.630810
31 December 2016	EUR 1 = KM 1.95583	USD 1 = KM 1.855450

Provisions

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

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

Equity and reserves

Share capital

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

Regulatory reserves for credit losses

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

Regulatory reserves calculated in accordance with FBA regulations

For the purposes of assessing capital adequacy and recognising reserves for credit losses from profit in equity and reserves, in accordance with local regulations and BA regulations, the Bank also calculates provisions in accordance with those regulations. 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.

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

Retained earnings

Profit for the period after appropriations to owners is allocated to retained earnings.

Investments revaluation reserve

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

Dividends

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

Earnings per share

The Bank publishes basic and diluted earnings per share (EPS) data.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

4. Critical accounting judgments and key sources estimation uncertainty

Key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in Note 3, the Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

Useful lives of property and equipment, and investment property

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

Impairment losses on loans and receivables

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

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

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on- and off-balance credit risk exposures is assessed on a monthly basis. Impairment losses are made mainly against the carrying value of loans to corporate and retail customers and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of unused loan facilities and guarantees. Impairment losses are also considered for credit risk exposures to banks and for other assets not carried at fair value, where the primary risk of impairment is not credit risk. With regard to the financial assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for assets that are individually significant and collectively for assets that are not individually significant.

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

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

Fair value of financial instruments

As described in Note 37, the Management use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments, other than loans and receivables, and financial assets held to maturity, are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

5. Interest and similar income

All amounts are expressed in thousands of KM	2017	2016
Citizens	111,081	114,544
Companies	37,317	36,459
Financial assets held-to-maturity	2,929	3,075
Foreign banks	920	486
Domestic banks	4	-
Other	16	17
	152,267	**154,581**

6. Interest and similar expenses

All amounts are expressed in thousands of KM	2017	2016
Citizens	16,190	20,069
Companies	6,253	5,758
Foreign banks	6,221	6,541
Domestic banks	3	8
Other	1,171	363
	29,838	**32,739**

7. Fee and commission income

All amounts are expressed in thousands of KM	2017	2016
Transactions with citizens	33,082	30,887
Payment transactions	26,526	25,997
FX transactions	7,603	7,544
Account maintenance fees	7,372	6,640
Loans and guarantees	6,977	8,079
Other	4,510	4,907
	86,070	**84,054**

8. Fee and commission expenses

All amounts are expressed in thousands of KM	2017	2016
Card transactions	12,081	10,742
Services of CBBH	1,729	1,097
Fees for guarantees	1,039	1,188
S.W.I.F.T. services	717	737
Correspondent accounts	522	529
SMS services	380	312
Domestic payment transactions	49	50
Other	1,128	1,041
	17,645	**15,696**

9. Net investing income

All amounts are expressed in thousands of KM	2017	2016
FX gains from operations	10,547	9,934
Interest income from bonds at FVTPL (Note 20)	2,940	3,111
Dividend income	1,484	2,126
Fair value adjustment on bonds at FVTPL (Note 20)	(2,401)	(1,049)
Negative differences on reconciliations with CBBH's exchange rates	(26)	(169)
Net loss from sale of bonds at FVTPL	(81)	(57)
	12,463	**13,896**

10. Recoveries

All amounts are expressed in thousands of KM	2017	2016
Interest	4,231	4,612
Principal	132	458
	4,363	**5,070**

11. Other operating income

All amounts are expressed in thousands of KM	2017	2016
Rent income	1,361	1,326
Release of accrued expenses from previous year	1,102	492
Written-off liabilities	695	12
Petty cash surplus	343	22
Gains on disposal of tangible assets, net	10	77
Other income	4,062	961
	7,573	**2,890**

12. Administrative expenses

All amounts are expressed in thousands of KM	2017	2016
Gross salaries	39,744	40,022
Other employee benefits	10,382	11,512
Deposit and loan insurance premiums	8,341	7,811
Current maintenance costs	8,154	7,470
Services	5,528	5,842
Rent	4,525	4,311
Entertainment and marketing expense	3,926	4,012
Consultancy services expense	3,805	4,098
Telecommunication expense	3,334	4,073
Tangible assets insurance premiums	2,483	2,516
Supervisory fee – FBA	2,428	2,288
Energy	1,848	1,978
Material expenses	1,483	1,510
Taxes and administration	641	757
Expenses for last instalment free of charge	579	407
Education	546	718
Professional services expense	401	231
Transportation	241	208
Donations	232	171
Utilities	207	210
Write-offs	1	7
Other administrative expenses	3,131	2,498
	101,960	**102,650**

13. Impairment losses and provisions, net

All amounts are expressed in thousands of KM	2017	2016
Loans to customers (Note 18)	26,233	22,685
Legal proceedings (Note 30)	2,588	3,564
Impairment allowance for other assets and receivables (Note 24)	631	3,934
Impairment allowance for assets held for sale	61	36
(Release of) / impairment allowance for commitments and contingencies (Note 30)	(3,330)	7,226
Release of provisions for other employee benefits per IAS 19, net (Note 30)	(2,099)	(401)
Impairment allowance for investments in subsidiaries (Note 22)	-	3,248
Impairment allowance for investment property (Note 26)	-	533
	24,084	**40,825**

14. Income tax

Total tax recognized in the statement of profit or loss and other comprehensive income may be presented as follows:

All amounts are expressed in thousands of KM	2017	2016
Current income tax	8,353	8,395
Deferred income tax	525	15
	8,878	8,410

Adjustment between taxable profit presented in tax balance and accounting profit is presented as follows:

All amounts are expressed in thousands of KM	2017	2016
Profit before income tax	81,498	60,939
Income tax expense at 10%	8,150	6,094
Effects of non-deductible expenses	1,743	3,231
Effects of non-deductible income	(1,540)	(912)
Effects of tax incentives	(111)	(34)
Tax reconciliation – with the Republika Srpska and Brčko District legislation	111	16
Current income tax	8,353	8,395
Effective tax rate	10.25%	13.78%

Changes in deferred tax asset can be presented as follows:

All amounts are expressed in thousands of KM	2017	2016
Balance as at the beginning of year	816	831
Release of deferred tax asset	(525)	(15)
Balance as at the end of year	291	816

15. Cash and cash equivalents

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Account with the CBBH in domestic currency	407,251	499,657
Cash at hand in domestic currency	260,248	265,079
Cash at hand in foreign currency	95,886	64,834
Accounts with other banks in foreign currency	29,554	44,805
Checks in foreign currency	1	1
	792,940	874,376

16. Obligatory reserve at the Central bank of Bosnia and Herzegovina

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Obligatory reserve	334,508	327,197
	334,508	327,197

Minimum obligatory reserve was calculated as a percentage of the average amount of total deposits and borrowings for each working day during 10 calendar days following the period of maintaining the obligatory reserve. The rates of minimum obligatory reserve until 30 June 2016 were: 10% of total short-term deposits and borrowings and 7% of total long-term deposits and borrowings.

Since 1 July 2016, a unified interest rate of 10% on total short-term and long-term deposits and borrowed assets.

Cash held at the obligatory reserve account with the CBBH is not available for daily operations without specific approval from the CBBH and FBA.

17. Placements with other banks

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
OECD countries	335,427	184,717
	335,427	184,717
Expected to be recovered		
– no more than twelve months after the reporting period	335,427	184,717
	335,427	184,717

During 2017, the interest rates for placements in EUR were within the range from (0.05)% p.a. to 0.10% p.a. (2016: from (0.20)% p.a. to (0.60)% p.a.), and for placements in USD from 0.60% p.a. to 1.75% p.a. (2016: from 0.32% p.a. to 1.20% p.a.). Interest rates on placements in other currencies were from (1.20)% p.a. to 2.00% p.a. (2016: from (2.00)% p.a. to 2.25% p.a.).

18. Loans to customers

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Short-term loans:		
Short-term loans in domestic currency	534,308	548,121
Short-term loans in foreign currency	86	183
	534,394	548,304
Long-term loans:		
Long-term loans in domestic currency	587,045	281,958
Long-term loans in foreign currency	1,278,147	1,470,338
	1,865,192	1,752,296
Total loans before allowance	2,399,586	2,300,600
Less:		
– Allowance for impairment losses based on individual assessment	(177,504)	(193,089)
– Allowance for impairment losses based on group assessment	(19,547)	(18,305)
	2,202,535	2,089,206

Short-term loans are granted for periods of 30 to 365 days. The majority of short-term loans in domestic currency are granted to clients for working capital financing. Long-term loans are mostly granted to individuals for housing and vehicle purchases.

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

All amounts are expressed in thousands of KM	2017	2016
Balance as at the beginning of year	**211,394**	**184,002**
Increase in allowances (Note 13)	26,233	22,685
Write-offs	(40,576)	4,707
Balance as at the end of year	**197,051**	**211,394**

Total amount of non-performing loans on which interest was suspended as of 31 December 2017 and 31 December 2016 was KM 212,527 thousand and KM 256,624 thousand, respectively.

Total loans before allowance for impairment losses per industry may be presented as follows:

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Citizens	1,418,617	1,384,855
Trade	489,342	458,864
Agriculture, forestry, mining and energy	287,642	274,009
Transport, telecommunications and communications	55,899	55,508
Services, finance, sport, tourism	52,548	44,268
Construction industry	39,337	37,853
Administrative and other public institutions	23,151	27,909
Other	33,050	17,334
	2,399,586	**2,300,600**

Interest rates for granted loans as for the year ended 31 December 2017 and 2016 are summarized as follows:

All amounts are expressed in thousands of KM	31 December 2017		31 December 2016	
		Interest rates during the year		Interest rates during the year
Domestic currency				
Companies	977,461	2.35%-18.00%	915,663	2.50%-18.00%
Citizens	1,418,584	2.95%-18.00%	1,384,813	2.95%-18.00%
Foreign currency				
Companies	3,507	2.35%-11.50%	82	2.50%-11.28%
Citizens	34	2.95%-16.19%	42	2.95%-15.54%
	2,399,586		**2,300,600**	

19. Financial assets available-for-sale

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
S.W.I.F.T. Belgium	152	152
Sarajevo Stock Exchange	109	32
Securities' Register of the Federation of BiH	32	32
	293	**216**

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

All amounts are expressed in thousands of KM	2017	2016
Balance as at the beginning of the year	216	192
Fair value gain	77	24
Balance as at the end the year	**293**	**216**

20. Financial assets at fair value through profit and loss

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Government bonds	112,438	99,704
Shares	1	1
	112,439	**99,705**

Government bonds

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Romania	84,299	86,654
France	21,562	-
Belgium	6,577	7,464
Italy	-	3,593
Slovenia	-	1,993
	112,438	**99,704**

Movements in the fair value of bonds at FVTPL were as follows:

All amounts are expressed in thousands of KM	2017	2016
Balance as at the beginning of year	**99,704**	**102,437**
Purchase / (sale or maturity) during the year, net	15,152	(1,962)
Fair value decrease (Note 9)	(2,401)	(1,049)
Interest income (Note 9)	2,940	3,111
Collected interest	(2,957)	(2,833)
Balance as at the end of year	**112,438**	**99,704**

Bonds mature within the period from 5 March 2018 to 21 October 2024. Interest income earned on the bonds portfolio for the year ended 31 December 2017 was KM 2,940 thousand (2016: KM 3,111 thousand) (Note 9).

Shares

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Velprom d.d. Sanski Most	1	1
	1	**1**

21. Financial assets held-to-maturity

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
State bonds	101,397	116,241
Treasury bills	30,949	23,482
	132,346	139,723

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Raiffeisen International AG, Austria	34,401	-
Republika Srpska	30,949	24,137
Poland	26,900	33,894
Federation of Bosnia and Herzegovina	20,025	25,308
Austria	8,186	8,535
Abn Amro Bank INV, Netherlands	8,010	10,033
Government of Sarajevo Canton	3,713	-
France	87	9,952
Belgium	75	27,864
	132,346	139,723

In 2017, the Bank purchased the following securities:

- Bonds issued by the Federation of Bosnia and Herzegovina based on old foreign currency demand deposits and war receivables at nominal value of KM 2.25 million. Interest rate for the purchased bonds is 2.5% p.a. and they are due between 30 September 2017 and 30 June 2022.
- Bonds issued by the Government of Sarajevo Canton for financing a portion of capital projects and budgetary deficit at nominal value of KM 1.96 million and KM 1.75 million. Interest rate for the purchased bonds is 2.85% p.a. and 3.30% p.a. and they are due on 29 June 2020 and 28 September 2022.
- Treasury bills issued by the Federation of Bosnia and Herzegovina at nominal value of KM 38.95 million, with yield within the range from 0.1% to 0.4%. Amount of KM 6 million was due on 12 July 2017, amount of KM 15 million was due on 26 July 2017, amount of KM 14 million was due on 9 August 2017, amount of KM 3.25 million was due on 22 November 2017, and amount of KM 700 thousand was due on 6 December 2017.
- Treasury bills issued by Republika Srpska at nominal value of KM 48.78 million, with yield within the range from 0.30% to 1%. Amount of KM 9 million was due on 5 July 2017, amount of KM 10 million was due on 4 August 2017, amount of KM 6 million was due on 8 September 2017, amount of KM 1.58 million was due on 4 October 2017, KM 200 thousand was due on 8 December 2017, and the rest in amount of 31 million is due in 2018.
- During December 2017, the Bank concluded six repo transactions with securities from the portfolio held to maturity (HTM) within the ALM/Treasury segment. Transactions were concluded for the period until 5 February 2018, with repo rate of (0.35%) p.a. Securities with total nominal value of KM 34 million as at 31 December 2017 were purchased in concluded repo transactions.

22. Investments in subsidiaries

Subsidiary	Industry	% of share	31/12/ 2017	31/12/ 2016
All amounts are expressed in thousands of KM				
Raiffeisen *LEASING* d.o.o. Sarajevo	Leasing	100%	10,051	10,051
Raiffeisen *INVEST* društvo za upravljanje fondovima d.o.o. Sarajevo	Fund management company	100%	946	946
Raiffeisen *CAPITAL* a.d. Banja Luka	Agent for securities trading	100%	53	53
Raiffeisen Special Assets Company d.o.o. Sarajevo	Financial advisory services	100%	-	1,457
			11,050	12,507

Upon the suggestion of the Management of Raiffeisen Special Assets Company d.o.o. Sarajevo, the Municipality Court in Sarajevo adopted the Decision 65-0-L-553794-16-L on the hearing held on 10 November 2016 in the liquidation process of the legal entity Raiffeisen Special Assets Company d.o.o. Sarajevo, based on which the liquidation process of a legal entity is concluded. Upon entering into force of this Decision, the legal entity Raiffeisen Special Assets Company d.o.o. Sarajevo shall be deleted from the registry of companies at the Municipality Court in Sarajevo, whereby it is registered under the entity number 60-01-0473-08.

The movements in the investments in subsidiaries are summarized as follows:

All amounts are expressed in thousands of KM	2017	2016
Balance as at the beginning of year	**12,507**	**2,456**
Decrease of value of investment in Raiffeisen Special Assets Company d.o.o. Sarajevo	(1,457)	-
Transfer from investments in associates (Note 23)	-	8,173
Acquisition of investment in Raiffeisen *LEASING* d.o.o. Sarajevo	-	5,126
Impairment of investment in Raiffeisen *LEASING* d.o.o. Sarajevo (Note 13)	-	(3,248)
Balance as at the end of year	**11,050**	**12,507**

Financial information about the Bank's subsidiaries for the year ended 31 December 2017 was as follows:

All amounts are expressed in thousands of KM	Total assets	Registered capital	Total equity	Revenue	Profit / (loss) for the period
Raiffeisen *INVEST* društvo za upravljanje fondovima d.o.o. Sarajevo	1,695	559	1,548	2,113	989
Raiffeisen *CAPITAL* a.d. Banja Luka	165	355	156	80	(14)
Raiffeisen *LEASING* d.o.o. Sarajevo	120,543	15,406	17,179	11,032	1,773

23. Investments in associates

Associate	Industry	% of share	31/12/ 2017	31/12/ 2016
All amounts are expressed in thousands of KM				
Raiffeisen Assistance d.o.o. Sarajevo	Agent in insurance	50.00%	2	2
			2	2

The movements in the investments in associates are summarized as follows:

All amounts are expressed in thousands of KM	2017	2016
Balance as at the beginning of year	**2**	**8,175**
Transfer to investments in subsidiaries (Note 22)	-	(8,173)
Balance as at the end of year	**2**	**2**

Financial information about the Bank's associate for the year ended 31 December 2017 was as follows:

All amounts are expressed in thousands of KM	Total assets	Registered capital	Total equity	Revenue	Profit for the period
Raiffeisen Assistance d.o.o. Sarajevo	6,017	4	5,519	4,983	3,900

24. Other assets and receivables

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Receivables from spot and arbitrage FX transactions	29,658	14,387
Receivable from credit card operations	17,199	14,809
Prepaid expenses	2,294	2,460
Fee receivables	2,644	2,150
Other advances paid	49	4
Prepaid other taxes	9	10
Other deferrals	2,086	2,768
Other assets	12,552	11,713
	66,491	**48,301**
Less: allowance for impairment losses	(5,565)	(5,655)
	60,926	**42,646**

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

All amounts are expressed in thousands of KM	2017	2016
Balance as at the beginning of year	**5,655**	**4,064**
Increase in allowance for impairment (Note 13)	631	3,934
Write-offs	(721)	(2,343)
Balance as at the end of year	**5,565**	**5,655**

25. Tangible and intangible assets

All amounts are expressed in thousands of KM	Land and buildings	Vehicles	Office equipment	Assets in progress	Intangible assets	Total
COST						
Balance at 31 December 2015	**110,161**	**1,503**	**51,556**	**4,171**	**24,131**	**191,522**
Additions	-	-	-	8,110	-	8,110
Transfers (from) / to	111	448	2,773	(6,465)	3,133	-
Transfer to investment property (Note 26)	(13,644)	-	-	-	-	(13,644)
Transfer to assets held-for-sale	-	-	-	(163)	-	(163)
Disposals	-	(73)	(1,475)	-	-	(1,548)
Balance at 31 December 2016	**96,628**	**1,878**	**52,854**	**5,653**	**27,264**	**184,277**
Additions	-	-	-	11,689	-	11,689
Transfers (from) / to	1,481	119	5,485	(9,857)	2,772	-
Transfer to assets held-for-sale	-	-	-	(212)	-	(212)
Disposals	-	(319)	(2,979)	-	(47)	(3,345)
Balance at 31 December 2017	**98,109**	**1,678**	**55,360**	**7,273**	**29,989**	**192,409**
ACCUMULATED DEPRECIATION / AMORTIZATION						
Balance at 31 December 2015	**9,294**	**689**	**40,177**	**-**	**17,954**	**68,114**
Charge for the year	1,332	226	3,396	-	2,330	7,284
Transfer to investment property (Note 26)	(958)	-	-	-	-	(958)
Disposals	-	(64)	(1,439)	-	-	(1,503)
Balance at 31 December 2016	**9,668**	**851**	**42,134**	**-**	**20,284**	**72,937**
Charge for the year	1,170	237	3,459	-	2,337	7,203
Disposals	-	(251)	(2,924)	-	(47)	(3,222)
Balance at 31 December 2017	**10,838**	**837**	**42,669**	**-**	**22,574**	**76,918**
NET BOOK VALUE						
At 31 December 2017	**87,271**	**841**	**12,691**	**7,273**	**7,415**	**115,491**
At 31 December 2016	**86,960**	**1,027**	**10,720**	**5,653**	**6,980**	**111,340**

26. Investment property

All amounts are expressed in thousands of KM	Buildings
COST	
Balance at 31 December 2015	**26,449**
Transfer from tangible assets (Note 25)	13,644
Impairment of investment property (Note 13)	(533)
Balance at 31 December 2016	**39,560**
	-
Balance at 31 December 2017	**39,560**
ACCUMULATED DEPRECIATION	
Balance at 31 December 2015	**2,469**
Charge for the year	358
Transfer from tangible assets (Note 25)	958
Balance at 31 December 2016	**3,785**
Charge for the year	508
Balance at 31 December 2017	**4,293**
NET BOOK VALUE	
Balance at 31 December 2017	**35,267**
Balance at 31 December 2016	**35,775**

26.1 Fair value measurement of the Bank's investment properties

Fair value of the Bank investment property was as follows:

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Buildings	39,453	38,165
	39,453	**38,165**

The fair value measurements of the Bank's investment properties as at 31 December 2017 for 8 buildings were performed by the internal appraisers employed by the Bank, who have appropriate qualifications and experience in estimating the fair value of the assets at the relevant locations.

The fair value of the investment property was determined using market value method which reflects current value on the market taking into consideration object's construction value and other factors (location, usability, quality and other factors). There were no changes in technique of value measurement during the year.

27. Due to other banks and financial institutions

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Long-term borrowings:		
Long-term borrowings from foreign banks and financial institutions	66,428	70,187
Long-term borrowings from domestic banks and financial institutions	-	838
Less: Current portion of long-term borrowings	(19,684)	(35,174)
	46,744	**35,851**
Short-term borrowings:		
Add: Current portion of long-term borrowings	**19,684**	**35,174**
Short-term deposits:		
Short-term deposits from other banks in KM	19,609	1,338
Short-term deposits from other banks in foreign currencies	54,223	1,420
	73,832	**2,758**
Current accounts:		
Current accounts in KM	5,570	7,273
Current accounts in foreign currencies	12	18
	5,582	**7,291**
	145,842	**81,074**

Long-term borrowings from foreign banks and non-banking financial institutions are obtained from supranational and development banks.

Interest rates on whole portfolio of long-term borrowings from banks and other non-banking financial institutions during the year ended 31 December 2017, were slightly lower compared to 2016. During 2016, interest rates were in the range from 2% to 4.95% p.a. (fixed rates), and 3M EURIBOR + 0.24% to 6M EURIBOR + 2.65% (variable rates). For the year ended 31 December 2017, interest rates were in the range from 0.5% to 6M EURIBOR + 2.60%.

28. Due to customers

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Demand deposits:		
Citizens:		
In KM	625,239	607,018
In foreign currencies	509,552	444,377
	1,134,791	**1,051,395**
Legal entities:		
In KM	644,302	586,839
In foreign currencies	209,241	218,853
	853,543	**805,692**
	1,988,334	**1,857,087**
Term deposits:		
Citizens:		
In KM	239,672	257,792
In foreign currencies	713,221	776,300
	952,893	**1,034,092**
Legal entities:		
In KM	77,193	46,182
In foreign currencies	270,855	251,529
	348,048	**297,711**
	1,300,941	**1,331,803**
	3,289,275	**3,188,890**

During the year ended 31 December 2017, interest rates were as follows:
- demand deposits in KM – 0.00% p.a. (2016: 0.00% p.a.),
- demand deposits in foreign currencies – 0.00% p.a. (2016: 0.00% p.a.).
- short-term deposits – 0.01% to 1.60% p.a. (2016: from 0.01% to 0.20% p.a.).
- long-term deposits – 0.01% to 1.60% p.a. (2016: from 0.01% to 1.30% p.a.).

29. Subordinated debt

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Commercial banks – related parties	61,823	61,811
	61,823	**61,811**

There is one active borrowing, approved as of 27 September 2013, in total amount of KM 61,804 thousand. Maturity date for this borrowing is as of 31 December 2024. The repayment will be one-time, in full amount, as at the defined repayment date. The amount of total subordinated debt as of 31 December 2017 includes interest payables. The amount of total subordinated debt as of 31 December 2016 was also KM 61,804 thousand) and includes interest payables as well.

Subject to the approval of FBA, subordinated debt may be used as additional capital for regulatory purposes.

30. Provisions

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Provisions for legal proceedings	16,211	13,623
Provisions for other employee benefits	5,917	8,016
Provisions for commitments and contingencies	4,053	8,535
	26,181	**30,174**

Commitments and contingencies

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

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Contingent liabilities		
Unused approved loans	400,271	372,011
Framework agreements	167,672	135,837
	567,943	**507,848**
Commitments		
Performance guarantees	178,142	185,074
Payment guarantees	106,529	111,209
Letters of credit	16,515	20,590
Forward operations	3,618	-
Advance guarantees	322	61
	305,126	**316,934**
Total commitments and contingencies	**873,069**	**824,782**

Movements in provision for commitments and contingencies were as follows:

All amounts are expressed in thousands of KM	2017	2016
Balance as at the beginning of year	**8,535**	**1,267**
(Release of) / increase in provisions (Note 13)	(3,330)	7,226
Decrease due to payments / Foreign exchange differences	(1,152)	42
Balance as at the end of year	**4,053**	**8,535**

Other employee benefits

Changes in provisions for other employee benefits are as follows:

All amounts are expressed in thousands of KM	Retirement severance payments	Vacation allowances	Total
Balance as at 31 December 2015	**5,640**	**2,777**	**8,417**
Reductions resulting from re-measurement or settlement without cost (Note 13)	(247)	(154)	(401)
Balance as at 31 December 2016	**5,393**	**2,623**	**8,016**
Reductions resulting from re-measurement or settlement without cost (Note 13)	(2,104)	5	(2,099)
Balance as at 31 December 2017	**3,289**	**2,628**	**5,917**

Legal proceedings

Movements in provision for legal proceedings were as follows:

All amounts are expressed in thousands of KM	2017	2016
Balance as at the beginning of year	13,623	10,059
Increase in provisions (Note 13)	2,588	3,564
Balance as at the end of year	**16,211**	**13,623**

31. Other liabilities and payables

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Liabilities from FX operations	29,337	-
Liabilities from credit card operations	8,194	6,088
Principal and interest paid upfront	7,251	7,254
Liabilities toward suppliers	6,208	7,369
Employee payables	6,088	5,260
Liabilities for other taxes	3,932	2,867
Deferred income	2,692	5,493
Liabilities for dividend towards shareholders	12	13
Other liabilities	2,074	6,412
	65,788	**40,756**

32. Share capital

Capital is made up of 988,668 ordinary shares at nominal value of KM 250. Equity instruments of the Bank are not traded in a public market and these unconsolidated financial statements are not under the regulations of the Security Commission for the purpose of issuing any class of instruments in a public market.

The shareholding structure is as follows:

Shareholders	No. of shares	KM '000	%
Raiffeisen SEE Region Holding GmbH Vienna, Austria	988,620	247,155	99.99
Other shareholders	48	12	0.01
Total	**988,668**	**247,167**	**100.00**

33. Basic earnings per share

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

All amounts are expressed in thousands of KM	2017	2016
Income attributable to ordinary shareholders	72,620	52,529
Weighted average number of regular shares outstanding	988,668	988,668
Basic earnings per share (KM)	**73.45**	**53.13**

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

34. Managed funds

The Bank manages assets on behalf of third parties. These assets are recorded separately from the Bank's assets. For its services, the Bank charges a fee amounting to 1% of the total amount contributed.

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Liabilities		
Citizens	102	102
Government	4,561	4,756
Companies	3,933	4,170
Other	76	77
	8,672	**9,105**
Assets		
Loans to companies	3,647	3,649
Loans to citizens	5,025	5,456
	8,672	**9,105**

The Bank has issued no guarantees related to managed funds. Credit risk stays with the owners of funds.

35. Related party transactions

Balances with related parties can be summarized as follows:

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Receivables		
Financial assets held to maturity:		
Raiffeisen Bank International AG, Vienna, Austria	34,401	-
Placements with other banks:		
Raiffeisen Landensbank Tyrol AG, Innsbruck, Austria	22,016	52,880
Raiffeisen Bank International AG, Vienna, Austria	2,252	1,209
Cash and cash equivalents:		
Raiffeisen Bank International AG, Vienna, Austria	16,451	13,861
Raiffeisenbank Austria d.d. Zagreb, Croatia	1,026	1,070
Raiffeisenbank a.d. Belgrade, Serbia	9	110
Loans to customers:		
Raiffeisen *LEASING* d.o.o. Sarajevo	5,000	-
Other receivables:		
Centralised Raiffeisen International Services & Payments	89	-
Raiffeisen Bank International AG, Vienna, Austria	27	11,049
Raiffeisenbank Austria d.d. Zagreb, Croatia	3	4
Raiffeisen *LEASING* d.o.o. Sarajevo	3	-
Raiffeisen *CAPITAL* a.d. Banja Luka	4	-
	81,281	**80,183**
Liabilities		
Subordinated debt:		
Raiffeisen Bank International AG, Vienna, Austria	61,804	61,804
Deposits of banks and customers:		
Raiffeisen Bank International AG, Vienna, Austria	39,697	6,964
Raiffeisen *LEASING* d.o.o. Sarajevo	17,035	7,753
Raiffeisen Assistance d.o.o. Sarajevo	5,008	2,333
Raiffeisen *INVEST* d.o.o. Sarajevo	1,429	543
Raiffeisen *CAPITAL* a.d. Banja Luka	203	288
Raiffeisenbank Austria d.d. Zagreb, Croatia	25	3
Raiffeisen Special Assets Company d.o.o. Sarajevo	-	1,084
Other liabilities:		
Raiffeisen Bank International AG, Vienna, Austria	696	1,767
Centralised Raiffeisen International Services & Payments	7	40
	125,904	**82,579**

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

All amounts are expressed in thousands of KM	2017	2016
Income		
Interest income:		
Raiffeisen Landensbank Tyrol AG, Innsbruck, Austria	605	257
Raiffeisen Bank International AG, Vienna, Austria	95	-
Raiffeisen *LEASING* d.o.o. Sarajevo	7	6
Fee income:		
Raiffeisen *INVEST* d.o.o. Sarajevo	606	935
Raiffeisen Bank International AG, Vienna, Austria	409	390
Raiffeisenbank Austria d.d. Zagreb, Croatia	26	26
Raiffeisen *LEASING* d.o.o. Sarajevo	31	31
Raiffeisen *CAPITAL* a.d. Banja Luka	6	3
Raiffeisen Assistance d.o.o. Sarajevo	1	1
Raiffeisen Bank Polska, Warsaw, Poland	-	6
Raiffeisen Banka d.d. Maribor, Slovenia	-	1
Other income:		
Raiffeisen Assistance d.o.o. Sarajevo	1,101	2,120
Raiffeisen *LEASING* d.o.o. Sarajevo	940	524
Raiffeisen Bank International AG, Vienna, Austria	674	5
Raiffeisen *INVEST* d.o.o. Sarajevo	21	25
Raiffeisen *CAPITAL* a.d. Banja Luka	7	10
Raiffeisenbank Austria d.d. Zagreb, Croatia	-	1
	4,529	**4,341**

All amounts are expressed in thousands of KM	2017	2016
Expenses		
Interest expenses:		
Raiffeisen Bank International AG, Vienna, Austria	5,128	4,850
Raiffeisen *LEASING* d.o.o. Sarajevo	185	190
Raiffeisen Assistance d.o.o. Sarajevo	44	21
Raiffeisen *INVEST* d.o.o. Sarajevo	12	6
Raiffeisen Landesbank Tirol AG	-	2
Fee expenses:		
Centralised Raiffeisen International Services & Payments	616	641
Raiffeisen Bank International AG, Vienna, Austria	187	170
Raiffeisenbank Austria d.d. Zagreb, Croatia	1	1
Consulting services:		
Raiffeisen Bank International AG, Vienna, Austria	3,663	3,580
Other administrative expenses:		
Raiffeisen Bank International AG, Vienna, Austria	1,282	1,813
Centralised Raiffeisen International Services & Payments	331	377
Raiffeisen Assistance d.o.o. Sarajevo	34	34
Raiffeisen *LEASING* d.o.o. Sarajevo	19	-
Raiffeisen Banka d.d. Maribor, Slovenia	2	-
Raiffeisenbank Austria d.d. Zagreb, Croatia	1	43
Raiffeisen Special Assets Company d.o.o. Sarajevo	-	10
Raiffeisenbank a.d. Belgrade, Serbia	-	3
	11,505	**11,741**

Management Board's and executives' remunerations:

The remunerations of Management Board members during the year were as follows:

All amounts are expressed in thousands of KM	2017	2016
Net salaries	957	884
Salary taxes and contributions	745	689
Other benefits	342	310
Taxes and contribution on other benefits	406	280
	2,450	**2,164**

36. Financial instruments

36.1 Capital risk management

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

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

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

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Debt	3,496,940	3,331,775
Capital	445,292	417,827
Debt to capital ratio (%)	**7.85**	**7.97**

Debt is defined as liabilities toward clients, other banks and financial institutions presented in detail in Notes 27, 28 and 29. Capital includes share capital, share premium, investments revaluation reserve and retained earnings.

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

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

On 30 May 2014, FBA issued new Decision on minimum standards for capital management and capital hedge. The Decision contains innovated concept of regulatory framework compared to the existing framework and the actual situation of the banking system in BiH. In addition, decision defines minimum standards of capital and creation and implementation of programs for capital management, which the Bank is required to provide, maintain and continuously carry out, as well as additional measures for capital hedging.

The Bank's regulatory capital is divided into two tiers:

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

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

As at 31 December 2017 and 2016, the Bank complied with all of the externally imposed capital requirements. As of 31 December 2017 the adequacy of the Bank's capital amounts to 15.00% (2016: 15.6%).

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Core capital		
Share capital	247,167	247,167
Share premium	4,473	4,473
Retained earnings	119,577	113,495
Deferred tax assets	(291)	(816)
Intangible assets	(11,412)	(9,044)
Total share capital	**360,744**	**355,275**
Supplement capital		
General provision – FBA regulations	38,419	36,177
Subordinated debt	61,804	61,804
Revaluation reserves	224	147
Total supplement capital	**100,447**	**98,128**
Adjustment for shortfall in regulatory reserves	(633)	(1,973)
Net capital	**460,558**	**451,430**
Risk Weighted Assets (unaudited)	2,810,397	2,630,278
Other Weighted Assets (unaudited)	264,153	263,886
Total weighted risk	**3,074,549**	**2,894,164**
Capital adequacy (%)	**15.00**	**15.60**

36.2 Significant accounting policies

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

36.3 Categories of financial instruments

All amounts are expressed in thousands of KM	31/12/ 2017	31/12/ 2016
Financial assets		
Loans and receivables:		
Cash and cash equivalents	792,940	874,376
Obligatory reserve at the CBBH	334,508	327,197
Placements with other banks	335,427	184,717
Loans to customers	2,202,535	2,089,206
Financial assets available-for-sale	293	216
Financial assets at FVTPL	112,439	99,705
Financial assets held-to-maturity	132,346	139,723
Other receivables	29,337	-
	3,939,825	**3,715,140**
Financial liabilities		
At amortized cost:		
Due to other banks and financial institutions	145,842	81,074
Due to customers	3,289,275	3,188,890
Subordinated debt	61,823	61,811
Other liabilities	29,337	-
	3,526,277	**3,331,775**

36.4 Financial risk management objectives

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

36.5 Market risk

Market risks are defined as risks of possible losses due to changes in market prices of trading and banking book positions. Market risk estimates are based on changes in currency exchange rates, interest rates, credit spreads, the cost of equity and goods and other market parameters.

The Bank's market risk management is conducted in accordance with local law and the decisions and instructions of local regulators and in accordance with RBI Group standards (RBI Group regulatory framework and the decision of the RBI Board) and is defined in the internal rules, procedures and policies that are subject to regular internal audits with the aim of complying with regulatory changes, as well as improving the process of (market) risk management due to changes in market conditions, defined strategies and business goals. The process of managing market risk in itself includes mitigation, assessing and limiting exposure before taking risk, and the assessment and control of underwritten risk of the entire bank portfolio i.e. trading and banking book. Despite the existence of restrictions imposed by the regulator, the Bank limits the exposure to market risks in accordance with its business strategies harmonised at the level of RBI, the approval process of the product and a limit system on market risk positions, i.e. establishing limits on the open positions of market risk, limits on the Bank's portfolio sensitivity in accordance to changes of risk factors and establishing a system of limits on Value at Risk ("VaR") at the level of the book (trading and banking), at the level of segments (Assets and Liabilities management and Capital Markets) and at the level of the entire portfolio. In addition, for financial instruments carried at fair value, a limit is established on the reduction of their market value, so-called Stop loss limits.

Another important part in the process of managing market risk is stress testing of the Bank's portfolio on extreme changes of market conditions and the calculation of portfolio sensitivity towards crisis scenarios, as well as the impact it has on the financial results. Stress testing of extreme changes in market conditions is performed by RBI on a daily basis.

Bank is exposed to financial results of foreign exchange, change of interest rates, and change of securities prices in its portfolio.

36.6 Foreign currency risk

Foreign exchange risk is the risk that changes in currency exchange rates affecting the Bank's portfolio exists to the extent that assets and liabilities in one currency are not matched in value or maturity.

In addition to the VaR limit system, the Bank limits its exposure with the use of foreign exchange limits on open positions for each currency, a limit on the entire long or short position of the Bank, as well as stop loss limits.

The carrying amounts of the Bank's monetary assets and liabilities per currency at the reporting period date were as follows:

All amounts are expressed in thousands of KM	KM	EUR*	USD	Other currencies	Total
As of 31 December 2017					
ASSETS					
Cash and cash equivalents	667,499	66,434	3,486	55,521	792,940
Obligatory reserve at the CBBH	334,508	-	-	-	334,508
Placements with other banks	-	236,882	74,471	24,074	335,427
Loans to customers	924,267	1,278,268	-	-	2,202,535
Financial assets available-for-sale	142	151	-	-	293
Financial assets at FVTPL	-	105,862	6,577	-	112,439
Financial assets held-to-maturity	54,686	44,527	33,133	-	132,346
Other receivables	-	29,337	-	-	29,337
	1,981,102	**1,761,461**	**117,667**	**79,595**	**3,939,825**
LIABILITIES					
Due to other banks and financial institutions	25,179	120,649	13	1	145,842
Due to customers	1,834,713	1,258,409	117,441	78,712	3,289,275
Subordinated debt	-	61,823	-	-	61,823
Other liabilities	-	29,337	-	-	29,337
	1,859,892	**1,470,218**	**117,454**	**78,713**	**3,526,277**
As of 31 December 2016					
Total assets	**1,909,496**	**1,602,725**	**128,363**	**74,556**	**3,715,140**
Total liabilities	**1,507,293**	**1,623,281**	**125,329**	**75,872**	**3,331,775**

*balances related to currency clause are presented in the column EUR

36.6.1 Foreign currency sensitivity analysis

The following table outlines five greatest Values-at-Risk (VaR) recorded as at 31 December 2017 and their values as at 31 December 2016. VaR is a calculation based on 99% reliability statistical model and under presumption that portfolio is constant during 1 day.

All amounts are expressed in thousands of KM		VaR
	31/12/ 2017	**31/12/ 2016**
Currency		
USD	4	26
CNY	<1	<1
CHF	<1	<1
RSD	<1	<1
CAD	<1	<1

The following table details the Bank's sensitivity to a 10% increase or decrease in foreign currency rates against the relevant local currencies. The sensitivity rate of 10% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

All amounts are expressed in thousands of KM	USD effect		CNY effect	
	2017	**2016**	**2017**	**2016**
Profit or loss	41	131	9	1

36.7 Interest rate risk

Interest rate risk reflects the possibility of loss of profit and/or erosion of capital due to a change in interest rates. It relates to all products and balances that are sensitive to changes in interest rates. This risk comprises two components: income component and investment component.

The income component arises from a lack of harmonization between the active and passive interest rates of the Bank (interest on placements is fixed, interest for liabilities is variable, and vice versa).

The investment component is a consequence of the inverted relationship between price and interest rate fluctuations of securities. The Bank strives to protect itself from interest rate risk by harmonizing the type of interest rate (fixed, floating and variable), currency, related interest rate and the date of interest rate change for all products for which it concludes contracts (which are sensitive to interest rate changes). Any incongruity among the abovementioned elements results in exposure of the Bank to interest rate risk.

36.7.1 BPV interest rate sensitivity analysis

For positions of interest rate risk, on daily basis, sensitivity analysis is made for one base point during parallel movement of yield curve (Basis point value, 1 BPV), which gives values of gains and losses of portfolio for a particular day.

In the table below, changes of present value of portfolio with interest rate growth for 1 base point as at 31 December 2017 and 31 December 2016 are presented, expressed in thousands of KM for following currencies: KM, EUR and USD, while for other currencies changes of present values are immaterial.

Currency	31/12/ 2017	31/12/ 2016
All amounts are expressed in thousands of KM		
KM	(22)	(2)
EUR	32	97
USD	(2)	(6)
Total BPV	**8**	**89**

In the instance of a change (increase) of interest rates by 1 Basis Points (parallel movement of yield curve for +0.01%), the effects on the present value of Bank's portfolio as at 31 December 2017 would be the following:

- for KM – present value of portfolio decrease in the amount of KM 22 thousand, incurring loss
- for EUR – present value of portfolio growth in the amount of KM 32 thousand, incurring profit
- for USD – present value of portfolio decrease in the amount of KM 2 thousand, incurring loss.

In the instance of a change of yield curve by 50 Basis, effects on present value of portfolio for 31 December 2017 and 31 December 2016 are shown in the table below for currencies with material exposure:

Currency	31/12/ 2017	31/12/ 2016
All amounts are expressed in thousands of KM		
KM	(1,121)	(96)
EUR	1,622	4,829
USD	(99)	(290)
Total BPV	**401**	**4,443**

In the instance of a change (increase) of interest rates by 50 Basis Points (parallel movement of yield curve for 0.05%), the Bank would realize:

- for KM – present value of portfolio decrease in the amount of KM 1,121 thousand as at 31 December 2017 (decrease of the portfolio value would increase for 1,025 thousand KM compared to 31 December 2016).
- for EUR – present value of portfolio increased in the amount of KM 1,622 thousand as at 31 December 2017 (increase of the portfolio value would decrease for 3,207 thousand KM compared to 31 December 2016).
- for USD – present value of portfolio decrease in the amount of KM 99 thousand as at 31 December 2017 (decrease of the portfolio value would decrease for 191 thousand KM compared to 31 December 2016).

36.8 Credit risk

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

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

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

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

Financial assets		Unimpaired assets		Impaired assets			
All amounts are expressed in thousands of KM	Total gross carrying amount	Undue loans with no impairment	Matured loans with unrecognized impairment	Loans with impairment recognized on group basis	Individually impaired loans (total carrying amount)	Impairment	Total net book value
31 December 2017							
Cash and cash equivalents	792,940	792,940	-	-	-	-	792,940
Obligatory reserve at the CBBH	334,508	334,508	-	-	-	-	334,508
Placements with other banks	335,427	335,427	-	-	-	-	335,427
Loans to customers:							
Public sector	13,325	13,325	-	-	-	-	13,325
Other financial and non-financial institutions	976,733	844,962	22,160	2,424	107,187	(86,373)	890,360
Individuals	1,409,528	1,097,541	163,114	26,281	122,591	(110,678)	1,298,850
Financial assets available-for-sale	293	293	-	-	-	-	293
Financial assets at FVTPL	112,439	112,439	-	-	-	-	112,439
Financial assets held-to-maturity	132,346	132,346	-	-	-	-	132,346
Other receivables	29,337	29,337	-	-	-	-	29,337
	4,136,876	**3,693,119**	**185,274**	**28,705**	**229,778**	**(197,051)**	**3,939,825**
31 December 2016							
Cash and cash equivalents	874,376	874,376	-	-	-	-	874,376
Obligatory reserve at the CBBH	327,197	327,197	-	-	-	-	327,197
Placements with other banks	184,717	184,717	-	-	-	-	184,717
Loans to customers:							
Public sector	17,127	17,127	-	-	-	-	17,127
Other financial and non-financial institutions	928,195	770,382	16,473	2,260	139,080	(100,513)	827,682
Individuals	1,355,278	1,037,946	157,333	24,063	135,936	(110,881)	1,244,397
Financial assets available-for-sale	216	216	-	-	-	-	216
Financial assets at FVTPL	99,705	99,705	-	-	-	-	99,705
Financial assets held-to-maturity	139,723	139,723	-	-	-	-	139,723
	3,926,534	**3,451,389**	**173,806**	**26,323**	**275,016**	**(211,394)**	**3,715,140**

Credit exposure and collateral

The Bank estimates the fair value of collateral based on recoverable amount of collateral in case that collateral needs to be liquidated under the current market conditions. Different types of collateral bear different level of risks for the Bank.

All amounts are expressed in thousands of KM	Maximum credit risk exposure			
	Net exposure	Commit-ments / guaran-tees issued	Total	Estimated fair value of collateral
31 December 2017				
Cash and cash equivalents	792,940	-	792,940	-
Obligatory reserve at the CBBH	334,508	-	334,508	-
Placements with other banks	335,427	42,668	378,095	-
Loans to customers:				
Public sector	13,325	1,497	14,822	5
Other financial and non-financial institutions	890,360	676,170	1,566,530	458,888
Other	1,298,850	152,735	1,451,585	1,120,933
Financial assets available-for-sale	293	-	293	-
Financial assets at FVTPL	112,439	-	112,439	-
Financial assets held-to-maturity	132,346	-	132,346	-
Other receivables	29,337	-	29,337	-
	3,939,825	**873,070**	**4,812,895**	**1,579,826**
31 December 2016				
Cash and cash equivalents	874,376	-	874,376	-
Obligatory reserve at the CBBH	327,197	-	327,197	-
Placements with other banks	184,717	55,358	240,075	-
Loans to customers:				
Public sector	17,127	1,813	18,940	-
Other financial and non-financial institutions	827,682	614,095	1,441,777	422,655
Other	1,244,397	155,102	1,399,499	1,014,982
Financial assets available-for-sale	216	-	216	-
Financial assets at FVTPL	99,705	-	99,705	-
Financial assets held-to-maturity	139,723	-	139,723	-
	3,715,140	**826,368**	**4,541,508**	**1,437,637**

Past due loans with no impairment allowance

Loans to customers less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amounts of loans to customers that were past due but not impaired for the Bank were as follows:

All amounts are expressed in thousands of KM	Individuals	Other financial and non-financial sectors	Total
31 December 2017			
Matured up to 30 days	133,612	17,930	151,542
Matured 31 to 90 days	29,502	4,229	33,731
TOTAL	**163,114**	**22,159**	**185,273**
31 December 2016			
Matured up to 30 days	132,081	14,130	146,211
Matured 31 to 90 days	25,251	2,344	27,595
TOTAL	**157,332**	**16,474**	**173,806**

Non-performing loans with impairment allowance

Loan classification for loans with value impairment is presented below:

All amounts are expressed in thousands of KM	Individuals	Other financial and non-financial sectors	Total
31 December 2017			
Non-performing loans – gross	122,591	107,188	229,779
Allowance for impairment	(96,975)	(70,265)	(167,240)
Net	**25,616**	**36,923**	**62,539**
Estimated collateral value	**64,462**	**103,320**	**167,782**
31 December 2016			
Non-performing loans – gross	135,936	139,080	275,016
Allowance for impairment	(98,356)	(79,682)	(178,038)
Net	**37,580**	**59,398**	**96,978**
Estimated collateral value	**62,132**	**134,602**	**196,773**

36.9 Liquidity risk

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

36.9.1 Liquidity and interest risk tables

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

Maturity for non-derivative financial assets

All amounts are expressed in thousands of KM	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	2 to 5 years	Over 5 years	Total
31 December 2017							
Non-interest bearing	-	60,330	1	1	-	-	60,332
Variable interest rate instruments	6.88%	1,217,022	48,470	208,927	932,646	541,067	2,948,132
Fixed interest rate instruments	1.81%	444,832	166,138	294,124	326,301	49,745	1,281,140
		1,722,184	**214,609**	**503,052**	**1,258,947**	**590,812**	**4,289,604**
31 December 2016							
Non-interest bearing	-	59,915	1	5	4	4	59,929
Variable interest rate instruments	6.01%	1,218,891	51,265	215,468	893,912	496,177	2,875,713
Fixed interest rate instruments	3.37%	381,802	146,488	242,651	273,589	46,016	1,090,546
		1,660,608	**197,754**	**458,124**	**1,167,505**	**542,197**	**4,026,188**

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

Maturity for non-derivative financial liabilities

All amounts are expressed in thousands of KM	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	2 to 5 years	Over 5 years	Total
31 December 2017							
Non-interest bearing	-	1,301,024	-	-	-	-	1,301,024
Variable interest rate instruments	0.87%	380,581	5,372	18,623	63,679	27,774	496,029
Fixed interest rate instruments	0.93%	596,697	248,172	553,542	372,017	16,478	1,786,906
		2,278,302	**253,544**	**572,165**	**435,696**	**44,252**	**3,283,959**
31 December 2016							
Non-interest bearing	-	1,018,861	-	2	12	18	1,018,893
Variable interest rate instruments	0.87%	809,264	8,263	31,951	56,865	32,940	939,283
Fixed interest rate instruments	1.81%	196,598	228,186	540,847	442,464	23,280	1,431,375
		2,024,723	**236,449**	**572,800**	**499,341**	**56,238**	**3,389,551**

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

37. Fair value measurement

37.1 Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis

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

Financial assets / financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
All amounts are expressed in thousands of KM	**31 December 2017**	**31 December 2016**		
1) Held-for-trading non-derivative financial assets (see Note 20)	Listed debt securities in: • Romania – 84,299 • Belgium – 6,577 • France – 21,654	Listed debt securities in: • Romania – 86,654 • Belgium – 7,464 • Italy – 3,593 • Slovenia – 1,993	Level 1	Quoted bid prices in an active market.
2) Non-derivative financial assets available for sale (see Note 19)	Listed equity securities in Belgium – 152	Listed equity securities in Belgium – 152	Level 1	Quoted bid prices in an active market.
	Listed equity securities in Bosnia and Herzegovina: • Securities' Register of the Federation of BiH – 32 • Sarajevo Stock Exchange d.d. – 109	Listed equity securities in Bosnia and Herzegovina: • Securities' Register of the Federation of BiH – 32 • Sarajevo Stock Exchange d.d. – 32	Level 1	Quoted bid prices in an active market.
3) FX transactions (Notes 24 and 31)	Receivables for spot transactions in foreign currency – 29,337 Liabilities for spot transactions in foreign currency – 29,337	- -	Level 1	Quoted bid prices in an active market.

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

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

All amounts are expressed in thousands of KM	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
– loans to customers	2,202,535	2,268,394	2,089,206	2,119,032
Financial assets held-to-maturity:				
– bonds	101,397	102,939	116,241	118,108
– treasury bills	30,949	30,918	23,482	23,464
Financial liabilities				
Financial liabilities held at amortised cost:				
– due to customers	3,289,275	3,305,608	3,188,890	3,184,667

All amounts are expressed in thousands of KM	Fair value hierarchy as at 31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
– loans to customers	-	2,268,394	-	2,268,394
Financial assets held-to-maturity:				
– bonds	102,939	-	-	102,939
– treasury bills	30,918	-	-	30,918
Total	**133,857**	**2,268,394**	**-**	**2,402,251**
Financial liabilities				
Financial liabilities held at amortised cost:				
– due to customers	-	3,305,608	-	3,305,608
Total	**-**	**3,305,608**	**-**	**3,305,608**

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

38. Approval of the unconsolidated financial statements

These unconsolidated financial statements were approved by the Management Board on 27 February 2018.

Signed on behalf of the Management Board:

Raiffeisen BANK DD BOSNA I HERCEGOVINA 0

President of the Management Board
Karlheinz Dobnigg

Executive Director for Finance, Risks and Legal Affairs (CRO & CFO)
Heribert Fernau

Staff team building: We are socially responsible

We try to use our regular annual team building gatherings to support actions that positively affect our business environment.

Last year, for example, we organized an action to improve the yards of kindergartens, schools and institutions that work with people under care. The members of the Management Board, division heads and many other employees joined in this action and spent their weekend actively participating in actions in Sarajevo, Zenica, Mostar, Tuzla and Banja Luka.

We believe that achieving business success goes hand in hand with corporate responsibility. Through such actions, we strive to raise awareness about similar projects and to act as an example to others to contribute to their communities.

25 YEARS OF STABLE GROWTH
Thank you for placing your trust in us!

Service

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Branch Banja Luka 2
Vojvode S. Stepanovića bb
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Branch Gradiška
Vidovdanska bb
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Branch Doboj
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72 000 Zenica

Branch Kakanj
Zgošćanska P+4+M
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Branch Vitez
Poslovni centar PC 96-2
72 250 Vitez

Branch Visoko
Alije Izetbegovića 1
71 300 Visoko

Branch Tešanj
Titova 2
74 260 Tešanj

Branch Travnik
Konatur bb
72 270 Travnik

MB Tuzla and Branch Tuzla
15. Maja bb
75 000 Tuzla

Branch Tuzla 2
RK Omega – Univerzitetska 16
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Branch Bijeljina
Karađorđeva bb
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Environmental aspect of sustainable management

For more than 130 years, the Raiffeisen Group has conducted its business in line with the principles of social solidarity, helping people to help themselves and sustainability as established by its founder Friedrich Wilhelm Raiffeisen. The importance of sustainability, as a key component of the business policy pursued by the Raiffeisen Group, has been increasing at both the global and the Group level.

Sustainability implies socially responsible business conduct and the achievement of long-standing financial success in compliance with environmental and social requirements. Long-standing economic success depends on responsible business behavior. **Economic, environmental and social business components are attributed equal importance** in our sustainability management strategy.

The environmental aspect of our business manifests through various actions and initiatives. One aspect of our environmentally responsible behavior we would like to point out is that we offer special energy efficiency credit lines and render our services in line with environment protection requirements. One simple example of this is sending our customers electronic account statements.

Moreover, during the construction of our Headquarters we paid special attention to meeting high environmental protection standards. Hence, a glass facade was installed on the building in order to reduce artificial light usage and electricity consumption and to ensure sufficient natural light exposure across the premises. Instead of ordinary light bulbs led bulbs were installed and a smart heating and cooling system assembled that turns off automatically upon opening a window. These are only a few examples of the environmental standards we complied with when constructing our Headquarters.

Our employees themselves contribute to environment protection by disposing of paper and plastic waste separately so that it can be recycled.

25 YEARS OF STABLE GROWTH
Thank you for placing your trust in us!

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This annual report has been prepared and the data checked with the greatest possible care. Nonetheless, rounding, transmission, typesetting and printing errors cannot be ruled out. In the summing up of rounded amounts and percentages, rounding-off differences may occur. This annual report was prepared in Bosnian. The annual report in English is a translation of the original Bosnian report. The only authentic version is the Bosnian version.