PRIVREDNA BANKA SARAJEVO D.D. SARAJEVO

Financial statements for the year ended
31 December 2019 prepared in accordance with
International Financial Reporting Standards and
Independent Auditor's Report

Contents

Responsibility for the financial statements

The Management Board is responsible for ensuring that financial statements are prepared for each financial period in accordance with International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB), which give a true and fair view of the state of affairs and results of Privredna Banka Sarajevo d.d. Sarajevo (the “Bank”) for that period.

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

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

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

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also; ensure that the financial statements comply with the Accounting and Audit Law 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

Hamid Pršeš
President of the Management Board

PRIVREDNA BANKA SARAJEVO DD

Privredna banka Sarajevo d.d. Sarajevo

Obala Kulina bana br. 18
71000 Sarajevo
Bosnia and Herzegovina

22 January 2020

Independent Auditor's Report

To the shareholders of Privredna banka Sarajevo d.d. Sarajevo

Opinion

We have audited the accompanying financial statements of Privredna banka Sarajevo d.d. Sarajevo (the "Bank"), which comprise the balance sheet as at 31 December 2019, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Bosnia and Herzegovina, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters (continued)

Key Audit Matter

Estimate of impairment for loan losses and receivables from customers

For the accounting policies refer to the Note “Impairment of financial assets” in Section 3, Basis for presentation and summary of significant accounting policies. For additional information on Key Audit Matters refer to Note Impairment for loan losses and receivables in Section 4. Critical accounting judgments and key sources of estimation uncertainty.

As at 31 December 2019, Bank had impairment for loan and receivables losses in amount of BAM 47 million, determined in accordance with IFRS 9 Financial Instruments.

IFRS 9 is a new and complex accounting standard which requires significant judgment to determine the impairment reserve.

Key areas of judgment included:

- The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank’s expected credit loss model.
- The identification of exposures with a significant deterioration in credit quality. — Assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward-looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices).
- The process of recognizing impairment on an individual basis by estimating recoverable amount based on future estimated cash flows, including the cash flows from collaterals.

We focused on this area during the audit due to the significance of the amounts involved for the financial statements and also because of the nature of the judgements and assumptions that management are required to make.

How our audit addressed the Key Audit Matter

Procedures undertaken

Our Audit approach was the following:

We verified the selection and adoption of new accounting policies or the Bank’s methodology for estimating loan loss provisions was appropriate and was applied consistently;

We assessed the modelling techniques and methodology against the requirements of IFRS 9 Financial Instruments.

We assessed and tested the design, implementation and operational efficiency of controls related to input data used in determining impaired loans, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model.

We assessed and tested expected credit loss model assumptions, including model build and approval, ongoing monitoring/validation, model governance, mathematical accuracy, sensitivity to changes in model assumptions and procedures of timely identification of deterioration in credit quality.

We examined a sample of individually significant credit exposure in order to estimate loan loss provisions calculated on an individual basis, we evaluated monitoring processes over credit watch lists, a review of credit files, a process of updating collateral estimates and a modelling process for scenarios defined by a new methodology.

We considered management’s assumptions, including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default.

We tested the adequacy and accuracy of the disclosures in the financial statements.

Our audit did not lead to any material adjustments to the impairment for loan losses at 31 December 2019.

Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as 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. Those charged with governance are responsible for overseeing the Bank's financial reporting process, which was established by the Bank.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error that are considered material if, individually or aggregate, they could reasonably be expected to influence the economic decisions of users, taken on the basis of those financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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 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 the most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our 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 Lejla Kaknjo.

RSM BH d.o.o.

Lejla Kaknjo, Director and Certified Auditor

DRUŠTVO ZA REVIZIJU „RSM BH" d.o.o. SARAJEVO

Berna Šljokić, Partner and Certified Auditor

Sarajevo, 22 January 2020

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

	Notes	2019	2018
Interest income	5	11,852	10,761
Interest expense	6	(3,048)	(3,227)
Net interest income		**8,804**	**7,534**
Fee and commission income	7	7,082	7,783
Fee and commission expense	-	(1,317)	(1,328)
Net fee and commission income		**5,765**	**6,455**
Other gains	8	999	766
Other operating income	9	657	805
Income from operating activities		**16,225**	**15,560**
Personnel expenses	10	(5,580)	(5,378)
Depreciation expenses	22	(1,317)	(1,187)
Other administrative expenses	11	(5,175)	(4,914)
Operating expenses		**(12,072)**	**(11,479)**
PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND TAXATION		**4,153**	**4,081**
Impairment losses and provisions, net	12	(486)	(1,118)
Collected written-off receivables		412	605
PROFIT BEFORE TAXATION		**4,079**	**3,568**
Income tax	13	(481)	(60)
Deferred tax expenses		(142)	-
PROFIT AFTER TAXATION		**3,456**	**3,508**
Earnings per share – basic and diluted (in KM)	14	**10,46**	**13,51**

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

Statement of comprehensive income
for the year ended 31 December 2019
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	2019	2018
Net (loss) / profit		3,456	3,508
Other comprehensive profit:			
Items that may be reclassified subsequently to profit or loss:			
Net gains from debt investment securities at fair value through other comprehensive income	19	160	1
Items that may not be reclassified subsequently to profit or loss:			
Net gains from equity investment securities at fair value through other comprehensive income	19	(49)	51
TOTAL COMPREHENSIVE INCOME		**3,567**	**3,560**

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

Balance sheet
as at 31 December 2019

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

	Notes	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	15	178,089	163,994
Obligatory reserve with Central bank B&H	16	45,403	32,928
Placements with other banks	17	23,472	20,333
Loans and receivables at amortized cost	18	252,589	228,392
Debt securities at fair value through other comprehensive income	19	12,792	545
Financial assets at amortized cost	20	1,894	4,542
Other assets and receivables, net	21	1,346	1,120
Tangible and intangible assets	22	29,545	30,489
TOTAL ASSETS		**545,130**	**482,343**
LIABILITIES			
Due to financial institutions	23	302	604
Due to the Government of FBiH	24	35,445	35,568
Liabilities for received deposits	25	444,995	386,736
Provisions	26	2,166	2,764
Lease liabilities	27	580	-
Other liabilities	28	3,663	2,401
Deferred tax liabilities	-	142	-
Total liabilities		**487,293**	**428,073**
EQUITY			
Share capital	29	37,041	37,041
Share premium		4,629	4,629
Regulatory reserves		-	1,476
Revaluation reserves for property		6,803	6,899
Expected credit losses for financial assets at fair value through other comprehensive income		161	1
Revaluation reserves – financial assets at fair value through other comprehensive income		37	86
Retained earnings		9,166	4,138
Total equity		**57,837**	**54,270**
TOTAL LIABILITIES AND EQUITY		**545,130**	**482,343**

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

Signed on behalf of Bank on 11 February 2019

Hamid Pršeš
President of the Management Board

PRIVREDNA BANKA SARAJEVO DD SARAJEVO 1

Bedina Jusičić – Musa
Member of the Management Board

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

	2019.	2018.
Operating Activities		
Profit before taxation	4.079	3.568
Adjustments:		
Depreciation	1.317	1.187
Impairment losses and provisions, net	486	1.118
Gain on disposal of property and equipment, net	(826)	(683)
Foreign exchange losses/(gains), net	(166)	(74)
Interest income recognized in the income statement	(11.852)	(10.761)
Interest expense recognized in the income statement	3.048	3.227
First-time adoption of IFRS 9 - effects	-	(5.495)
Changes in assets and liabilities:		
(Increase)/decrease in receivables from Central bank BH	(12.475)	(8.715)
Net decrease/(increase) of placements with other banks	(3.130)	16.954
Net increase in loans to customers, before allowance	(24.790)	(14.429)
Net (decrease)/Increase in other assets, before allowance	(230)	1.380
Net increase in due to customers	58.259	121.655
Net decrease in other liabilities	972	(55)
Payments from litigation	(802)	(56)
	13.890	*108.821*
Interest paid	(3.042)	(3.227)
Interest received	11.849	10.835
Income tax paid	(191)	(60)
NET CASH FROM OPERATING ACTIVITIES	**22.506**	**116.369**
Investing activities		
Purchase of tangible and intangible assets	(743)	(2.215)
Increase in financial assets at fair value through other comprehensive income	(9.445)	(9)
Proceeds from sale of property and equipment	2.000	902
Purchase of financial assets at amortized cost	-	(1.007)
NET CASH USED IN INVESTMENT ACTIVITIES	**(8.188)**	**(2.329)**
Financial activities		
Repayment of liabilities to financial institutions, net	(302)	(302)
(Decrease)/increase in liabilities to the Government of FBiH	(123)	(574)
Lease repayment	(224)	-
NET CASH USED IN FINANCIAL ACTIVITIES	**(649)**	**(876)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**13.669**	**113.164**
CASH AND CASH EQUIVALENTS AT THE YEAR START	**164.865**	**51.701**
CASH AND CASH EQUIVALENTS AT THE YEAR END	**178.534**	**164.865**

The accompanying form an integral part of these financial statement.

Statement of changes in equity
for the year ended 31 December 2019
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Share capital	Share premium	Regulatory reserves	Revaluation reserves for properties	Expected credit loss	Valuation of financial assets through other comprehensive income / Revaluation reserves for investments	Retained earnings	Total
Balance as of 31 December 2018	**37,041**	**4,629**	**1,476**	**6,996**	**-**	**35**	**6,524**	**56,701**
First-time Adoption of IFRS 9 - effects	-	-	-	-	-	-	*(5,991)*	*(5,991)*
Balance as of 31 December 2018 – restated	**37,041**	**4,629**	**1,476**	**6,996**	**-**	**35**	**533**	**50,710**
Net profit	-	-	-	-		-	3,508	3,508
Other comprehensive income	-	-	-	-	1	51	**-**	52
Total comprehensive income	***-***	***-***	***-***	***-***	***1***	***51***	***3,508***	***3,560***
Transfer revaluation reserves to retained earnings (IAS 16.41)	-	-	-	(97)	-	-	97	-
Balance as of 31 December 2018	**37,041**	**4,629**	**1,476**	**6,899**	**1**	**86**	**4,138**	**54,270**
Net profit	-	-	-	-	-	-	3,456	3,456
Other comprehensive income	-	-	-	-	160	(49)	**-**	111
Total comprehensive income					***161***	***37***	***3,456***	***3,567***
Transfer from/to	-	-	(1,476)	-	-	-	1,476	-
Transfer revaluation reserves to retained earnings (IAS 16.41)	-	-	-	(96)	-	-	96	-
Balance as of 31 December 2019	**37,041**	**4,629**	**-**	**6,803**	**161**	**37**	**9,166**	**57,837**

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

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

1. GENERAL

Privredna banka Sarajevo d.d. Sarajevo (former BOR banka d.d. Sarajevo) (the "Bank") is registered at the Municipality court in Sarajevo, registration No. UFI/1 2609/95 dated 27 December 1995, under name Banka za obnovu i razvoj Bosne i Hercegovine. Based on the court registration No. UFI/I-3730/00, dated 9 January 2007, the Bank has changed name into BOR banka d.d. Sarajevo.

As at 30 September 2016, BOR banka d.d. Sarajevo acquired Privredna banka Sarajevo d.d. Sarajevo. Municipality Court in Sarajevo issued the Decision no. 065-0-Reg-16-004985, dated 21 December 2016, which registered the status change, and the Decision no. 065-0-Reg-16-004986, dated 21 December 2016, based on which Privredna banka Sarajevo d.d. Sarajevo was deleted from the court registry due to acquisition. Based on the Decision of the Municipality Court in Sarajevo on data change, no. 065-0-Reg-16-005588, dated 24 February 2016, data on change of Bank’s name were recorded (from BOR banka d.d. to Privredna banka Sarajevo d.d.).

Principal activities of the Bank are:

1. receiving and placing of deposits;
2. purchase and selling of securities;
3. receiving of term and demand deposits;
4. making and purchasing of loans;
5. buying and selling foreign currencies;
6. cash transactions in interbank market;
7. cash payment and transfer both national and abroad; and
8. debit/credit card operations.

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 Obala Kulina Bana 18, 71000 Sarajevo. As at 31 December 2018, the Bank had 166 employees (31 December 2017: 163 employees).

Supervisory and Management Board

Supervisory Board

Aziz Šunje	President
Ademir Abdić	Member
Mehmet Siner	Member
Almir Badnjević	Member from August 19, 2019
Zdravko Rajić	Member from August 19, 2019
Džejna Bajramović	Member until August 19, 2019
Alen Gradaščević	Member until August 19, 2019

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

1. GENERAL (CONTINUED)

Supervisory and Management Board (continued)

Management Board

Hamid Pršeš	President of the Management Board
Bedina Jusičić Musa	Member of the Management Board
Edin Kreštalica	Member of the Management Board
Kemal Džabija	Member of the Management Board

Audit Committee

Muhamed Hubanić	President
Hasan Đozo	Member
Dragan Prusina	Member
Midhat Oković	Member from September 1, 2019
Rehad Deljo	Member from September 1, 2019
Tayyar Ozerdem	Member until February 28, 2019
Edin Ćulov	Member from February 28 to September 1, 2019
Senaid Zaimović	Member until September 31, 2019

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretation effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

- Amendments to IFRS 3: „Business combination“ - Changes resulting from the Annual Qualitative Improvement Project - Cycle 2015 - 2017 (re-measuring total previous share of joint management) (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 9: „Financial instruments“ - Negative Charge Subscription Feature (Amendment) (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 11: „Joint Arrangements“ - Changes resulting from the Annual Qualitative Improvement Project - Cycle 2015 - 2017 (re-measuring total previous share of joint management) (effective for annual periods beginning on or after 1 January 2019);
- IFRS 6: „Leases“ (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 12„Income Taxes“ - Changes resulting from the Annual Qualitative Improvement Project - Cycle 2015 - 2017 (consequences of dividends on corporate income tax) - (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 19 „Employee Benefits“ - Modifications, restrictions or reconciliations of the plan (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 23 „Borrowing Costs“ - Changes resulting from the Annual Qualitative Improvement Project - Cycle 2015 - 2017 (borrowing costs that can be capitalized) - (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 „Investments in Associates and Joint Ventures“ - Changes related to long-term investments in associates and joint ventures (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 23: „Uncertainty over Income Tax Treatments“ (effective for annual periods beginning on or after 1 January 2019)

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue not yet adopted

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

- Amendments to IFRS 3 "Business combinations" – Definition of business (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 7 „Financial Instruments: Disclosures", IFRS 9 „Financial Instruments" and IFRS 39 „Financial Instruments: Recognition and Measurement"– Changes related to substitution issues in the context of IBOR reform (effective for annual periods beginning on or after 1 January 2020);
- IFRS 17: „Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 1 „presentation of financial statements" and IFRS 8 „Accounting Policies, Changes in Accounting Estimates and Errors" – Changes to the definition of materiality (effective for annual periods beginning on or after 1 January 2020);

The Bank has selected not to adopt these standards, amendments and interpretations in advance of their effective dates The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank.

2.2.1 Decision on credit risk management and determination of expected credit losses

During 2019, Banking Agency of the Federation BiH issued new Decision on credit risk management and determination of expected credit losses, (Official Gazette of Federation BIH no. 44/19 dated 26 June 2019), whose implementation is obligatory for all banks starting from 1 January 2020. Accordingly, banks were obliged to calculate the effects of first-time adoption of this decision on 31 December 2019, and recognize effects as of 1 January 2020 in the capital accounts and report them in Common Equity Tier 1. The effects of first-time adoption represent difference between expected credit losses determined under this Decision's provisions and those determined and accounted for by the bank under its internal methodology, in the case where expected credit losses determined in such manner are lower.

In accordance with abovementioned decision, the banks are required to establish an appropriate process for allocating exposures to credit risk levels which are directly affect on establishment of expected credit losses.

In accordance with the schedule of exposures to credit risk levels, the Bank is required to apply the following minimum rates for expected credit losses:

1. Level 1: if the Bank does not have an adequate time series, and/or quantity or quality of historical relevant data and is unable to determine a value of PD parameter using its model in an adequate and documented manner, the Bank cannot determine expected credit losses for other exposures which are allocated to the credit level risk 1 less than 1 % of the exposure.
2. Level 2: For exposure allocated to credit risk level 2, the Bank is required to determine and record expected credit losses in the amount greater than two:

   a) 5% exposures,

   b) amount determined in accordance with internal methodology of the Bank.

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2.1 Decision about credit risk management and establishment of expected credit losses (continued)

If the Bank does not have adequate time series, and/or quantity or quality of historical relevant data, and is unable to determine a value of PD parameter using its model in an adequate and documented manner, the Bank cannot determine expected credit losses for other exposures which are allocated to the credit level risk 2 less than 8 % of the exposure.

3. Level 3: The minimum rates of expected credit losses allocated to Level 3 depend on the fact that the exposure is secured by acceptable collateral or not, and accordingly the minimum rates are as follows:

a) exposures secured by acceptable collateral:

Ordinal number	Day of delay	Minimum expected credit loss
1.	180 days	15%
2.	from 181 to 270 days	25%
3.	from 271 to 365 days	40%
4.	from 66 to 730 days	60%
5.	from 731 to 1460 days	80%
6.	Over 1460 days	100%

b) exposures not secured by acceptable collateral:

Ordinal number	Day of delay	Minimum expected credit loss
1.	from 180 days	15%
2.	from 181 to 270 days	45%
3.	from 271 to 365 days	75%
4.	from 366 to 456 days	85%
5.	over 465 days	100%

With the aforementioned Decision, The Banking Agency defined the types of acceptable collateral in the form of real estate and movable properties, or minimum corrective factors for those collaterals.

Minimum rates of expected credit losses for trade receivables, factoring and financial leasing receivables, and other receivables, are applied according to the table as follows:

Ordinal number	Day of delay	Minimum expected credit loss
1.	No delay in materially significant amount	0.5%
2.	to 30 days	2%
3.	from 31 to 60 days	5%
4.	from 61 to 90 days	10%
5.	from 91 to 120 days	15%
6.	from 121 to 180 days	50%
7.	from 181 to 365 days	75%
8.	over 365 days	100%

Also, the Decision defines accounting treatment of tangible assets acquired in the process of collection receivables. According to the provisions of the Decision in this segment, if the Bank does not sell acquired tangible assets within three years from the date of its initial recognition in the books of the Bank, it shall reduce its value to 1 KM.

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2.1 Decision about credit risk management and establishment of expected credit losses (continued)

Parameters of credit risk

Credit loss for exposures on individual basis is determined as positive differences between gross carrying amount of exposures and the estimated future cash flows (from operating income and/or realization of collateral) during expected useful life of the financial asset item, discounted at the effective interest rate which is valid at the reporting date. The Bank may use a number of different scenarios (from operating income and/or realization of collateral) when assessing certainty of future cash flows with a probability of their realization.

The Bank determine expected credit loss for exposures on group basis in accordance with the following general formula:

$$ECL=PD \times LGD\times EaD$$

Probability of default status (PD parameter)

The Bank determined the value of PD parameter on the basis on defined segments of credit exposures or PD of homogeneous group, which are appropriately (in accordance with its internal methodology) assigned the value of the PD parameter. The PD parameter for homogeneous group is estimated as the ratio of the number of placements at which default status occurred during the observation period (historical data for 3 years) and the total number of placements that were not in default at the beginning of the observed period.

Loss given default (LGD parameter)

Loss given default (LGD parameter) represents the banks internal estimate of the level of expected loss related to exposure in the event of default status. LGD parameter is also calculated at the level of the relevant homogenous group, based on historical data on collections from collateral or other sources after the occurrence of default status for identified homogenous groups for a period of a least recent five years. If the Bank does not have adequate time series, and/or quantity or quality of historical relevant data, and is unable to determine a value of PD parameter using its model in an adequate and documented manner, then the Bank uses fixed values of this parameter based on conservative estimates, which cannot be lower than:

a. 45% for exposures secured by acceptable collateral,

b. 75% for exposures not secured by acceptable collateral.

The effects of first-time adoption of Decision

The identified effects of first time adoption of the Decision cane be summarized as follows:

	IFRS 9 31 December 2019	Re-measurement	Decision FBA 1 January 2020
ASSETS			
Credit guarantee portfolio			
Stage 1	*229,624*	*(3,024)*	*226,600*
Stage 2	*22,994*	*(2,831)*	*20,163*
Stage 3	*22,951*	*(9,258)*	*13,693*
Total credit guarantee portfolio	**275,569**	**(15,113)**	**260,456**
Cash and cash equivalents and other assets	**252,663**	**197**	**252,860**
CAPITAL			
Retained earnings	**9,166**	**(14,926)**	**(5,760)**

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2.1 Decision about credit risk management and establishment of expected credit losses (continued

Considering that the effects have a significant impact on the total capital, in order to confirm fulfilment of regulatory requirements regarding the capital in the forthcoming period or to create a strategy for achieving the prescribed rates, the Bank submits FBA approval request to include audited profit in calculation of regulatory capital, before formal decision about allocation of results. The calculated ordinary share capital rate as at 1 January 2020 is 13.50% inclusive of the current financial net result for 2019. Also, in order to comply with FBA regulations, the Management plans to make recapitalization during 2020 (Note 29).

2.3. International Financial Reporting Standard 16 - Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IAS 17 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, the Bank will a 'right-of-use' asset capitalize in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets. Also, the Bank will recognise A liability corresponding to the capitalised lease, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under IFRS 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The Bank has adopted this standard since 1 January 2019 and the impact of its adoption is presented below:

Impact on the balance sheet	1 January 2019
Increase in assets	643
Increase in liabilities	643

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Going concern

Financial statements are prepared under the going concern basis which assumes that the Bank will be able to realise the assets and settle the liabilities in the normal course of business.

Basis of preparation

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

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

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

Fair value is the price that would be received for sale or be paid for the transfer of duties in a regular transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using other valuation techniques. In estimating the fair value of assets or liabilities, the Bank takes into account the characteristics of the asset or liability which would be taken into account by market participants when determining the price of the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for measurements that have some similarities to fair value, but are not affair value, such as value in use in IAS 36.

In addition to financial reporting, fair value indicators are classified at levels 1, 2 or 3 based on the degree to which the evaluation of the fair value can be seen and of the importance of evaluating the fair value in a whole, as follows:

- Level 1 inputs are quoted prices (uncorrected) on active markets for identical assets or liabilities that the Bank may access on the measurement date; fair value indicators are those derived from quoted prices in active markets;
- Level 2 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 not observable inputs for the asset or liability.

The financial statements are presented in convertible marks (KM), since that is the currency in which the majority of the Bank's business events is expressed. Convertible Mark is officially tied to the euro (EUR 1 = KM 1.95583)

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

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are changed, and eventually in future periods, if they have an impact on them.

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

Accounting policies are adequately adopted and implemented for all periods presented in these financial statements.

Interest income and expense

Interest income / expense is recognized in the income statement for the period that belongs to, at the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts / payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset / liability, or, where appropriate, a shorter period. Interest income is calculated on the gross book value of the financial instrument for Stage 1 and Stage 2, while for Stage 3 the Bank calculates interest on the net amortized amount of the financial instrument.

For the POCI assets, interest income is calculated using the adjusted effective interest rate on the net amortized amount.

Calculation of the effective interest rate includes all paid or received transaction costs, fees and points, which are an integral part of the effective interest rate. Transaction costs include all incremental costs incurred directly in connection with the issuance or acquisition of financial assets or financial liabilities.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fee and commission income and expense

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

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

Taxation

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

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

The carrying amount of deferred tax assets is reviewed at each reporting period date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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 ("CBBH"), current accounts with other banks and cash at hand.

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

Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instruments, i.e. when funds are transferred to the customers' accounts, or when funds from balances due to customers are transferred to the Bank.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial assets and financial liabilities are initially measured at fair value, except in the case of financial assets and financial liabilities recorded at FVPL.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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 profit or loss.

Financial assets at amortised cost

Bank measures financial assets at amortised costs using the effective interest method, if both of the following conditions are met:

a) the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on management's intentions for an individual instrument. Thus, this condition is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. However, a single entity may have more than one business model for managing its financial instruments.

An entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

Consequently, this assessment is performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario would not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur. If cash flows are realised in a way that is different from the entity's expectations at the date that the entity assessed the business model (for example, if the entity sells more or fewer financial assets than it expected when it classified the assets), that does not give rise to a prior period error in the entity's financial statements nor does it change the classification of the remaining financial assets held in that business model (i.e. those assets that the entity recognised in prior periods and still holds) as long as the entity considered all relevant information that was available at the time that it made the business model assessment. However, when an entity assesses the business model for newly originated or newly purchased financial assets, it must consider information about how cash flows were realised in the past, along with all other relevant information.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test. For the purpose of this test, definitions of principal and interest are presented below:

a) principal is fair value of the financial asset at initial recognition.
b) interest is consisted of consideration for the time value of money, for credit risk associated with outstanding amount of principal over a certain period of time and other basic risks and borrowing costs, as well as a profit margin.

Debt instruments at fair value through other comprehensive income (FVOCI)

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

a) the instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets, and
b) contractual terms of a financial asset arise, on a specific date, cash flows that are solely payments of principal and interest on the principal outstanding.

These instruments had previously been classified as financial instruments available for - sale.

FVOCI debt instruments are subsequently measured at fair value. Gains and losses arising due to changes in fair value of instrument should be presented in other comprehensive income until the financial assets are derecognised or their reclassification in other categories of financial assets.

Interest income are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

Upon initial recognition, the Bank can make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of particular investments in equity instrument that is not held for trading and it is not contingent consideration granted in a business combination within the scope of MSFI 3.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

Financial assets at fair value through profit or loss (FVPL)

Financial assets should be measured at fair value through profit and loss unless it is measured at amortized cost or at fair value through other comprehensive income. However, the Bank may make an irrevocable election for certain investments in equity instruments, that should be measured at fair value through profit and loss, to reflect fair value adjustments in other comprehensive income.

Impairment of financial assets

Recognition of expected credit losses

The Bank recognizes provisions for the impairment of expected credit losses of financial assets measured at amortized cost and fair value through other comprehensive income, lease receivables, contractual assets or lease obligations and a financial guarantee contract.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Recognition of expected credit losses (continued)

The Bank is required to apply impairment requirements for the recognition and measurement of provisions for financial assets measured at fair value through other comprehensive income. However, impairment provisions should be recognized in other comprehensive income and may not reduce the carrying amount of financial assets in the balance sheet.

At each reporting date, the Bank is required to measure impairment provisions for a financial instrument in the amount equal to the duration of expected loan losses if the credit risk for that financial instrument has increased significantly from initial recognition.

Lifetime expected credit losses (LTECL) are credit losses arising from all possible unfulfilled obligations during the expected life of a financial instrument.

12-month expected credit losses (12m ECL) are a portion of the lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Derecognition of financial assets

A financial asset is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset in the case of transfers of financial assets that meet the definition of derecognition:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset.

- The Bank retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows to one or more recipients.

When the bank transfers the financial assets, it is obliged to assess the extent to which it retains the risks and rewards the asset. In this case:

- if the Bank has transferred substantially all the risks and rewards of the assets, it is obliged to derecognize the financial assets and recognize separately like assets or liabilities all rights and obligations that are incurred or retained by transfer.

- if the Bank has retained substantially all the risks and rewards of the assets, it is obliged to continue to recognize the financial assets.

- If the Bank has neither transferred nor retained substantially all the risks and rewards of the assets, it is obliged to determine whether it has retained control over financial assets. In this case:

(i) if the Bank has not retained the control, it is obliged to derecognize the financial assets and recognize separately like assets or liabilities all rights and obligations that are incurred or retained by transfer.

(ii) if the Bank retained the control, it is obliged to continue to recognize the financial assets in the amount of its part in financial assets, net for eventual impairment. Interest income is recognized using the effective interest rate, except for short-term receivables when interest would be immaterial.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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 as either financial liabilities "at FVTPL", or "other financial liabilities".

Other financial liabilities

Other financial liabilities, including liabilities to banks, customers and subordinated debt, are initially recognized at fair value less transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised 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.

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, expect for short-term leases and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:
(a) fixed payments, less any lease incentives receivable;

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(c) amounts expected to be payable by the lessee under residual value guarantees;

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Bank adjusts the value of the lease liability determined by remeasurement and recognises it as an adjustment to the right-use of asset using the effective interest method.

The cost of the right-of-use asset shall comprise the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the lessee. Asset with the right-of-use is subsequently measure at cost less any accumulated depreciation and any accumulated impairment losses.

Property and equipment

Property is stated in the balance sheet at its revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment tosses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of such property is recognized in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such property is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve for properties relating to a previous revaluation of that asset.

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use.

Assets under construction, built for the purpose of providing services or for administrative purposes, are stated at cost less any impairment loss. The cost of procurement includes professional fees, and, for qualifying assets, borrowing costs capitalized in accordance with the Bank's accounting policy. Such assets are reclassified to appropriate categories of property and equipment after being completed and ready for intended use.

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

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

Depreciation is charged from the moment the asset is ready for its intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable assets. Estimated useful lives were as follows:

	2019	2018
Buildings	1.3% - 1.74%	1.3% - 1.74%
Computers	33.3%	33.3%
Vehicles	15%	15%
Furniture and other office equipment	15%	15%

The gain and loss arising on the disposal or retirement of an asset is recognized in the statement of profit and loss 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 the 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 it carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or building 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 recognised for the asset in prior years. Reversal of impairment loss is recognised as income immediately, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as 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 using rate of 33%.

Employee benefits

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

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

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

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

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

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

31 December 2019	1 EUR = 1.95583 KM	1 USD = 1.747994 KM	1 CHF = 1.799126 KM
31 December 2018	1 EUR = 1.95583 KM	1 USD = 1.707552 KM	1 CHF = 1.742077 KM

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. it 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.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition construction or production of qualifying assets. which are assets that necessarily take a substantial period of time to get ready for their intended use or sale. are included in the cost of procurement of assets. until the assets are substantially ready for its intended use or sale.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

Equity and reserves

Share capital

Share capital includes paid ordinary and preference shares and is expressed in KM at nominal value.

Regulatory reserves for credit losses

Regulatory reserves for credit losses are recognized in accordance with regulations of FBA. Regulatory reserves for credit losses are non-distributable.

Regulatory reserves for credit losses

Revaluation reserve for properties includes the cumulative effects of increase in the carrying amount of properties arising on the revaluation of them.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity and reserves (continued)

Revaluation reserve for investments

Revaluation reserve for investments comprises changes in fair value of financial assets through other comprehensive income.

Earnings per share

The Bank publishes basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. During 2019 and 2018 there were no dilution effects.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies. which are described in Note 3. the Management is required to make 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 recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

Useful lives of property and equipment

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

Impairment losses on loans and receivables

As described in Note 3 above. at each reporting period date. the Bank assessed 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 amortised 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.

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

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

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;
- criteria for assessing a significant increase in credit risk and measurement of losses on LTECL basis;
- 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;
- 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 recognised 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.

As of 29th March 2018. Supervisory Board adopted Internal Methodology for impairment in accordance with IFRS 9. with effective implementation date starting from 1st January 2018. Based on the validation methodology from 25th March 2019. a revised impairment methodology was adopted in accordance with IFRS 9.

Regulatory reserves calculated in accordance with FBA regulations

For the purposes of assessing capital adequacy and recognizing reserves for credit losses formed from profit in equity and reserves. in accordance with local regulations and relevant FBA regulations. the Bank also calculates provisions. 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.

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

Fair value of financial instruments

As described in Note 33. the Management use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments 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.

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

5. INTEREST INCOME

	2019	2018
Interest on corporate loans	7,923	7,726
Interest on retail loans	3,755	2,896
Financial assets at amortised cost (Note 20)	48	114
Interest on placements with other banks	1	3
Other interest income	125	22
	11,852	**10,761**

6. INTEREST EXPENSES

	2019	2018
Interest on retail deposits	953	1,166
Interest on corporate deposits	922	1,128
Interest on the Government of FBiH funds	659	673
Interest on borrowings from financial institutions (Note 22 and 27)	11	-
Other interest expenses	503	260
	3,048	**3,227**

7. FEE AND COMMISSION INCOME

	2019	2018
Fees from payment transactions	5,155	4,694
Fees from conversion transactions	634	615
Fees from off-balance sheet transactions	351	317
Fees from managed funds (default interest of Malaysian fund)	187	1,431
Fees from managed funds	122	261
Other fee and commission income	633	465
	7,082	**7,783**

8. OTHER GAINS / (LOSSES), NET

	2019	2018
Gains on disposal of fixed assets	826	683
Foreign exchange gains/(losses). net	166	73
Other gains	7	10
	999	**766**

9. OTHER OPERATING INCOME

	2019	2018
Rent income	367	374
Deferred income	76	76
Other income	214	355
	657	**805**

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

10. PERSONNEL EXPENSES

	2019	2018
Net salaries	2,680	2,584
Taxes and contributions	2,130	2,058
Meal allowance and transport	408	391
Other	362	345
	5,580	**5,378**

The average number of personnel employed by the Bank during the year ended 31 December 2019 and 2018 was 164 and 160, respectively.

11. OTHER ADMINISTRATIVE EXPENSES

	2019	2018
Service costs	1,520	1,581
Memberships	590	566
Maintenance	431	421
Advertising and entertainment	395	409
Energy costs	391	354
Taxes and contributions	261	271
Telecommunication	218	284
Material costs	174	144
Fees to the members of Supervisory Board and Audit Committee	105	105
Insurance	78	73
Other costs	1,012	706
	5,175	**4,914**

12. IMPAIRMENT LOSSES AND PROVISIONS

	Note	2019	2018
Cash and cash equivalents	15	(426)	871
Placements with other banks	17	(9)	(276)
Loans to customers	18	593	398
Financial assets at FVOCI	19	160	5
Financial assets at amortised cost	20	(40)	27
Other assets	21	4	38
Commitments and contingencies	26	204	55
		486	**1,118**

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

13. INCOME TAX

Total income tax recognised in income statement may be presented as follows:

	2019	2018
Current income tax	481	60
Deferred income tax	142	-
	623	**60**

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

	2019	2018
Profit before income tax	**4,079**	**3,568**
Income tax expense. at the statutory rate of 10%	408	357
Effects of non-deductible expenses	105	72
Effects of non-deductible income	(38)	(4)
Effects of tax-deductible depreciation	(142)	-
Effects of capital gains and losses	148	(365)
Current income tax	**481**	**60**
Effective income tax rate	**11.79%**	**1.68%**

Changes in temporary differences of deferred tax liabilities in income statement are presented below:

	Deferred tax liabilities
At 1 January 2018	**-**
Increase / decrease	-
At 31 December 2018	-
Increase of deferred tax liabilities based on depreciation	142
At 31 December 2019	**142**

14. EARNINGS PER SHARE

	2019	2018
Net profit	3,456	3,508
Weighted average number of shares for the purpose of basic earnings per share	330,327	259,802
Basic earnings per share (in KM)	**10,46**	**13,51**

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

15. CASH AND CASH EQUIVALENTS

	31 December 2019				31 December 2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
Current account in domestic currency with the Central Bank of BH	169,336	-	-	169,336	157,464
Cash at hand in domestic currency	4,293	-	-	4,293	3,330
Cash at hand in foreign currencies	3,332	-	-	3,332	2,458
Cash at ATMs	1,573	-	-	1,573	1,613
Impairment based on group assessment	(445)	-	-	(445)	(871)
	178,089	**-**	**-**	**178,089**	**163,994**

Changes in gross carrying amount are presented below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	**164,865**	**-**	**-**	**164,865**
New financial assets	13,655	-	-	13,655
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Foreign exchange. net	14	-	-	14
At 31 December 2019	**178,534**	**-**	**-**	**178,534**

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	***51,701***	**-**	**-**	***51,701***
New financial assets	112,877	-	-	112,877
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Foreign exchange. net	287	-	-	287
At 31 December 2018	**164,865**	**-**	**-**	**164,865**

Changes in related impairments are presented below:

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2019	**871**	**-**	**-**	**871**
Reduction in provisions due to changes in risk parameters (Note 12)	(426)	-	-	(426)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At 31 December 2019	**445**	**-**	**-**	**445**

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2018	**-**	**-**	**-**	**-**
Allowance for impairment losses	871	-	-	871
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At 31 December 2018	**871**	**-**	**-**	**871**

Cash and cash equivalents are expected to be repaid within 12 months after the reporting date.

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

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

	31. December 2019	31 December 2018
Obligatory reserve with CBBH	45,403	32,928
	45,403	**32,928**

Base for the calculation of mandatory reserve is deposits and loaned funds. regardless of the currency. Also. it is determined unified rate of 10% that CBBiH applies in calculation of the obligatory reserve.

The CBBH does not charge a fee for the obligatory reserve amount. For the amount of assets over the obligatory reserve. CBBH calculates fee at the rate equal to 50% of the rate applied by the European Central Bank (ECB) on commercial bank's deposits.

17. PLACEMENTS WITH OTHER BANKS

	31 December 2019	31 December 2018
A vista deposits in foreign currencies:		
Raiffeisen Zentral Bank International AG Vienna	8,322	6,313
Landesbank Baden-Wuerttemberg Stuttgart	5,839	-
UniCredit Bank Austria Vienna	4,034	5,366
Zagrebačka banka d.d. Zagreb	3,382	5,208
UniCredit Spa Milano. Italy	1,198	2,696
Nordea Bank AB Stockholm Sweden	123	116
	22,898	**19,699**
A vista deposits in domestic currency:		
Bobar Banka a.d. Bijeljina	2,000	2,000
Sparkasse bank d.d. BH	143	210
	2,143	**2,210**
Term deposits in foreign currencies:		
Union bank of Switzerland	408	410
	408	**410**
Term deposits in domestic currency:		
Sparkasse bank d.d. BH	25	25
	25	**25**
Total placements before allowance for impairment losses	***25,474***	***22,344***
Less: Allowance for impairment losses		
Bobar banka a.d. Bijeljina	(2,000)	(2,000)
Zagrebačka banka d.d. Hrvatska	(1)	(6)
Raiffeisen Zentral Bank International AG Vienna	(1)	(1)
Sparkasse bank d.d. BiH	-	(1)
UniCredit Bank Austria Vienna	-	(2)
UniCredit Spa Milano, Italy	-	(1)
	(2,002)	(2,011)
	23,472	**20,333**

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

17. PLACEMENTS WITH OTHER BANKS (CONTINUED)

	31 December 2019	31 December 2018
Maturity:		
no more than twelve months after the reporting period	25,066	21,934
more than twelve months after the reporting period	408	410
Less: Allowance for impairment losses	(2,002)	(2,011)
	23,472	***20,333***

Annual interest rates for foreign currency placements may be presented as follows:

	2019	2018
	% p.a.	% p.a.
Placements EUR	(0.50) do 0	(0.50) do (0.01)
Placements USD	0	0 do (0.01)
Placements SEK	(0.15) do (0.52)	-
Placements CHF	(0.55)	(0.50) do (0.01)
Placements NOK	0.00	(0.50)

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2019	***11***	***-***	***2,000***	***2,011***
Decrease in impairment due to changes in risk parameters (Note 12)	(9)	-	-	(9)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At 31 December 2019	***2***	***-***	***2,000***	***2,002***

Impairments trend in 2018:

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2018	***276***	***-***	***2,000***	***2,276***
Decrease in impairment due to changes in risk parameters (Note 12)	(276)	-	-	(276)
Foreign exchange. net	11	-	-	11
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At 31 December 2018	***11***	***-***	***2,000***	***2,011***

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

18. LOANS AND RECEIVABLES

	31 December 2019	31 December 2018
Short-term loans:		
Corporate	60,119	56,056
Retail	2,210	3,176
Current portion of short-term loans	74,437	73,409
	136,766	*132,641*
Long-term loans:		
Corporate	144,216	154,230
Retail	93,125	63,391
Current portion of long -term loans	(74,437)	(73,409)
	162,904	*144,212*
Total loans before allowance for impairment	***299,670***	***276,853***
Less: Long-term accrued income	(1,025)	(1,101)
Less: Allowance for impairment losses based on individual assessment	(42,538)	(38,760)
Less: Allowance for impairment losses based on group assessment	(3,518)	(8,600)
	252,589	**228,392**

The Bank is approving the both short-term and long-term loans. Majority of short-term loans has been approved to customers for working capital. Long- term loans mostly have been approved to legal entities for different investment activities. as well as for working capital.

Long-term accrued income

The Bank signed contracts with Ministry of Finance of the Federation of Bosnia and Herzegovina on the purchase of loan receivables. Discount that represents difference between nominal value of portfolio and purchase price is recognized as interest income at maturity. based on individual repayment of separate loans.

	31 December 2019	31 December 2018
Ministry of Finance of FBiH	1,025	1,101
	1,025	**1,101**

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

18. LOANS AND RECEIVABLES (CONTINUED)

Below is the overview of loans given to customers by segment and level of credit risk as at December 31, 2019 and 2018:

	Stage 1	Stage 2	Stage 3		
31 December 2019	**Collective assessment**	**Collective assessment**	**Individually assessed**	**Collective assessment**	**Total**
Loans to individuals					
Housing loan	14,289	95	712	127	15,223
Other loans to individuals	74,589	1,954	1,608	1,961	80,112
	88,878	**2,049**	**2,320**	**2,088**	**95,335**
Loans to corporate					
Public companies	1,195	-	-	-	1,195
Private companies	120,520	21,540	60,234	846	203,140
	121,715	**21,540**	**60,234**	**846**	**204,335**
Less: Impairment	(2,109)	(1,409)	(39,768)	(2,770)	(46,056)
Less: Long-term accrued income	(1,025)	-	-	-	(1,025)
	207,459	**22,180**	**22,786**	**164**	**252,589**

	Stage 1	Stage 2	Stage 3		
December 31, 2019	**Collective assessment**	**Collective assessment**	**Individually assessment**	**Collective assessment**	**Total**
Loans to individuals					
Housing loan	10,392	132	647	170	11,341
Other loans to individuals	50,456	1,279	1,417	2,074	55,226
	60,848	**1,411**	**2,064**	**2,244**	**66,567**
Loans to corporate					
Public companies	1,691	12	-	-	1,703
Private companies	115,080	25,032	67,543	928	208,583
	116,771	**25,044**	**67,543**	**928**	**210,286**
Less: Impairment	(2,699)	(2,907)	(38,760)	(2,994)	(47,360)
Less: Long-term accrued income	(1,101)	-	-	-	(1,101)
	173,819	**23,548**	**30,847**	**178**	**228,392**

Changes in gross carrying amount for loans in 2019 and 2018 are shown below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	***177,566***	***26,509***	***72,778***	***276,853***
New financial assets	113,466	6,158	528	120,152
Derecognition or proceeds from collection (excluding write off)	(74,534)	(9,656)	(11,248)	(95,438)
Transfer to Stage 1	2,371	(2,178)	(193)	-
Transfer to Stage 2	(5,201)	5,520	(319)	-
Transfer to Stage 3	(3,074)	(2,764)	5,838	-
Write off	-	-	(1,897)	(1,897)
At 31 December 2019	***210,594***	***23,589***	***65,487***	***299,670***

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

18. LOANS AND RECEIVABLES (CONTINUED)

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	***142,114***	***37,388***	***99,136***	***278,638***
New financial assets	94,488	7,410	8,541	110,439
Derecognition or proceeds from collection (excluding write off)	(62,233)	(12,215)	(16,201)	(90,649)
Transfer to Stage 1	10,202	(9,750)	(452)	-
Transfer to Stage 2	(5,673)	5,706	(33)	-
Transfer to Stage 3	(1,332)	(2,030)	3,362	-
Write off	-	-	(21,575)	(21,575)
At 31 December 2018	***177,566***	***26,509***	***72,778***	***276,853***

Changes in impairment for loans in 2019 and 2018 are shown below:

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2019	***2,699***	***2,906***	***41,755***	***47,360***
Increase, net (Note 12)	1,263	(613)	(57)	593
Transfer to Stage 1	19	(18)	(1)	-
Transfer to Stage 2	(330)	361	(31)	-
Transfer to Stage 3	(1,542)	(1,227)	2,769	-
Write off and transfer to assets available for sale	-	-	(1,897)	(1,897)
At 31 December 2019	***2,109***	***1,409***	***42,538***	***46,056***

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2018	***2,693***	***4,437***	***61,404***	***68,534***
Increase, net (Note 12)	1,295	(1,069)	172	398
Transfer to Stage 1	130	(127)	(3)	-
Transfer to Stage 2	(771)	773	(2)	-
Transfer to Stage 3	(648)	(1,108)	1,756	-
Write off	-	-	(21,572)	(21,572)
At 31 December 2018	**2,699**	**2,906**	**41,755**	**47,360**

Weighted average interest rate can be presented as follows:

	31 December 2019	31 December 2018
Corporate	3.03% - 8.45%	4.10% - 8.02%
Retails	2.53% - 14%	3.08% - 12.87%

An overview of the average parameters used to calculate impairments can be shown as follows:

31 December 2019	Average PD%		Average LGD%	
	Stage 1	Stage 2		Stage 1
Corporate	0.006	0.006	0.550	0.550
Retails	0.003	0.003	0.546	0.546
31 December 2018				
Corporate	0.140	0.137	0.588	0.588
Retails	0.007	0.004	0.540	0.540

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

18. LOANS AND RECEIVABLES (CONTINUED)

Analysis of loans before allowance for impairment losses by industry:

	31 December 2019	31 December 2018
Citizens	95,347	66,524
Agriculture, forestry, mining and industry	74,812	76,534
Construction industry	49,614	47,421
Trade	44,070	48,710
Services, finance, sport and tourism	23,545	23,471
Transport and communications	2,678	3,081
Administration and other public institutions	878	1,872
Other	7,602	8,075
Interest	1,124	1,165
	299,670	**276,853**

Reprograms and restructuring

Restructuring measures include a “concession” to the debtor as a result of the deterioration in the economic and financial position of the client and the impossibility of repaying the debt under the initially agreed terms. The “concession” may be change in terms of the original contract (annex) or a new contract (refinancing). Restructuring of the liabilities aims to enable the client to repay the obligations according to his real possibilities, with the provision of more efficient and secure collection of the Bank's receivables. According to this, restructuring of the liabilities represents a change in the terms and conditions agreed in the moment of loan approving (e.g. extension of repayment deadlines, reduction of

Reprograms and restructuring (continued)

interest rates, etc.). Decision on restructuring of the liabilities make authorized body of the Bank. Restructured exposures can be identified both in the non-performing and performing parts of the portfolio.

31 December 2019	**Number of reprogramed loans**	**Gross credit exposure**	**Stage 1**	**Stage 2**	**Stage 3**
Corporate	68	25,266	2,325	83	22,858
Retail	1	1	1	-	-
	69	**25,267**	**2,326**	**83**	**22,858**
31 December 2018					
Corporate	66	33,014	6,734	863	25,417
Retail	1	1	1	-	-
	67	**33,015**	**6,735**	**863**	**25,417**

Syndicated loan

During 2019, the Bank approved 6 syndicated loans to the clients (2018: 3 syndicated loans) together with ASA Bank d.d. Sarajevo. On this basis, the participation of ASA Bank d.d. as at 31 December 2019 was in amount of KM 889 thousand (2018: KM 1,678 thousand). The Bank bears risks only for its portion of syndicated loans. Total amount of loans based on syndicated loans as at 31 December 2019 is KM 5,414 thousand (2018: KM 5,578 thousand).

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

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019	31 December 2018
Debt securities:		
Bonds of FBiH Government	11,801	306
Treasury bills of FBiH Government	601	-
Bonds of Sarajevo Canton	200	-
	12,602	***306***
Equity securities:		
JUBMES Banka a.d. Beograd, Srbija	99	148
Securities' Register of FBiH d.d.	57	57
Bosna Reosiguranje d.d. Sarajevo	32	32
Bamcard d.d. Sarajevo	2	2
	190	***239***
	12,792	**545**

Changes in gross carrying amount in 2019 and 2018 are shown below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	**545**	**-**	**-**	**545**
Increase / decrease, net	9,445	-	-	9,445
Reclassification from financial assets measured at amortisation cost	2,691			2,691
Unrealized gain from fair value adjustment, net	111	-	-	111
At 31 December 2019	**12,792**			**12,792**

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	***490***	***-***	***-***	***490***
Unrealized gain from fair value adjustment, net	52	-	-	52
Increase / decrease, net	3	-	-	3
At 31 December 2018	**545**	**-**	**-**	**545**

Expected credit losses for financial assets measured at FVOCI are presented below:

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2019	***1***	***-***	***-***	***1***
Changes in models / parameters for credit risk assessment	160	-	-	160
At 31 December 2019	**161**	**-**	**-**	**161**

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2018	***-***	***-***	***-***	***-***
Changes in models / parameters for credit risk assessment	1	-	-	1
At 31 December 2018	**1**	**-**	**-**	**1**

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

20. FINANCIAL ASSETS AT AMORTISED COST

	31 December 2019	31 December 2018
Bonds:		
JP Autoceste FBIH	1,001	1,001
Sarajevo Canton	898	895
Ministry of Finance of FBiH	-	2,691
	1,899	***4,587***
Less: Impairment, net	(5)	(45)
	1,894	**4,542**

Changes in gross carrying amount are shown below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	**4,587**	**-**	**-**	**4,587**
Reclassification on financial assets through OCI (Note 19)	(2,691)	-	-	(2,691)
Interest (Note 5)	48	-	-	48
Interest unwinding	3	-	-	3
Billed during the year	(48)	-	-	(48)
At 31 December 2019	**1,899**	**-**	**-**	**1,899**

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	***3,580***	**-**	**-**	***3,580***
Effects of first - time adoption of IFRS 9	(2)	-	-	(2)
Acquired new financial instruments	1,001	-	-	1,001
Interest (Note 5)	106	-	-	106
Interest unwinding (Note 5)	8	-	-	8
Billed during the year	(106)	-	-	(106)
At 31 December 2018	**4.587**	**-**	**-**	**4.587**

Changes in impairment are shown below:

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2019	***45***	**-**	**-**	***45***
Changes in impairment based on reclassification assets on assets measured at FVTOCI	(23)	-	-	(23)
Changes in models / parameters for credit risk assessment	(17)	-	-	(17)
At 31 December 2019	**5**	**-**	**-**	**5**

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2018	***18***	**-**	**-**	***18***
New financial instrument	12	-	-	12
Changes in models / parameters for credit risk assessment	15	-	-	15
At 31 December 2018	**45**	**-**	**-**	**45**

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

21. OTHER ASSETS AND RECEIVABLES, NET

	31 December 2019	31 December 2018
Precious metals	568	470
Receivables from FBiH Government for paid guarantee	368	368
Fees receivables	174	162
Prepaid expenses	135	193
Advances for fixed assets	68	40
Prepaid income tax	-	192
Other	577	250
	1,890	***1,675***
Less: Impairment, net	(544)	(555)
	1,346	**1,120**

Changes in impairment of other assets and receivables can be presented as follows:

	2019	2018
Balance at 1 January	**555**	**517**
Increase of impairment (Note 12)	4	38
Write off	(15)	-
Balance at 31 December	**544**	**555**

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

22. TANGIBLE AND INTANGIBLE ASSETS

	Land	Buildings	Assets with right of use (IFRS 16)	Computer and other equipment	Intangible assets	Investments in progress	Total
COST							
At 31 December 2017	**715**	**44,687**	**-**	**5,843**	**3,612**	**1**	**54,858**
Additions	-	-	-	27	-	2,188	2,215
Transfer (from)/ to	-	485	-	283	124	(892)	-
Disposals	-	(217)	-	(401)	-	(16)	(634)
At 31 December 2018	**715**	**44,955**	**-**	**5,752**	**3,736**	**1,281**	**56,439**
Additions	-	-	804	10	-	733	1,547
Transfer (from)/ to	-	941	17	220	57	(1,235)	-
Disposals	-	(959)	-	(408)	(365)	(395)	(2,127)
At 31 December 2019	**715**	**44,937**	**821**	**5,574**	**3,428**	**384**	**55,859**
ACCUMULATED DEPRECIATION							
At 31 December 2017	**-**	**17,085**	**-**	**4,757**	**3,336**	**-**	**25,178**
Depreciation	-	636	-	358	193	-	1,187
Disposals	-	(49)	-	(366)	-	-	(415)
At 31 December 2018	**-**	**17,672**	**-**	**4,749**	**3,529**	**-**	**25,950**
Depreciation	-	640	231	311	135	-	1,317
Disposals	-	(181)	-	(407)	(365)	-	(953)
At 31 December 2018	**-**	**18,131**	**231**	**4,653**	**3,299**	**-**	**26,314**
NET BOOK VALUE							
At 31 December 2019	**715**	**26,806**	**590**	**921**	**129**	**384**	**29,545**
At 31 December 2018	**715**	**27,283**	**-**	**1,003**	**207**	**1,281**	**30,489**

The Bank's land and building are state at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The latest fair value measurements of the Bank's land and building was performed as at 31 December 2015. There was no fair value measurement of Bank's land and building during 2019 in accordance with the Bank's policy since the Management believes that there were no significant changes in fair value and that the carrying amounts of land and buildings recognized in the financial statements approximately correspond to their fair values. The fair value of the land was determined based on the income method and market comparable approach that reflects recent transaction prices for similar properties.

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

22. TANGIBLE AND INTANGIBLE ASSETS (CONTINUED)

Assets with right of use in accordance with International financial reporting standard 16 „Leases“ are presented in below:

	Property	Vehicles
Net book value at 31 December 2019 (KM 000)	390	184
New investment in assets with right of use (KM 000)	16	-
Depreciation rate	33.33%	from 25% to 42.86%
Number of lease contracts	7	5
Period of right of use	3 years	from 2 to 4 years

23. DUE TO FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
Landesversicherungsanstalt Niederbayern-Oberpfalz, Germany	302	604
	302	***604***
Maturity analysis:		
Within one year	302	302
In the second year	-	302
Third to fifth year	-	-
After five years	-	-
	302	**604**

On 5 September 2002, former Privredna banka Sarajevo d.d. Sarajevo, i.e. the Bank before merger, signed the agreement with Landesversicherungsanstalt Niederbayern-Oberpfalz, Germany (“CVA”), based on which LVA assumes Bank's liabilities toward German pension institutions for April and May 1992 in the total amount of EUR 2,315,311. The Bank should refund the amount before 31 December 2020. Principal repayment started on 1 January 2006, and will be completed through 30 equal semi-annual instalments in the amount of EUR 77,177 (repayment on 1 January and 1 July each year). LVA calculates annual interest rate on this debt in the amount equal to six-month EURIBOR.

24. LIABILITIES TOWARD GOVERNMENT OF FBIH

	31 December 2019	31 December 2018
Liabilities toward Government of FBIH – available funds	18,486	14,075
Liabilities toward Government of FBIH – invested funds	15,275	19,683
Liabilities toward Government of FBIH – interest	1,684	1,810
	35,445	***35,568***
Amount of approved resources through years:		
Long term loans to corporates at year interest rate from 4.5% to 6% (2018: interest rate from 4.10% to 7.50% p.a.)	2,376	5,877
Short term loans to corporates at year interest rate from 4.5% to 6% (2018: interest rate from 4.10% to 7.50% p.a.)	110	496
	2,486	**6,373**

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

24. LIABILITIES TOWARD GOVERNMENT OF FBIH (CONTINUED)

Based on agreement dated 1 March 2005, between Council of Ministry of Bosnia and Herzegovina and the Government of the Federation of Bosnia and Herzegovina, on 22 August 2005 the Bank signed "Agreement for Permanent Fund Management" (the "Agreement") with the Ministry of Finance of the Federation of Bosnia and Herzegovina. In accordance with the Agreement, Bank accepts credit risk for loans granted from this fund and charges interest payable of 2% p.a. No actual interest payments are made - the credit balance is increased on 28 February every year by the amount of annual interest accrued. The Agreement is valid as long as the Bank possesses the banking license from FBA and is performing its regular banking procedures. On 18 January 2012, the Government of the Federation of Bosnia and Herzegovina paid into the Fund the amount of KM 3 million (Japanese grant). On 11 March 2013 the Government of the Federation of Bosnia and Herzegovina made additional payment in the amount of KM 4 million (Japanese grant — 2 KR). In November 2016, the Bank signed Annex 2 to the Agreement for fund management of Japanese Grant for Federation of Bosnia and Herzegovina (PVF), dated 18 August 2005. The annex approved use of free monetary funds from Japanese grants, which were placed in three loans with counter value of KM 8,100 thousand. There were no changes in 2017 that would require new annexes to the Agreement for Fund Management of Japanese grant for Federation of Bosnia and Herzegovina (PVF). Annex 3 was signed on April 16, 2018 which anticipates that the interest rate on commission credits will amount to 4.75% p.a., of which the fund's income is 4% and 0.75% represents the Bank's income. Conditions of financing are not changed through 2019.

25. DUE TO CUSTOMERS

	31 December 2019	**31 December 2018**
Demand deposits		
Retail:		
In domestic currency	44,262	40,582
In foreign currencies	40,968	38,944
	85,230	**79,526**
Corporate:		
In domestic currency	198,082	196,507
In foreign currencies	2,442	6,163
	200,524	**202,670**
	285,754	**282,196**
Term deposits:		
Retail:		
In domestic currency	23,425	21,812
In foreign currencies	44,624	44,933
	68,049	**66,745**
Corporate:		
In domestic currency	78,345	31,725
In foreign currencies	12,847	6,070
	91,192	**37,795**
	159,241	**104,540**
	444,995	**386,736**

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

25. DUE TO CUSTOMERS (CONTINUED)

Interest rate during the year can be presented as follows:

	2019	2018
Demand deposits in KM and foreign currencies	0.00% - 0.20%	0.00%-0.01%
Short-term deposits	0.00% - 0.25%	0.00%-1.80%
Long-term deposits	0.00% - 5.10%	0.00%-2.50%

26. PROVISIONS

Changes in provisions can be presented as follows:

	Commitments and contingencies	Employee benefits	Court proceedings	Other provisions	Total
Balance as of 1 January 2018	**425**	**127**	**1,717**	**-**	**2,269**
Effects of first-time adoption of IFRS 9	496	-	-	-	496
Release of provisions (Note 12)	(491)	179	209	158	55
Decrease due to payment	-	-	(56)	-	(56)
Balance as of 31 December 2018	**430**	**306**	**1,870**	**158**	**2,764**
Release of provisions (Note 12)	(229)	40	393	-	204
Decrease due to payment	-	-	(802)	-	(802)
Balance as of 31 December 2019	**201**	**346**	**1,461**	**158**	**2,166**

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 and undrawn commitments.

	31 December 2019	31 December 2018
Performance guarantees	12,560	9,050
Unused approved loans	4,662	5,444
Payment guarantees	3,460	3,623
Bidding guarantees	418	168
	21,100	**18,285**

Changes in gross carrying amount are presented below:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	***16,630***	***1,586***	***69***	***18,285***
New financial instrument	14,674	382	6	15,062
Derecognition or proceeds from collection (excluding write off)	(11,184)	(1,007)	(56)	(12,247)
Transfer to Stage 1	178	(176)	(2)	-
Transfer to Stage 2	(70)	81	(11)	-
Transfer to Stage 3	(12)	-	12	-
Balance as of 31 December 2019	**20,216**	**866**	**18**	**21,100**

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

26. PROVISIONS (CONTINUED)

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	**14,909**	**1,604**	**1,673**	**18,186**
New financial instrument	13,828	1,241	63	15,132
Derecognition or proceeds from collection (excluding write off)	(11,855)	(1,563)	(1,615)	(15,033)
Transfer to Stage 1	3	(3)	-	-
Transfer to Stage 2	(255)	308	(53)	-
Transfer to Stage 3	-	(1)	1	-
Balance as of 31 December 2018	**16,630**	**1,586**	**69**	**18,285**

Changes in impairments are presented below:

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2019	***189***	***173***	***68***	***430***
Derecognition or proceeds from collection (Note 12)	(48)	(117)	(64)	(229)
Transfer to Stage 1	2	(2)	-	-
Transfer to Stage 2	(1)	1	-	-
Transfer to Stage 3	(12)	-	12	-
Balance as of 31 December 2019	**130**	**55**	**16**	**201**

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2018	***191***	***235***	***495***	***921***
Derecognition or proceeds from collection (Note 12)	3	(74)	(420)	(491)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(5)	13	(8)	-
Transfer to Stage 3	-	(1)	1	-
Balance as of 31 December 2018	**189**	**173**	**68**	**430**

27. LEASE LIABILITIES

	31 December 2019	31 December 2018
Long term liabilities	310	-
Short term liabilities	270	-
	580	***-***
Maturity analysis:		
Within one year	270	-
In the second year	273	-
In third year	37	-
	580	**-**

Lease contracts are signed on period from 3 to 4 years. The bank used incremental borrowing rate of 2% p.a.

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

28. OTHER LIABILITIES

	31 December 2019	31 December 2018
Liabilities for paid funds for loans and cards	1,161	1,039
Liabilities for unallocated proceeds	693	115
Liabilities for managed funds (Note 31)	686	179
Liabilities for tax income	290	-
Transfer accounts for enforced collection	261	172
Liabilities toward suppliers	255	252
Liabilities for retirements earned abroad	96	63
Liabilities for client proceeds	62	1
Other	159	580
	3,663	**2,401**

29. SHARE CAPITAL

Share capital as of 31 December 2018 consists of 336,738 ordinary shares at nominal value of 110 KM.

	31 December 2019			31 December 2018		
Ordinary shares:	**000**	**Number of shares**	**%**	**000**	**Number of shares**	**%**
Halil Oković	3,703	33,665	10.00%	2,436	22,141	8.52%
Hamid Pršeš	3,703	33,660	10.00%	2,123	19,296	7.43%
Pobjeda - Rudet d.d. Goražde	3,692	33,565	9.97%	3,692	33,565	12.92%
ASA Finance d.d. Sarajevo	3,476	31,598	9.38%	-	-	-
Zijad Deljo	2,829	25,720	7.64%	1,610	14,637	5.63%
Hasan Đozo	2,348	21,346	6.34%	1,404	12,766	4.91%
Okac d.o.o. Goražde	2,228	20,258	6.02%	-	-	-
Enver Pršeš	1,755	15,955	4.74%	507	4,615	1.78%
ZIF CROBIH FOND d.d. Mostar	1,364	12,400	3.68%	-	-	-
Rijad Raščić	1,005	9,139	2.71%	533	4,847	1.87%
Unigradnja d.d. Sarajevo	898	8,162	2.42%	-	-	-
BADECO ADRIA d.d. Sarajevo	-	-	-	3,383	30,753	11.84%
ZIF HERBOS FOND d.d. Mostar	-	-	-	1,650	15,001	5.77%
Recep Ali Keydal	-	-	-	882	8,020	3.09%
AME d.o.o. Breza	-	-	-	849	7,721	2.97%
Enisa Bekto	-	-	-	636	5,782	2.23%
Others shareholders	10,040	91,270	27.10%	8,873	80,658	31.05%
	37,041	**336,738**	**100.00%**	**28,578**	**259,802**	**100.00%**
Preference shares:						
ZIF CROBIH FOND d.d. Mostar	-	-	-	1,364	12,400	16.12%
Hamid Pršeš	-	-	-	1,143	10,392	13.51%
Enver Pršeš	-	-	-	1,133	10,299	13.39%
Zijad Deljo	-	-	-	967	8,790	11.43%
Hasan Đozo	-	-	-	789	7,175	9.33%
Halil Oković	-	-	-	663	6,029	7.84%
Other shareholders	-	-	-	2,404	21,851	28.38%
	-	-	-	**8,463**	**76,936**	**100.00%**
	37,041	**336,738**	**100.00%**	**37,041**	**336,738**	**100.00%**

29. SHARE CAPITAL (CONTINUED)

On 28 November 2018, the General Assembly of the Bank adopted a Decision on share conversion in a way that one non-voting preference share of 110 KM per share becomes one ordinary share with a nominal value of 110 KM per share. The aforementioned Decision stipulates the conversion of 76,936 preference shares into ordinary shares in order to implement the measures of capital enhancement defined by the Capital adjustment plan. After conversion of preference non-cumulative shares into ordinary shares, the total value of the Bank's share capital remains unchanged at KM 37,041,180.

On January 10, 2019, the Securities Exchange Commission of the Federation of Bosnia and Herzegovina issued a Decision approving the conversion of 76,936 preference non-cumulative shares with a nominal value of 110 KM in 76,936 ordinary shares with a nominal value of 110 KM.

Supervisory Board of the Bank adopted the draft decision about 8 (eighth) issue of ordinary shares through closed sales on session held on 19 December 2019. According to the draft decision, share capital increase by issue 36,262 ordinary shares nominal value KM 110.00 per share in total amount of KM 3,988,820, in order to realization of the strengthening equity defined by Capital conservation plan.

30. RELATED PARTY TRANSACTIONS

In accordance with the requirements of the International Accounting Standard 24 “Related Party Disclosures” A related party is a person or entity that is related to the entity that is preparing its financial statements:

(a) A person or a close member of that person’s family is related to a reporting entity if that person:

- (i) has control or joint control of the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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

30. RELATED PARTY TRANSACTIONS (CONTINUED)

All of the transactions stated above have been made under commercial and banking terms and conditions:

	2019		2018	
	Income	**Expense**	**Income**	**Expense**
Shareholders	332	49	174	171
Member of Management Board and their family members	19	30	26	16
Member of Supervisory Board and their family members	10	12	8	6
	361	**91**	**208**	**193**

	31 December 2019		31 December 2018	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Shareholders	5,429	7,532	4,231	6,315
Member of Management Board and their family members	469	358	241	397
Member of Supervisory Board and their family members	193	124	84	230
	6,091	**8,014**	**4,556**	**6,942**

Management Board and Supervisory Board remuneration

The remuneration of the members of Management Board and Supervisory Board during the year ended 31 December 2019 and the year ended 31 December 2018 was as follows:

	2019	**2018**
Gross salaries of the members of Management Board	642	577
Other benefits of the members of Management Board	11	11
Fees to the members of Supervisory Board	61	61
	714	**649**

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

31. MANAGED FUNDS

Funds managed by the Bank on behalf of individuals, trusts and other institutions are not assets of the Bank and, therefore, are not included in its balance sheet. The table below provides analysis of the funds managed on behalf of customers:

	31 December 2019	31 December 2018
LOANS		
Corporate	18,922	19,227
Individuals	849	889
	19,771	**20,116**
LIABILITIES		
Government of Federation of Bosnia and Herzegovina	18,989	18,890
Non-profit and non-bank organizations	903	833
Government of Bosnia and Herzegovina (Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina)	500	500
Construction Institute of Sarajevo Canton	65	72
	20,457	**20,295**
Current liabilities from managed funds activities (Note 28))	**(686)**	**(179)**

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

32. RISK MANAGEMENT

a) Capital risk management

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

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

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

	31 December 2019	31 December 2018
Debt	481,322	422,908
Equity	57,837	52,794
Net debt to capital ratio	**8,32**	**8,01**

Debt is defined as due to financial institutions, due to the Government of the Federation of Bosnia and Herzegovina and due to customers as presented in detail in Notes 23, 24, 25 and 27. Capital includes total share capital, share premium, other reserves, revaluation reserves and retained earnings.

The regulatory capital of the Bank consists of core and supplementary capital.

The core capital of the Bank (fully equal to ordinary core equity) consists of paid shares, own treasury shares, share premium, retained unallocated profit and other reserves formed from profit after taxation on the basis of the decision of the Bank's General Assembly, net revaluation reserves based on changes in fair value of assets (accumulated comprehensive income), net of the amount of treasury shares, intangible assets and deferred tax assets.

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

32. RISK MANAGEMENT (CONTINUED)

a) Capital risk management (continued)

Supplementary capital consists of general credit risk allowances, calculated as 1.25% of the risk-weighted exposure amount, minus the missing provisions for credit losses under regulatory requirements. Missing credit loss provisions are calculated in accordance with FBA regulations. Bank calculates provisions for credit losses by FBA methodology for each contract. A positive difference is shown as missing credit loss provisions.

The minimum capital requirements are as follows:

• regular core capital rate 6.75%

• core capital rate 9%

• regulatory capital rate 12%

In addition to the statutory minimum adequacy rate, the Bank is also required to provide a protection layer for capital preservation that is to be maintained in the form of regular core capital in the amount of 2.5% of the total exposure amount.

The total weighted risk used to calculate capital adequacy includes:

• the risk of weighted assets and credit equivalents,

• position, currency, commodity risk and

• operational risk.

One of the basic processes that the Bank implements in the context of strategic risk management is the internal capital adequacy assessment process ("ICAAP"). The main objective of this process is to determine the positive level of capital that is sufficient to cover all risks that the Bank is exposed to and that are assessed as material. ICAAP serves as an internal capital adequacy assessment tool in relation to the risk profile of the Bank and the implementation of the Bank's strategy appropriate to maintaining an adequate level of internal capital. ICAAP serves as an internal capital adequacy assessment tool in relation to the risk profile of the Bank and the implementation of the Bank's strategy appropriate to maintaining an adequate level of internal capital. On March 29, 2018, the Bank's Supervisory Board adopted the Procedures with the ICAAP assessment methodology. At 31 December 2019, the rates and levels of capital were as follows:

The rate of ordinary core capital	14.66%
The rate of core capital	14.66%
The rate of regulatory capital	14.66%
The rate of core capital including adjustments from Pillar 2	7.48%
The rate of core capital including adjustments from Pillar 2	9.97%
The rate of regulatory capital including adjustments from Pillar 2	13.29%

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

32. RISK MANAGEMENT (CONTINUED)

a) Capital risk management (continued)

	31 December 2019	31 December 2018
Regulatory capital	**42,577**	**37,343**
Core capital	*42,577*	*37,343*
Regular core capital	*42,577*	*37,343*
Paid capital instruments	37,041	28,578
Share premium	4,629	4,629
Accumulated income	5,711	630
Other comprehensive income – revaluation reserves	3,599	6,985
Deductions from regular core capital		
intangible assets	(342)	(712)
deductions from regular core capital – missing reserves	(8,061)	(2,767)
Total regular core capital	**42,577**	**37,343**
Additional core capital	-	
Core capital		
Supplementary capital	**-**	**-**
Issued own capital – Priority shares	**-**	8,463
General credit risk allowances	3,240	3,003
Deductions from supplementary capital – missing provision	(3,240)	(11,466)
Total regulatory capital	**42,577**	**37,343**
Risk weighted assets (unaudited)	290,413	277,640
Capital adequacy ratio	**14,66%**	**13,45%**

As of 31 December 2019, the ratio “tangible assets / Core capital” amounted to 68.59% (31 December 2018 79.74%) which is not in accordance with Article 94 of the Law on Banks, which stipulates that Bank's total investments in fixed assets cannot exceed 40% of recognized core capital.

According, adopted Plan for eliminating non-compliance of investments in fixed assets, the Bank was given a deadline by the end of 2018 to reconcile the ratio of tangible assets and recognized core capital in accordance with current legislation. Although the Bank did not meet the deadline, Management Board does not expect that this will have negative impact on Bank's business operations.

The Bank is obliged to ensure and maintain the financial leverage ratio in amount of at least 6%.

The Bank's financial leverage ratio is the ratio of the amount of the core capital to the total risk exposure of the Bank as at the reporting date, expressed as a percentage. The financial leverage ratio as at 31 December 2019 amounted to 7.73% (2018: 7.55%)

b) Significant accounting policies

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

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

32. RISK MANAGEMENT (CONTINUED)

c) Categories of financial instruments

	31 December 2019	31 December 2018
Categories of financial instruments		
Loans and receivables:	500,767	446,578
Cash and cash equivalents (including Obligatory reserves with the CBBH)	223,492	196,922
Placements with other banks	23,472	20,333
Loans and receivables, net	252,589	228,392
Other receivables	1,214	931
Debt instruments at fair value through other comprehensive income	12,792	545
Financial assets at amortized cost	1,894	4,542
	515,453	**451,665**
Financial liabilities		
At amortized cost:		
Due to financial institutions	302	604
Due to the Government of FBiH	35,445	35,568
Due to customers	444,995	386,736
Lease liabilities	580	-
Other liabilities	3,188	2,223
	484,510	**425,131**

d) Financial risk management objectives

The Bank's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports which 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.

e) Market risk

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below points f and g).

Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Bank's exposure to market risks or the manner in which it manages and measures the risk.

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

32. RISK MANAGEMENT (CONTINUED)

f) Foreign currency risk management

The Bank undertakes certain transactions denominated in foreign currencies. The carrying amounts of the Bank's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows

	KM	EUR	USD	CHF	Other	Total
As of 31 December 2019						
ASSETS						
Cash and cash equivalents	174,757	1,434	239	903	756	178,089
Obligatory reserve with Central bank B&H	45,403	-	-	-	-	45,403
Placements with other banks	168	16,100	3,169	3,606	429	23,472
Loans to customers, net	158,901	93,212	476	-	-	252,589
Debt instruments at fair value through other comprehensive income	12,393	300	-	-	99	12,792
Financial assets at amortized cost	-	1,894	-	-	-	1,894
Other receivables	1,195	17	2	-	-	1,214
Total	**392,817**	**112,957**	**3,886**	**4,509**	**1,284**	**515,453**
LIABILITIES						
Due to financial institutions	-	302	-	-	-	302
Due to the Government of FBiH	35,445	-	-	-	-	35,445
Due to customers	324,839	110,696	3,893	4,522	1,045	444,995
Lease liabilities	580	-	-	-	-	580
Other financial liabilities	1,739	1,405	-	2	42	3,188
Total	**362,603**	**112,403**	**3,893**	**4,524**	**1,087**	**484,510**
As of 31 December 2018						
Total monetary assets	**335,774**	**106,163**	**3,905**	**4,228**	**1,595**	**451,665**
Total monetary liabilities	**313,981**	**101,999**	**3,901**	**4,223**	**1,027**	**425,131**

Foreign currency sensitivity analysis

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

The following table details the Bank's sensitivity to a 10% increase and decrease in KM against USD and CHF, 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in USD. A positive number below indicates an increase in profit where KM strengthens 10% against USD. For a 10% weakening of KM against USD and CHF, there would be an equal and opposite impact on the profit, and the balances below would be negative. As of 31 December 2019, the effects are minimal, considering that the Bank had adjusted receivables and liabilities.

	USD Effect		CHF Effect	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Profit/(loss)	(2)	-	(2)	-

32. RISK MANAGEMENT (CONTINUED)

g) Interest rate risk management

The Bank is exposed to interest rate risk as the Bank places and borrows funds at both fixed and floating interest rates. The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate borrowings.

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

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank' net result for the year ended 31 December 2019 would decrease / increase by KM 105 thousand (2018: KM 133 thousand).

h) Credit risk management

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

The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

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

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

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

32. RISK MANAGEMENT (CONTINUED)

h) Credit risk management (continued)

Financial assets

	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Individual impairment allowance	Collective impairment allowance	Total net carrying amount
As of 31 December 2019						
Cash and cash equivalents	178,534	9,198	169,336	-	(445)	178,089
Obligatory reserve with Central bank B&H	45,403	45,403	-	-	-	45,403
Placements with other banks	25,474	408	25,066	(2,000)	(2)	23,472
Loans to customers, net	298,645	842	297,803	(42,538)	(3,518)	252,589
Debt instruments at FVTOCI	12,792	12,792	-	-	-	12,792
Financial assets at amortized cost	1,899	-	1,899	-	(5)	1,894
Other receivables	1,758	568	1,190	(470)	(74)	1,214
	564,505	**69,211**	**495,294**	**(45,008)**	**(4,044)**	**515,453**
As of 31 December 2018						
Cash and cash equivalents	164,865	7,401	157,464	-	(871)	163,994
Obligatory reserve with Central bank B&H	32,928	32,928	-	-	-	32,928
Placements with other banks	22,344	-	22,344	(2,000)	(11)	20,333
Loans to customers, net	275,752	2,906	272,846	(38,760)	(8,600)	228,392
Debt instruments at FVTOCI	545	545	-	-	-	545
Financial assets at amortized cost	4,587	-	4,587	(45)	-	4,542
Other receivables	1,482	666	816	(545)	(6)	931
	502,503	**44,446**	**458,057**	**(41,350)**	**(9,488)**	**451,665**

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

32. RISK MANAGEMENT (CONTINUED)

h) Credit risk management (continued)

Credit exposure and collateral

	Credit risk exposure: Net exposure	Credit risk exposure: Loan commitments / Guarantees	Fair value of collateral
As of 31 December 2019			
Cash and cash equivalents	178,089	-	-
Obligatory reserve with Central bank B&H	45,403	-	-
Placements with other banks	23,472	-	-
Loans to customers, net	252,589	21,100	448,122
Debt instruments at FVTOCI	12,792	-	-
Financial assets at amortized cost	1,894	-	-
Other receivables	1,214	-	-
	515,453	**21,100**	**448,122**
As of 31 December 2018			
Cash and cash equivalents	163,994	-	-
Obligatory reserve with Central bank B&H	32,928	-	-
Placements with other banks	20,333	-	-
Loans to customers, net	228,392	18,285	484,048
Debt instruments at FVTOCI	545	-	-
Financial assets at amortized cost	4,542	-	-
Other receivables	931	-	-
	451,665	**18,285**	**484,048**

Fair value of the collaterals

	31 December 2019	31 December 2018
Real estate and movable properties	445,907	451,324
Deposits	2,057	3,606
Other	158	29,118
Total	**448,122**	**484,048**

Arrears

	Total gross loans to clients	Impairment	Not due	Up to 30 days	31 to 90 days	91 to 180 days	181 to 270 days	Over 270 days
31 December 2019								
Corporate	204,335	(41,130)	148,216	2,670	1,734	837	2,016	48,862
Retail	95,335	(4,926)	91,960	453	34	42	79	2,767
Total	**299,670**	**(46,056)**	**240,176**	**3,123**	**1,768**	**879**	**2,095**	**51,629**
31 December 2018								
Corporate	210,286	(43,160)	150,884	1,224	347	40	273	57,518
Retail	66,567	(4,200)	63,555	31	18	6	8	2,949
Total	**276,853**	**(47,360)**	**214,439**	**1,255**	**365**	**46**	**281**	**60,467**

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

32. RISK MANAGEMENT (CONTINUED)

i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the Bank's short, medium and long-term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining adequate reserves and other financing sources, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following table details the Bank's remaining contractual maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets.

Maturity for financial assets

	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	2 to 5 years	5+ years	Total
31 December 2019							
Non-interest bearing	-	247,674	-	-	-	-	247,674
Fixed interest rate instruments	8.34%	41,496	35,723	34,843	98,090	61,862	272,014
Variable interest rate instruments	11.18%	21,346	722	883	3,128	886	26,965
		310,516	**36,445**	**35,726**	**101,218**	**62,748**	**546,653**
31 December 2018							
Non-interest bearing	-	217,877	1	3	239	25	218,145
Fixed interest rate instruments	10.49%	46,070	19,439	37,405	114,858	72,744	290,516
Variable interest rate instruments	8.04%	28,008	1,414	1,533	7,609	1,893	40,457
		291,955	**20,854**	**38,941**	**122,706**	**74,662**	**549,118**

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

Maturity for financial liabilities

	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	2 to 5 years	5+ years	Total
31 December 2019							
Non-interest bearing	-	140,008	22	462	283	626	141,401
Fixed interest rate instruments	0.56%	164,273	13,016	77,919	43,267	333	298,808
Variable interest rate instruments	1.47%	1,068	1,264	3,632	3,047	39,035	48,046
		305,349	**14,302**	**82,013**	**46,597**	**39,994**	**488,255**
31 December 2018							
Non-interest bearing	-	116,998	1,526	324	697	597	120,142
Fixed interest rate instruments	0.04%	163,573	30,499	28,896	32,613	36,680	292,261
Variable interest rate instruments	1.45%	1,395	4,617	2,662	5,127	64	13,865
		281,966	**36,642**	**31,882**	**38,437**	**37,341**	**426,268**

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

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

33. FAIR VALUE MEASUREMENT

33.1 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** 31 December 2019	31 December 2018	**Fair value hierarchy**	**Valuation techniques and key inputs**
1) Financial assets at FVTOCI	Equity securities listed on a stock exchange in Bosnia and Herzegovina: • Bamcard d.d. Sarajevo – KM 2 thousand • Bosna Reosiguranje d.d. Sarajevo – KM 32 thousand Equity securities listed on stock exchange in other countries: • JUBMES BANKA A.D. Belgrade, Serbia - KM 99 thousand Debt securities listed on the Stock exchange in Bosnia and Herzegovina; • FBiH Government - KM 12,402 thousand • Kanton Sarajevo – KM 200 thousand	Equity securities listed on a stock exchange in Bosnia and Herzegovina: • Bamcard d.d. Sarajevo – KM 2 thousand • Bosna Reosiguranje d.d. Sarajevo – KM 32 thousand Equity securities listed on stock exchange in other countries: • JUBMES BANKA A.D. Belgrade, Serbia - KM 148 thousand Debt securities listed on the Stock exchange in Bosnia and Herzegovina; • FBiH Government - KM 306 thousand	Level 1	Quoted bid prices in an active market.
	Equity securities listed on the Stock exchange in Bosnia and Herzegovina without trading: • Securities register FBiH d.d. Sarajevo - KM 57 thousand KM	Equity securities listed on the Stock exchange in Bosnia and Herzegovina without trading: Securities register FBiH d.d. Sarajevo - KM 57 thousand KM	Level 2	Prices derived from prices of other similar assets quoted on active market

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

33. FAIR VALUE MEASUREMENT (CONTINUED)

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

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

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
- Loans to customers	252,589	270,207	228,392	292,524
- Financial assets at AC	1,894	1,894	4,542	4,542
- Debt instruments at FVTOCI	12,792	12,792	545	545
Financial liabilities				
At amortised cost:				
- Due to customers, other banks and financial institutions	445,297	441,216	387,340	384,579

	Fair value hierarchy as of 31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- Loans to customers	-	270,207	-	270,207
- Financial assets at AC	-	1,894	-	1,894
- Debt instruments at FVTOCI	-	12,792	-	12,792
	-	**284,893**	**-**	**284,893**
Financial liabilities				
At amortised cost:				
- Due to customers, other banks and financial institutions	-	441,216	-	441,216
	-	**441,216**	**-**	**441,216**

The fair value of financial assets and liabilities included in the above categories of Level 2 were determined according to generally accepted models of assessment based on an analysis of discounted cash flows, the discount rate as most important input data, which reflects the credit risk of counterparties. As the discount rate used in the weighted average interest rate on the state level, published by CBBH separately for legal entities and individuals.

34. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management as of 22 January 2020:

Hamid Pršeš
President of the Management Board

PRIVREDNA BANKA SARAJEVO DD SARAJEVO 1

Bedina Jusičić - Musa
Member of the Management Board