UNION BANKA 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

Content

Responsibility for the financial statements

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

After making enquiries, the Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future, and 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 implemented; and
- The financial Statements are prepared on the going concern basis unless it is inappropriate to presume that 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. Also, it must ensure that the financial statements comply with the Law on Accounting and Auditing in the Federation of Bosnia and Herzegovina. The Management Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

UNION BANKA DD SARAJEVO BR. 3

Vedran Hadžiahmetović
President of the Management Board

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

28 February 2020

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Independent auditor's report

To the Shareholders of Union Banka d.d. Sarajevo

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Union Banka d.d. Sarajevo (the Bank), which comprise the statement of financial position as at 31 December 2019, statement of comprehensive income, statement of changes in equity and reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of 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), 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. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Adequacy of the loan loss provisions

The carrying amount of loans to customers amounts to BAM 256 million (or 32% of total assets) as at 31 December 2019. As described in Note 4 Key accounting estimations Impairment of loans and receivables, the provisions for loans are determined under application of IFRS 9 Financial Instruments.

This is a key audit matter as significant judgement is involved to determine the provisions for loans impairment.

We understood and evaluated the processes and controls for collective provision impairment within the loan portfolios, as well as the impairment assessment processes for individually assessed loans.

We involved experts in the field of credit risk modeling and information systems experts in areas that required specific expertise (i.e. data reliability and the expected credit loss model).

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

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Independent auditor's report *(continued)*

Key audit matters *(continued)*

Key areas of judgement 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 and expected future cash as disclosed in Note 31.c) Risk management - Credit quality of financial assets, and evaluation and assumptions used in the possible outcomes of individually assessed loans for impairment.

The possible outcomes are based on discounted cash flows for individually assessed loans and include judgement and complexity areas such as, impairment triggers, probabilities of relevant scenarios for cash flow forecasts and the cash flow forecasts itself, including collateral realization.

For further information, refer to Note 31. c) Risk management - Credit quality of financial assets of the accompanying financial statements.

We assessed the modelling techniques and methodology against the requirements of IFRS 9 Financial Instruments. Additionally, we assessed the reasonableness and appropriateness of significant assumptions used in models for calculating the loan loss provisions.

We examined a sample of exposures and performed procedures to evaluate the adequacy and application of significant parameters for significant increase in credit risk, the possibility for the Bank to use alternative triggers based on availability of historical information, timely identification of exposures with a significant deterioration in credit quality and the classification of instruments in stages according to IFRS9 (recalculate the creditworthiness of clients, review input parameters such as probability of default, days past due, watch list, restructurings).

We also re-performed management's impairment calculation on a sample of collectively impaired loans for mathematical accuracy.

In relation to individually impaired loans, we assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an individual impairment provision.

For a sample of individually impaired loans, we understood the latest developments at the borrower and the basis of measuring the impairment provisions and considered whether key judgments were appropriate given the borrowers' circumstances. In particular, we tested key inputs to the impairment calculation including the expected future cash flows and their timing and valuation of collateral held and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and with the regulatory guidelines.

We also re-performed management's impairment calculation for mathematical accuracy and application of parameters on selected individually impaired loans.

We assessed the adequacy of the disclosures included in Note 31. c) Risk management - Credit quality of financial assets of the accompanying financial statements.

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Independent auditor's report *(continued)*

Responsibilities of management and Audit Committee for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
Audit Committee is responsible for overseeing the Bank's financial reporting process.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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Independent auditor's report *(continued)*

Auditor's responsibilities for the audit of the financial statements *(continued)*

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

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

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

DRUŠTVO ZA REVIZIJU ERNST & YOUNG SARAJEVO d.o.o.

Zvonimir Madunić, Director

Ivana Lazarević Soldat, Licensed auditor

28 February 2020

Ernst & Young d.o.o. Sarajevo
Fra Anđela Zvizdovića 1
71000 Sarajevo
Bosnia and Herzegovina

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Statement of profit or loss and other comprehensive income for the year ended 31 December 2019

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

	Notes	2019	2018
Interest income calculated using the effective interest method	5	10,770	10,658
Interest expense calculated using the effective interest method	6	(2,599)	(2,415)
Net interest income		**8,171**	**8,243**
Fee and commission income	7	2,784	2,649
Fee and commission expense	8	(1,066)	(1,044)
Net fee and commission income		**1,718**	**1,605**
Net gains on the impairment of financial assets	9	375	76
Net gains / (losses) on financial assets at fair value through profit and loss	17	(182)	191
Net gains on foreign exchange differences		167	192
Other operating income	10	1,987	1,308
Operating income		**12,235**	**11,615**
Employees' expenses	11	(6,381)	(5,950)
Depreciation and amortization	21, 22	(1,030)	(779)
Other expenses	12	(4,244)	(4,353)
Total operating expenses		**(11,655)**	**(11,082)**
PROFIT BEFORE TAX		**580**	**533**
Income tax expense	13	(257)	-
Deferred tax expense	13	(89)	-
NET PROFIT FOR THE YEAR		**234**	**533**
Other comprehensive income			
Items that will be subsequently reclassified in the statement of profit or loss when specific conditions are met:			
Effects of changes in impairment of financial assets through other comprehensive income, net		816	-
Effects of changes in fair value of financial assets through other comprehensive income, net		6,342	(1,029)
		7,158	(1,029)
TOTAL COMPREHENSIVE INCOME		**7,392**	**(692)**
Earnings per share (in BAM)	14	**0.11**	**0.24**

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

Statement of financial position
as at 31 December 2019

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

	Notes	31 December 2019	31 December 2018
ASSETS			
Cash and accounts at banks	15	238,846	377,422
Obligatory reserve with the Central Bank of BiH	16	80,129	70,070
Financial assets at fair value through profit or loss	17	372	553
Financial assets at fair value through other comprehensive income	18	196,490	102,571
Loans to customers and receivables	19	256,399	192,876
Other assets and receivables	20	4,799	8,446
Tangible, intangible and right-of-use assets	21	18,919	18,293
Investment property	22	4,612	4,656
TOTAL ASSETS		**800,566**	**774,887**
LIABILITIES			
Liabilities to other banks and financial institutions	23	1,353	2,443
Liabilities to customers	24	700,433	697,433
Subordinated debt	25	25,000	10,000
Provisions	26	1,089	1,132
Other liabilities	27	3,810	2,391
TOTAL LIABILITIES		**731,686**	**713,399**
EQUITY			
Share capital	28	44,098	44,098
Regulatory reserves		-	3,347
Revaluation reserves		6,129	(1,029)
Retained earnings		18,652	15,072
TOTAL EQUITY		**68,880**	**61,488**
TOTAL LIABILITIES AND EQUITY		**800,566**	**774,887**

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

Signed on behalf of the Bank on 28 February 2020.

Vedran Hadžiahmetović
President of the Management Board

Lejla Nurko
Head of Accounting and Controlling department

Statement of cash flows
for the year ended 31 December 2019
(all amounts are expressed in thousands BAM, unless otherwise stated)

	2019	2018
Operating activities		
Profit before tax	**580**	**533**
Adjustments for:		
Depreciation and amortization	1,030	779
Impairment losses and provisions, net	(176)	154
Fair value adjustments of financial assets at fair value through profit or loss	182	191
Interest income from financial assets through OCI recognized in the statement of profit or loss and other comprehensive income	(2,025)	(1,851)
Dividend income recognized in the statement of profit or loss and other comprehensive income	(365)	(412)
Cash flow before changes in operating assets and liabilities:	*(774)*	*(606)*
Decrease / (increase) in obligatory reserve with the Central bank of BiH, net	(10,057)	(7,025)
Increase in loans to customers, before allowance, net	(64,490)	(29,078)
Increase in other assets, before allowance, net	3,738	6,245
Decrease in liabilities to other banks and financial institutions, net	(1,090)	1,901
Increase in liabilities to customers, net	3,000	112,137
Increase in other liabilities, net	884	(489)
	(68,788)	*83,055*
Income tax paid	*-*	*(561)*
NET CASH FROM OPERATING ACTIVITIES	**(68,788)**	**82,524**
Investing activities		
Proceeds from financial assets held-to-maturity, net	-	1
Purchase of financial assets through other comprehensive income	(91,784)	(24,522)
Interest received from financial assets through other comprehensive income	6,232	21,585
Purchase of tangible assets	(67)	(1,189)
Proceeds from sale of tangible assets	649	6,657
Dividends received	365	412
NET CASH FROM / (USED IN) INVESTING ACTIVITIES	**(84,605)**	**2,944**
Financing activities		
Repayment of principal portion of lease liabilities	(183)	**-**
Proceeds from subordinated debt	15,000	**-**
NET CASH FROM FINANCING ACTIVITIES	**14,817**	**-**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**(138,576)**	**85,468**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**377,422**	**291,954**
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**238,846**	**377,422**

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

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

	Share capital	Regulatory reserves	Revaluation reserves for investments	Retained earnings	Total
31 December 2017	**34,098**	**3,347**	**196**	**15,866**	**53,507**
Effect of the implementation of IFRS 9	**-**	**-**	**-**	**(1,327)**	**(1,327)**
Corrected opening balance	**34,098**	**3,347**	**196**	**14,539**	**52,180**
Net profit	-	-	-	533	533
Other comprehensive loss	-	-	(1,225)	-	(1,225)
Total comprehensive income	-	-	*(1,225)*	*533*	*(692)*
Issuance of share capital and other forms of increase or decrease in share capital	10,000	-	-	-	10,000
31 December 2018	**44,098**	**3,347**	**(1,029)**	**15,072**	**61,488**
Net profit	-	-	-	234	234
Transfer of regulatory reserves for credit losses	-	(3.347)	-	3.347	-
Other comprehensive income	-	-	7.158	-	7.158
Total comprehensive income	-	-	*7,158*	*234*	*7,392*
31 December 2019	**44,098**	**-**	**6,129**	**18,653**	**68,880**

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

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

1. GENERAL INFORMATION

History and incorporation

Union banka d.d. Sarajevo (the „Bank“) was established in 1995 as branch of Jugoslovenska banka for foreign trade. By the end of 1989, the Bank was operating under Jugobanka d.d. Belgrade. In 1990, the Bank has been transformed into individual financial institution under name Jugobanka Jubbanka d.d. Sarajevo. At the end of 1992, the Bank changes its name into Union banka d.d. Sarajevo, while at the end of 1997, the Bank is registered as a legal successor of Jugobanka Jubbanka d.d. Sarajevo for territory of the Federation of Bosnia and Herzegovina (the „FBiH“).

In January 2018, the Bank changed its head office to the address Hamdije Kreševljakovića 19, Sarajevo, Bosnia and Herzegovina. As of 31 December 2019, the Bank was operating through 4 branches: Sarajevo, Mostar, Zenica, Tuzla, and 9 offices: Goražde, Bihać, Zavidovići, Stari Grad – Sarajevo, Novi Grad – Sarajevo, Ilidža, Konjic and Travnik.

Principal activities of the Bank

The Bank's main operations are as follows:

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

Managing bodies of the Bank

Supervisory Board:

Maja Letica	President from 20 May 2019
Tihomir Ćurak	President until 20 May 2019
Damir Morić	Member until 20 May 2019
Advija Alihodžić	Member
Maja Letica	Member until 20 May 2019
Dražena Tunjić Pavlović	Member from 20 May 2019
Aida Hadžigrahić	Member from 20 May 2019

Management Board

Vedran Hadžiahmetović	President of the Management Board
Edin Mujagić	Member of the Management Board for Risks
Leon Begić	Member of the Management Board for Operations

Audit Committee:

Muniba Eminović	President until 25 October 2019
Hajrudin Hadžvić	President from 25 October 2019
Nermin Šahinović	Member
Dr. Lejla Demirović	Member from 25 October 2019
Damir Šapina	Member from 25 October 2019
Marko Čule	Member from 25 October 2019
Adnan Rovčanin	Member until 25 October 2019
Kenan Kapetanović	Member until 25 October 2019
Munib Ovčina	Member until 25 October 2019

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Basis for preparation and presentation of Financial Statements

The financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS“).

Accounting regulations applicable in the Federation are based on the provisions of the Law on accounting and auditing (“Law”) (Official Gazette 83/09). Companies prepare and present their financial statements in accordance with International Accounting Standards (“IAS”), their amendments and interpretations (“Standard interpretations”), International Financial Reporting Standards (”IFRS”) and their amendments and interpretations (“International Financial Reporting Interpretations”) issued by International Accounting Standard Board (“IASB”), as translated and published by Association of accountants, auditors and financial experts in Federation (by the authorization of Accounting Commission of Bosnia and Herzegovina number 2-11/06). The decisions on publishing Standards number O-1/2-2017 dated 13 January 2017 and O-1/7- 2017 dated 24 May 2017 are binding for the periods starting 1 January 2017. Those decisions include IAS, IFRS and interpretations published by IFRS foundation in Blue book (2016 edition) chapter A and include all amendments and improvements published in 2016. Any subsequent standards or new or amended IFRS and IFRIC interpretations issued by the IASB subsequent to October 2017 have not yet been translated and published.

During the preparation of the IFRS Financial Statements for the year ended on 31 December 2019, the Bank considered whether the application of standards published by the International Accounting Standards Board applicable to the current year and not yet translated and published in the FBiH, results in a material discrepancy from relevant applicable local regulation.

The Bank concluded that this is not the case, therefore the management's opinion is that these IFRS financial statements also meet the legal obligation of the Bank to publish financial statements in accordance with applicable relevant local accounting regulation.

These financial statements have been prepared on a historical cost basis, unless otherwise stated in the accounting policies given in the text.

Published Standards and Interpretations that entered into force in the current period are disclosed in Note 2.2, and Published Standards and Interpretations that have not yet become effective are disclosed in Note 2.3.

In compiling these financial statements, the Bank applied the accounting policies that are explained in Note 3.

All amounts in the Financial Statement have been expressed in thousands of convertible marks. The Mark represents the official reporting currency in the Federation of Bosnia and Herzegovina.

Going concern

The Financial statements are prepared in accordance with going concern assumption, which implies that the Bank will continue as a going concern for the foreseeable future.

2.2. Amendments of IFRS whose adoption and application are mandatory in current period

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2019:

- **IFRS 16: Leases**
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Refer to Note 3. m) for more details on effects of adoption of the standard and detailed disclosures.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. Management has assessed that the adoption of this amendment did not have a significant impact on the Bank's financial statements.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  The Amendments relate to whether the measurement, in particular impairment requirements, of long- term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. Management has assessed that the adoption of these amendments did not have a significant impact on the Bank's financial statements.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Management has assessed that the adoption of this interpretation did not have a significant impact on the Bank's financial statements.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
  The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. Management has assessed that the adoption of these amendments did not have a significant impact on the Bank's financial statements.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (*continued)*

2.2. Amendments of IFRS whose adoption and application is mandatory in current period (*continued)*

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. Management has assessed that the adoption of these improvements did not have a significant impact on the Bank's financial statements.
    - **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements**: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
    - **IAS 12 Income Taxes**: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
    - **IAS 23 Borrowing Costs**: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

2.3. Standards issued by the IASB, but not translated and published by the Association of accountants, auditors and financial experts in Federation, have not yet entered into force and have not been adopted early

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Management has assessed that the adoption of amendment to this standard will have no impact on the Bank's financial statements.

- **Conceptual Framework in IFRS standards**
  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. Management has assessed that the adoption of Framework will have no significant impact on the Bank's financial statements.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (*continued)*

2.3. Standards issued by the IASB, but not translated and published by the Association of accountants, auditors and financial experts in Federation, have not yet entered into force and have not been adopted early (*continued*)

- **IFRS 3: Business Combinations (Amendments)**
  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. Management has assessed that the adoption of amendments to this standard will have no significant impact on the Bank's financial statements.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. Management has assessed that the adoption of amendments to theses standard will have no significant impact on the Bank's financial statements.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. Management has assessed that the adoption of amendments to these standards will have no significant impact on the Bank's financial statements.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (*continued)*

2.3. Standards issued by the IASB, but not translated and published by the Association of accountants, auditors and financial experts in Federation, have not yet entered into force and have not been adopted early (*continued*)

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. Management has assessed that the adoption of amendments to this standard will have no significant impact on the Bank's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Interest Income

Interest income / expense is recognized in the statement of profit or loss for the period that it belongs to using the method of effective interest rate. Effective interest rate is the rate that discounts estimated future cash flows (including all fees on items 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.

b) Fee and commission income and expenses

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.

c) Taxation

Income tax expense represents the sum of the current tax liability and deferred tax.

Current Income Tax

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

Deferred Income Tax

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

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

d) Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents include balances with the Central Bank of Bosnia and Herzegovina (the „CBBH“) and current accounts with other banks.

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

e) Financial Instruments

Financial assets and financial liabilities are recognized when the Bank becomes a contractual party in a contract related to a financial instrument.

Financial assets and liabilities are initially recognized at fair value. Transaction costs that are directly attributed to the acquisition of financial assets, or the occurrence of financial liability (other than financial assets and liabilities at fair value through profit and loss) are added, or deducted from the fair value of financial assets, or financial liabilities, at initial recognition.

Financial Assets

Transaction costs directly attributable to the acquisition of the financial assets and financial liabilities at fair value through profit and loss are recognized immediately in the income statement and other comprehensive income for the period.
Financial assets are recognized or derecognized at the trade date when the sale of assets is defined by the agreed delivery date of financial asset within the deadlines determined in accordance with the conventions on the market.

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

Measurement of the financial assets and liabilities

The Bank classifies all financial assets based on a business model for asset management and contractual terms of assets, measured by:

1. Valuation by the amortized cost method („AC“),
2. Valuation at fair through profit and loss („FVPL“), and
3. Valuation at fair value through other comprehensive income („FVOCI“).

The classification of financial instruments into certain category of accounting measurement depends on the business model in which an instrument is acquired, the characteristics of contractual cash flows, and the options of fair valuation provided by IFRS 9.

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

e) Financial instruments *(continued)*

Financial assets	Classification per IAS 39	New classification per IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Deposits at other institutions	Loans and receivables	Amortized cost
Placements with other banks	Loans and receivables	Amortized cost
Loans	Loans and receivables	Amortized cost
Debt securities	Financial assets available for sale	Fair value through other comprehensive income
Debt securities	Financial assets held to maturity	Amortized cost
Equity securities	Financial assets available for sale	Fair value through other comprehensive income
Equity securities	Financial assets at fair value through profit or loss	Fair value through profit or loss
Other financial assets	Loans and receivables	Amortized cost

Effective interest rate method

Effective interest rate method is the method of calculating the amortized cost of financial assets and the allocation of interest income over a specific period. The effective interest rate is the interest rate that discounts future cash flows (including all fees that form an integral part of effective interest rate, transaction cost and other premiums and rebates) through the expected lifetime of the financial asset, or where possible, a shorter period.

Financial instruments recognize income based on the effective interest rate.

Loans and receivables

Loans, deposits and other receivables with fixed or determinable payments that are not quoted in an active market, have been classified as "loans and receivables". They occur when the Bank gives money to the debtor without the intention of simultaneous sale of these receivables or sales in the near future.

The Bank measures loans, placed deposits and other receivables at amortized cost if the following conditions are met:

- A financial asset is held within a business model with the aim of holding it for collection of contractual cash flows

- The contractual terms of the financial asset give cash flows at specific points of time that are exclusively result of the principal and interest payments (SPPI) of the outstanding principal amount.

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

e) Financial Instruments *(continued)*

Business model assessment

The business model is determined at the level that reflects the way in which a group of financial assets is managed to achieve a particular business goal, such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model relates to the way in which financial assets are managed to generate cash flows. In other words, the business model determines whether cash flows will arise from the collection of contractual cash flows, sales of financial assets or both. Therefore, this assessment is not carried out based on scenarios that cannot reasonably be expected, such as the "worst-case scenario" or "stress case" scenario.

If the cash flows after initial recognition are realized differently than the Bank's original expectations, the Bank does not change the classification of the remaining financial assets in the business model, but takes into account this information when assessing newly created or newly purchased financial assets.

The steps in the classification of financial instruments are:

1. Determination whether it is a modification of financial instruments,
2. Determination of the nature of balance sheet item being acquired,
3. Determination of the type of individual financial instrument being acquired,
4. Determination of an instrument that contains significant credit risk at the moment of acquisition,
5. Determination of the business model for which a financial instrument is acquired („BM"),
6. Determination of contracted cash flows characteristics for a particular financial instrument that is being acquired („SPPI"),
7. Procedure for the reclassification of financial instruments.

SPPI test (solely payments of principal and interest on the principal amount outstanding)

The second step in the classification process is that the bank assesses funding contractual terms for identification whether they meet the SPPI test. The determination of the contracted cash flows characteristics for each financial instrument that is being acquired is carried out only for debt instruments, those that have not received the status of POCI assets.
This determination is carried out for the purpose of assessing whether the contracted terms for a particular item of financial assets represent cash flows which are only payments of principal and interest on the outstanding amount of principal on specified dates.

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

e) Financial Instruments *(continued)*

Contractual terms that introduce a minimal exposure to risks or volatility in the contractual cash flows that are unrelated to a basic loan agreement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

The Bank assesses the contractual terms according to the basic portfolio segments (long-term corporate loans, short-term corporate loans, retail loans, credit cards, current account overdrafts, debt securities and other financial assets).

All debt financial instruments meet the characteristics of the test. On the date of the assessment, as well as on the date of the report, the Bank does not have assets that fulfill the status of the POCI.

Financial assets measured at fair value through profit or loss

Financial assets are classified in this way if they are:

- purchased with the aim of selling in the near future; or
- a part of the identified portfolio of financial instruments that the Bank holds together, and which acts according to the short-term earnings pattern; or
- a derivative instrument that is not characterized as an effective hedging instrument.

Financial assets can be recognized as financial assets at fair value although not "intended for trading" if:

- Such a classification eliminates or significantly reduces the inconsistency of measurement and recognition that would otherwise arise; or
- the financial assets are part of a group of financial assets or liabilities whose performance is measured based on fair value, in accordance with documented risk management of the Bank or its investment strategy, and information on the internal grouping of assets on that basis; or
- is a part of a contract that contains one or more embedded derivatives.

Financial assets recognized as financial assets at fair value through profit or loss are presented at fair value with the gains and losses presented in the income statement.

Financial assets at amortized cost

Bond and treasury bills with fixed or determinable payments and fixed maturity, for which the Bank has intention and ability to hold them to maturity, are classified at amortized cost. They are recorded at their fair value using the effective interest rate method, reduced for impairment, with income recognized on the basis of effective income.

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

e) Financial Instruments *(continued)*

Financial assets measured at fair value through other comprehensive income

Certain stocks, government bonds and treasury bills are valued at fair value and recognized through other comprehensive income. Gains and losses arising from changes in fair value are recognized directly as equity, in other words the revalorization reserves with the exception of impairment losses, interest calculated using the effective interest rate method, and gains and losses on exchange differences on monetary assets, which are recognized directly as profit or loss. In the case of a write-off of the asset or when the asset has suffered impairment, the cumulative gain or loss previously recognized as a revalorization reserve is included in the income statement and other comprehensive income for the period.
Dividends on equity instruments classified as "fair value through other comprehensive income" are recognized as profit or loss when the Bank establishes the right to receive a dividend.

Impairment of financial assets

Financial assets, other than financial entities that are stated at fair value through the profit or loss, are valued with the aim to identify the impairment indicators at each reporting date. Financial assets had impairment where it is proven that because of one or more events that occurred after the initial recognition of financial assets, estimated future cash flows of the investment are changed.

Objective evidence of impairment may include:

- significant financial difficulties of the parties under the contract; or
- delay of failure to pay interest or principal; or
- when it becomes probable that the borrower will go bankrupt or through a financial reorganization.

Individually significant financial assets are assessed for impairment on an individual basis. The remaining financial assets are assessed on a group basis. Individually significant financial assets for which no impairment is recognized is included in basis for impairment assessment on a group basis. For group impairment assessment, financial assets are grouped on the basis of similar credit risk characteristics.

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

The carrying amount of financial assets at amortized cost is reduced by using the value adjustment account. When the receivables are uncollectible, it is written off through the value adjustment account. Subsequent collection of previously written off amounts are credited to value adjustment account. Changes in the carrying amount of the value adjustment account are recognized in the profit or loss and other comprehensive income.

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

e) Financial Instruments *(continued)*

With the exception of equity instruments measured at fair value through other comprehensive income, if, in the subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurred after the impairment recognition, the previously recognized impairment loss is corrected through the Income statement and other comprehensive income to the extent that it will not result in a carrying amount greater than the amortized cost would be if it was not recognized as impairment at the date when the impairment was recognized.

Termination of recognition of financial assets

The Bank ceases to recognize financial assets only when the contractual rights to cash flows from financial assets expire; or when transferring financial assets, and therefore all risks and rewards of ownership of the asset are transferred to another entity. If the Bank does not transfer and substantially retains all risks and returns from ownership, and keeps control over financial assets, the Bank continues to recognize financial assets.

f) 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 confirms a right to 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 issue costs.

Liabilities for contracted Financial guarantee

Liabilities for contracted financial guarantees are measured initially at their fair value 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 above.

Financial liabilities

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

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

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

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

Other financial liabilities

Other financial liabilities, including due to banks, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and interest expense over the relevant period. The effective interest rate is the rate that discounts exactly 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.

g) Tangible assets

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

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

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

Estimated depreciation and amortization rates were as follows:

	2019	2018
Buildings	1,3%	1,3%
Computer equipment	20%	20%
Vehicles and equipment	10%-15%	10%-20%

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

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

g) Tangible assets *(continued)*

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.

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The impairment losses, in this case, are treated as a revaluation decrease.

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

h) **Investment property**

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

Buildings	1,3%

i) Intangible assets

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

j) 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 of legal rates during the course of the year on the gross salary. The Bank pays those taxes and contributions in the favor of the institutions of the FBiH (on federal and canton levels).

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

j) Employee benefits *(continued)*

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

Retirement severance payments

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

k) Foreign currency translation

Transactions in currencies other than BAM are initially recorded at exchange rate on the date of transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rates on the reporting period date. Non-monetary items carried at fair value that and 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 at the reporting period date. Gains and losses arising on translation are included in the statement of profit or loss and other comprehensive income for the period.

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

31 December 2019.	1 EUR = 1.95583 BAM	1 USD = 1.747994 BAM
31 December 2018.	1 EUR = 1.95583 BAM	1 USD = 1.707552 BAM

l) Provisions

Provisions are recognized when the Bank has a present obligation as a result of a past event, if it is probable that the outflow of resources will be required to settle the obligation. The management board of the Banka determined the amount of provisions based on reliable estimate of expenses that will occur by settling the obligation.

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

lj) Equity and reserves

Share capital

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

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

lj) *Equity and reserves (continued)*

Regulatory reserves for credit losses

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

Regulatory reserves calculated in accordance with FBA regulations

For the purposes of assessing capital adequacy and recognizing reserves for credit losses from profit in equity and reserves, in accordance with local regulations and relevant FBA rules, the Bank also calculates provisions in accordance with those regulations. Assets classified in accordance with the FBA <decision on minimum of standards for credit risk management and asset classification of banks, is classified in relevant groups, depending on the past due days, the financial position of the borrower and collateral; and are provided for at prescribed rates.

The regulatory provisions include both specific and general provisions.

Investments revaluation reserve

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

Retained earnings

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

Dividends

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

Earnings per share

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

m) Leases

IFRS 16 defines a lease as a contract under which the lessor transfers to the lessee the right of use an asset (leased object) for an agreed period for a fee. For a contract to be considered a lease, it is necessary for the lessee to have the right to control the use the leased property, so that the lessor does not have the opportunity to determine the manner and purpose of using the property and that it is tangible property. This standard provides guidance to facilitate the identification of leases that differentiates them from service contracts.

The following are excluded from IFRS 16:

- Short-term leases (up to 12 months)

- Low value leases (small value leases are identified based on the value of the lease item itself - up to KM 10,000.00, not the rental cost).

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

m) Leases (*continued*)

From January 1, 2019 lessees are required to record the assets they lease as assets and liabilities in their books of account, with subsequent recognition of depreciation expense (cost model) and interest expense. On the first day of the lease, the lessee measures the lease liability at the present value of all future payments during the lease term. Payment is discounted by applying an incremental interest rate. The incremental rate is the rate of interest that the lessee would have to pay to borrow, within a similar timeframe and with similar guarantees, the funds necessary to purchase assets of the same value as assets with a right of use in the same economic environment.

Discounting determines the present value of all future lease payments (cash flows):

$$PV = \frac{FV}{(1 + i)n}$$

Where:

PV – present value

FV – future value

i – incremental interest rate

n – period of lease

On 1 January 2019, the Bank made a transition to IFRS 16 in accordance with a modified retrospective approach. Comparative information from the previous year have not been corrected.

The Bank has elected to use exemptions, proposed by the standard, for lease contracts for which the lease is terminated in 12 months from the date of initial application, as well as to lease contracts for which asset in question can be considered as a low value asset. The Bank has a contract to lease certain office equipment (personal computers, printers and photocopy machines) which are considered to be low value assets.

As a result of the Amendment to IFRS 16 on 1 January 2019, the following leasing contracts previously recognized as operating leases are now being qualified as a lease defined by a new standard: real estate, technical equipment, and vehicles.

In the first implementation of IFRS 16, the right of use lease assets is generally measured in the amount of the lease obligation, using the average incremental interest rate of 4%. The first implementation resulted in the record of liabilities based on lease in the amount of BAM 790 thousand, and accordingly, the right of use assets in the amount of BAM 790 thousand, as stated in the statement of financial position on 1 January 2019.

4. KEY ACCOUNTING ESTIMATIONS

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

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

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

Useful lives of property and equipment, and investment property

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

Impairment of 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-sheet exposure

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

The methodology for measuring the impairment of loans and other financial assets, in accordance with the requirements of IFRS 9, is applied in the preparation of financial statements as of 1 January 2018. The introduction of IFRS 9 did not invalidate the previous regulatory provisions, and remained subject to the obligation to apply the rules and criteria for asset classification, the formation and maintenance of reserves for credit losses, or the maintenance of adequate internal reserves for credit losses records in accordance with the Decision on minimum standards for credit risk management and asset classification of banks.

In general, impairment losses are recognized in relation to the carrying amounts of corporate and retail loans, and as provisions for liabilities and costs arising from off-balance sheet exposure to clients, mainly in terms of unused frame loans and guarantees.

4. KEY ACCOUNTING ESTIMATIONS *(continued)*

Impairment of loans and receivables (continued)

Impairment allowances are also considered for credit exposure to banks and other assets that are not measured at fair value through profit or loss, where the primary risk of impairment is not credit risk.

The Bank first assesses whether there is objective evidence of impairment individually for assets that are individually significant, and collectively for assets that are not individually significant.

In assessing collective impairment, the following guidelines are used:

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

Impairment allowance in nondefault corporate loans portfolio is calculated on collective basis, and the segment of this loan portfolio with status default implies calculation of the impairment allowance on an individual basis.

Retail loans implies collective assessment of impairment allowance, with the exception of the above significant threshold exposures defined by the Methodology that fulfill the default status.

Corporate loan portfolio is segmented in groups of short-term and long-term loans, and accordingly the calculation of PD and CR paraments for each of the stated categories has been performed

Retail portfolio is segmented in following groups; retail loans[1], credit cards, and current accounts overdrafts.

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

Fair values of financial instruments

As described in Note 32, the Management uses their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market participants are applied.

Financial instruments, other than financial assets at amortized costs, are valued using the discounted cash flow analysis which is based on assumptions, where possible, with observable market prices and rates. Considering the fact that there is no active secondary market for the securities portfolio, the Bank decided to use the discounted cash flow method. The discount is based on the weighted average interest rate on active securities with similar characteristic (maturity, issuer).

[1] For the loan portfolio approved untile june 2012, ECL is 100% of exposure, since the recovery of these loans is not possible.

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

5. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

	2019	2018
Interest on corporate loans	5,077	6,080
Interest on retail loans	3,663	2,728
Interest on financial assets through other comprehensive income	2,025	1,850
Interest on placements with other banks	5	-
	10,770	**10,658**

6. INTEREST EXPENSE CALCULATED USING THE EFFECTIVE INTEREST METHOD

	2019	2018
Interest on assets exceeding the obligatory reserve with CBBH	1,164	660
Interest on corporate deposits	796	1,015
Interest on retail deposits	531	544
Negative interest on placements with other banks	47	5
Interest expense on lease liabilities	28	-
Interest on borrowings	21	189
Negative interest on securities	12	5
	2,599	**2,415**

7. FEE AND COMMISSION INCOME

	2019	2018
Payment transactions fees	2,228	2,056
Fees from off-balance sheet transactions	231	229
Fees from conversion transactions	177	223
Other fee and commission income	148	141
	2,784	**2,649**

8. FEE AND COMMISSION EXPENSE

	2019	2018
E-banking and SWIFT	684	613
Domestic payment transactions	368	353
Guarantees	14	78
	1,066	**1,044**

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

9. NET GAINS ON THE IMPAIRMENT OF FINANCIAL ASSETS

	2019	2018
Decrease / (Increase) in impairment allowance for loans to clients (Note 19)	967	(152)
Decrease in provisions for commitments and contingencies, net (Note 26)	241	203
Decrease / (Increase) in impairment allowance of financial assets through other comprehensive income (Note 18)	(816)	-
(Release of)/additional impairment allowance for cash assets (Note 15)	(16)	25
	375	**76**

10. OTHER OPERATING INCOME

	2019	2018
Rent income	334	311
Dividends	365	412
Other	111	112
Decrease / (Increase) in provisions for employee benefits, net (Note 26)	(143)	24
Decrease / (Increase) in provisions for legal proceedings, net (Note 26)	(55)	70
Gains on sale of tangible assets	649	104
Collected written-off receivables	727	275
	1,987	**1,308**

11. EMPLOYEES' EXPENSES

	2019	2018
Net salaries	3,149	2,954
Taxes and contributions	2,310	2,154
Other	922	842
	6,381	**5,950**

The average number of personnel employed as of 31 December 2019 and 31 December 2018 was 199 and 196, respectively.

12. OTHER EXPENSES

	2019	2018
Services	1,432	1,363
Maintenance	735	720
Insurance	558	476
Advertising and entertainment	380	375
Telecommunications	251	279
Energy	243	254
Rent	1	217
Other taxes and contributions	207	191
Material expenses	175	163
Travel expenses	12	10
Other expenses	249	254
Additional impairment allowance for other assets (Note 20)	-	51
	4,244	**4,353**

13. INCOME TAX

	2019	2018
Profit before income tax	**580**	**533**
Income tax expense at 10%	58	53
Effects of non-deductible expenses/revenues	199	(53)
Deferred tax expense	89	-
Current and deferred income tax expense	**346**	**-**
Effective income tax rate	**60%**	**-**

In 2019, the Bank included capital gain on the basis of formed reserves for credit losses in the ordinary share capital of the Bank and calculated income tax in the current year.

14. EARNINGS PER SHARE

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

	2019	2018
Profit attributable to shareholders (BAM '000)	234	533
Weighted average number of ordinary shares for the year	2,204,921	2,240,921
Basic earnings per share (BAM)	**0.11**	**0.24**

Diluted earnings per share are not calculated since the Bank has not issued dilutive equity instruments.

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

15. CASH AND ACCOUNTS IN BANKS

	31 December 2019	**31 December 2018**
Account with the CBBH	212,567	355,561
Correspondent accounts with other banks	12,720	13,027
Cash at the Bank's treasury	11,715	6,803
Cash at ATMs	1,905	2,072
	238,906	**377,463**
Less: Impairment allowance (Note 9)	(57)	(41)
	238,846	**377,422**

Changes in impairment allowance can be presented as follows:

	2019	**2018**
Balance at the beginning of the year	**41**	**66**
Net (decrease)/increase in impairment allowance (Note 9)	16	(25)
Balance at the end of the year	**57**	**41**

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

	31 December 2019	**31 December 2018**
Obligatory reserve with the CBBH	80,129	70,070
	80,129	**70,070**

Changes in impairment allowance can be presented as follows:

	2019	**2018**
Balance at the beginning of the year	**3**	**-**
Net (decrease)/increase in impairment allowance (Note 9)	-	3
Balance at the end of the year	**3**	**3**

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

In 2019 interest rate on obligatory reserve is from -0,2% till -0,5% while in 2018 the rate was -0,2%.

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

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	31 December 2018
JUBMES banka d.d. Belgrade, Serbia	372	553
	372	**553**

Movements in the fair value of shares were as follows:

	2019	2018
Balance at the beginning of the year	**553**	**362**
Fair value adjustments gain/(loss)	(182)	191
Balance at the end of the year	**372**	**553**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019	31 December 2018
Debt securities:		
Ministry of finance of FBiH	191,789	98,257
Sarajevo Canton	692	501
JP Autoceste FBiH	3,221	3,201
	195,702	**101,959**
Accrued interest	308	160
	196,010	**102,119**
Equity securities:		
Bosna reosiguranje d.d. Sarajevo	427	427
Sarajevo-Osiguranje d.d. Sarajevo	32	15
S.W.I.F.T. Belgium	21	10
	480	**452**
	196,490	**102,571**

Movements in the value of these assets were as follows:

	2019	2018
Balance at the beginning of the year	**102,571**	**97,504**
Purchase during the year	92,612	26,210
Interest (Note 5)	2,025	1,850
Unrealized gain from fair value adjustments (through Other comprehensive income)	6,342	(1,029)
Collected principal and interest	(6,244)	(21,585)
Increase in impairment allowance (Note 9)	(816)	-
Balance at the end of the year	**196,490**	**102,571**

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

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(continued)*

During 2019, the Bank has purchased:

- 190 bonds from the Kanton Sarajevo with nominal value of BAM 190 thousand; annual interest rate of 2,60%, and maturity date as at 05 March 2022;

- 10,000 bonds from the Ministry of Finance of FBiH with nominal value of BAM 10 million; annual interest rate of 0,75%, and maturity date as at 20 May 2026;

- 30,000 bonds from the Ministry of Finance of FBiH with nominal value of BAM 30 million; annual interest rate of 0,80%, and maturity date as at 10 July 2029;

- 10,000 bonds from the Ministry of Finance of FBiH with nominal value of BAM 30 million; annual interest rate of 0,30%, and maturity date as at 16 October 2026;

- 300 bonds from the Ministry of Finance of FBiH with nominal value of BAM 300 thousand; annual interest rate of 0,75%, and maturity date as at 29 May 2026;

- 24,000 bonds from the Ministry of Finance of FBiH with nominal value of BAM 24 million; annual interest rate of 0,05%, and maturity date as at 04 December 2022;

- 1,830 treasury notes from the Ministry of Finance of FBiH with nominal value of BAM 18.3 million; annual interest on treasury notes amount to -0,195%, maturity date as at 23 July 2020;

19. LOANS TO CUSTOMERS AND RECEIVABLES

	31 December 2019	**31 December 2018**
Long-term loans		
Corporate	99,488	87,113
Retail	114,350	71,266
Less: Current portion of long-term loans	(34,430)	(40,646)
	179,408	*117,733*
Short-term loans		
Corporate	57,167	50,194
Retail	3,231	3,107
Add: Current portion of long-term loans	34,430	40,646
	94,828	*93,947*
Total loans before allowance for impairment losses	***274,236***	***211,680***
Less: Impairment allowance based on individual assessment	(10,311)	(10,407)
Less: Impairment allowance based on group assessment	(7,526)	(8,397)
	256,399	**192,876**

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

19. LOANS TO CUSTOMERS *(continued)*

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

	2019	2018
Balance at the beginning of the year	**18,804**	**18,956**
Change in impairment allowance, net (Note 9)	(967)	(152)
Balance at the end of the year	**17,837**	**18,804**

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

	31 December 2019	31 December 2019
Individuals	117,570	74,373
Mining and industry	59,311	57,175
Trade	43,233	27,365
Construction	18,422	16,917
Administration and other public services	15,671	16,495
Financial services	4,636	2,818
Restaurants and tourism	4,441	3,813
Real estates	3,440	5,888
Agriculture	3,376	414
Transportation and communications	2,909	5,173
Energy	43	42
Other	1,184	1,207
	274,236	**211,680**

The amounts presented in table above include loan principal increased by interest receivables and decreased for prepaid loan fees as of 31 December 2019, and 31 December 2018.

Weighted average interest rate can be presented as follows:

	2019	2018
Corporate	2.86%	3.07%
Retail	3.97%	4.66%

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

20. OTHER ASSETS AND RECEIVABLES

	31 December 2019	31 December 2018
Receivables from the Government	3,298	6,558
Restricted deposit	910	955
Fees receivables	136	254
Income tax receivables	300	561
Prepaid expenses	164	134
Inventories	11	15
Repossessed assets (collateral)	-	48
Other receivables	784	820
	5,601	***9,345***
Less: Impairment allowance	(802)	(899)
	4,799	**8,446**

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

	2019	2018
Balance at the beginning of the year	**899**	**950**
Increase/(release) of impairment losses due to write-off of receivables with no effect on P&L	(97)	(51)
Balance at the end of the year	**802**	**899**

Receivables from the Government are related to the outstanding portion of the contractual price for sale of the building to the Council of Ministers of Bosnia and Herzegovina, represented by the Service for Common Affairs of the Institutions of Bosnia and Herzegovina, and collection is expected in two lump-sum annual instalments.

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

21. TANGIBLE AND INTANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

	Land and buildings	Furniture and equipment	Vehicles	Computer equipment	Leasehold improvements	Intangible assets	Investment in progress	Right-of-use assets (IFRS 16)	Total
COST									
At 31 December 2017	**8,369**	**1,658**	**399**	**819**	**277**	**737**	**14,955**	**-**	**27,205**
Additions	-	-	-	-	-	-	1,381	-	1,381
Impairment (Note 12)	-	-	-	-	-	-	-	-	
Transfer to investment property	-	-	-	-	-	-	(3,558)	-	(3,558)
Transfer (from)/to	11,460	955	44	249	-	70	(12,778)	-	-
Write-offs/sale	-	-	-	(3)	-	-	-	-	(3)
At 31 December 2018	**19,829**	**2,604**	**443**	**1,065**	**277**	**807**	**-**	**-**	**25,035**
Effect on adoption of IFRS 16	**-**	**-**	**-**	**-**	**-**	**-**	**-**	790	790
Additions	-	-	-	-	-	-	799	-	799
Transfer (from)/to	17	137	87	75	52	115	(483)	-	-
Transfer to investment property	-	-	-	-	-	-	-	-	-
Impairment (Note 12)	-	-	-	-	-	-	-	-	-
Write-offs / sale	-	(11)	-	(44)	-	-	-		(55)
At 31 December 2019	**19,846**	**2,730**	**530**	**1,096**	**329**	**922**	**316**	**790**	**26,559**
ACCUMULATED DEPRECIATION									
At 31 December 2017	**3,931**	**943**	**226**	**590**	**34**	**286**	**-**	**-**	**6,010**
Depreciation	204	241	60	148	65	4	-	-	722
Impairment (Note 12)	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-	-
At 31 December 2018	**4,135**	**1,184**	**286**	**738**	**99**	**290**	**-**	**-**	**6,732**
Depreciation	226	281	60	124	14	75	-	183	963
Impairment (Note 12)	-	-	-	-	-	-	-	-	-
Write-offs / sale	-	(11)	-	(44)	-	-	-	-	(55)
At 31 December 2019	**4,136**	**1,194**	**286**	**738**	**99**	**290**	**-**	**183**	**6,743**
NET BOOK VALUE									
At 31 December 2019	**15,485**	**1,276**	**184**	**278**	**216**	**557**	**316**	**607**	**18,919**
At 31 December 2018	**15,694**	**1,420**	**157**	**327**	**178**	**517**	**-**	**-**	**18,293**

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

22. INVESTMENT PROPERTY

	Buildings
COST	
At 31 December 2017	**1,573**
Transfer (Note 21)	3,558
At 31 December 2018	**5,131**
Transfer	24
At 31 December 2019	**5,155**
ACCUMULATED DEPRECIATION	
At 31 December **2017**	**417**
Depreciation	24
Impairment	34
At 31 December 2018	**475**
Depreciation	67
As at 31 December 2019	**542**
NET BOOK VALUE	
As at 31 December 2019	**4,612**
As at 31 December 2018	**4,656**

Fair value measurement of investment properties

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

	31 December 2019	31 December 2018
Buildings	1,262	1,262
	1,262	**1,262**

Fair value measurement of Bank's investment properties as at 31 December 2017 was performed by Muharem Karamujić, independent appraiser not related to the Bank, who has appropriate qualifications and experience in estimating fair value of assets in relevant locations. Fair value of investment properties was determined using an income method-general capitalization method, and comparison method was used for verification. There was neither change in valuation techniques during the year, nor new appraisals were made, including investment property which was activated during December 2018 (net book value as at 31 December 2019 amounts to BAM 3,474 thousand) which refers to rented out space in Bank's headquarters.

The fair value measurement of the Bank's investment properties as at 31 December 2017 were performed by Hukić Ediba, independent appraiser not related to the Bank, who has appropriate qualifications and experience in estimating the fair value of the assets at the relevant locations. The fair value of investment properties was determined using a market approach that reflects the current market value, taking into account the construction value of the building and other factors (such as location, usability, quality and other factors). There were no changes in valuation techniques during the year.

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

23. LIABILITIES TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
Demand deposits:		
In domestic currency	1,348	2,441
In foreign currencies	5	2
	1,353	**2,443**

24. LIABILITIES TO CUSTOMERS

	31 December 2019	31 December 2018
Demand deposits:		
Corporate:		
In domestic currency	234,863	462,828
In foreign currencies	6,998	13,974
	241,861	476,802
Retail:		
In domestic currency	40,834	35,361
In foreign currencies	12,824	12,597
	53,658	47,958
Special purpose deposits:		
In domestic currency	283,109	98,686
In foreign currencies	226	223
	283,335	98,909
	578,854	***623,669***
Term deposits:		
Corporate:		
In domestic currency	60,954	9,088
In foreign currencies	5,867	5,867
	66,821	14,955
Retail:		
In domestic currency	15,103	15,161
In foreign currencies	24,913	25,183
	40,016	40,344
Special purpose deposits:		
In domestic currency	14,292	17,957
In foreign currencies	446	508
	14,741	18,465
	121,579	***73,764***
	700,433	**697,433**

Interest rates on demand deposits were from -1% till 0,01% (2018: 0,00%), and interest rates on term deposits in 2019 were 0,81% (2018: 0,00%).

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

25. SUBORDINATED DEBT

On 30 March 2018 the FBiH Government, represented by Ministry of Finance of FBiH, and the Bank signed the Loan Contract under subordinated conditions in the amount of BAM 10 million. On 21 March 2019 the FBiH Government, represented by Ministry of Finance of FBiH, and the Bank signed the Loan Contract under subordinated conditions in the amount of BAM 15 million. The maturity of the loans, according to the Contracts, are 20 years from the day of amounts received. Loan repayments are bullet. Interest rate is fixed at 0,10% p.a.

26. PROVISIONS

	31 December 2019	31 December 2018
Provisions for employees	544	401
Provisions for court proceedings	125	70
Provisions for commitments and contingencies	421	661
	1,089	**1,132**

Movements in provisions were as follows:

	Employee benefits	Commitments and contingencies	Court proceedings	Total
As at 31 December 2017	**432**	**864**	**-**	**1,296**
Additional provisions (Note 10)	24	2,074	70	2,371
Release due to re-measurement (Note 9)	-	(2,277)	-	(2,277)
Releases due to payments (Note 10)	(55)	-	-	(55)
As at 31 December 2018	**401**	**661**	**70**	**1,132**
Additional provisions (Note 9 and 10)	178	1,316	55	1,548
Release due to re-measurement (Note 9)	-	(1,556)	-	(1,556)
Releases due to payments (Note 10)	(35)	-	-	(35)
As at 31 December 2019	**544**	**421**	**125**	**1,089**

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 primary include guarantees, letters of credit and undrawn loan commitments.

	31 December 2019	31 December 2018
Contingencies		
Frame loan agreements and card limits	13,587	17,381
Commitments		
Performance guarantees	10,142	9,902
Payment guarantees	3,565	5,605
	27,294	**32,888**

27. OTHER LIABILITIES

	31 December 2019	**31 December 2018**
Liabilities to clients for paid installments	1,209	936
Lease liabilities	607	-
Deferred tax liabilities	89	-
VAT payables	16	15
Liabilities toward suppliers	235	196
Accrued expenses	209	187
Liabilities for unallocated proceeds	563	398
Deferred income	50	66
Other taxes and contributions	4	28
Managed funds (Note 30)	12	8
Other liabilities	818	557
	3,810	**2,391**

28. SHARE CAPITAL

The shareholding structure as of 31 December 2019

Shareholders	**Number of shares**	**Amount '000 BAM**	**%**
Ministry of finance of the FBiH	2,058,948	41,179	93.38
ZIF BIG INVESTICIONA GRUPA d.d. Sarajevo	36,864	737	1.67
BOSNA RE d.d. SARAJEVO	10,529	211	0.48
Other shareholders	98,580	1,971	4.47
Total	**2,204,921**	**44,098**	**100**

Share capital is made up of 2,204,921 ordinary shares at nominal value of 20 BAM.

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

29. RELATED-PARTY TRANSACTIONS

A number of banking transactions are entered into with related parties in the normal course of business.

	31 December 2019	**31 December 2018**
Receivables:		
Shareholders	11,233	1,227
Management Board members and key functions	788	467
	12,021	***1,694***
Investments:		
Shareholders	188,204	100,963
	188,204	***100,963***
Payables:		
Shareholders	362,793	161,206
Supervisory Board members	145	99
Management Board members and key functions	274	183
	363,212	***161,488***
Off-balance sheet:		
Shareholders	4,084	4,089
Management Board members and key functions	16	16
	4,100	***4,105***

	2019	**2018**
Income:		
Shareholders	2,459	2,590
Management Board members and key functions	38	20
	2,497	***2,610***
Expenses:		
Shareholders	357	546
Supervisory Board members	-	-
	357	***546***

Management remunerations

were as follows:

	2019	**2018**
– gross salaries	312	311
– other benefits	28	10
Fees to Supervisory Board members (gross)	81	85
	421	**406**

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

30. 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**
Placements		
Retail	4	4
Corporate	12,778	8,036
	12,782	***8,040***
Financing		
Governmental organizations	12,710	7,964
Retail	9	9
Corporate	75	75
	12,794	***8,048***
Net liability (Note 27)	**12**	**8**

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

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

31. 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 be continued 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	726,755	709,876
Equity	68,881	61,488
Debt to capital ratio %	**10,55**	**8.66**

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, by considering the guidelines developed by FBA for supervisory purposes. The required information are submitted to the FBA on a quarterly basis.

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

By the FBA decision, the Bank's regulatory capital is divided into two tiers:

- Tier 1 capital or Core Capital: BAM 57,2 million (2018: ordinary shares and retained earnings indefinitely allocated by the Bank's shareholders for coverage future net losses (if any), decreased by intangible assets); and
- Tier 2 capital or Supplementary Capital: BAM 11,4 million (2018: general regulatory reserves up to 1,25% of the amount calculated by risk-weighted credit risk and subordinated debt, increased/decreased by revaluation reserves.

The risk-weighted assets reflect on an estimate of credit, market, and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

As of 31 December 2019, and 2018 the Bank complied with all the externally imposed capital requirements to which it was subjected. As of 31 December 2019, the adequacy of the Bank's capital amounts to 33,7% (31 December 2018: 30,5%).

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

31. RISK MANAGEMENT *(continued)*

a) Capital risk management (*continued*)

From 1 January 2020, the Bank is obliged to apply the Decision of the FBA on Credit Risk Management and Determination of Expected Credit Losses and the Guidelines for Classification and Valuation of Financial Assets. The Bank modified the methodology for determining expected credit losses in accordance with the Decision and calculated the preliminary unaudited effects as of 1 January 2020 in the amount of KM 1,349 thousand reflected in equity. This amount will reduce the total retained earnings, which after the effects of application will amount to BAM 17,304 thousand. The capital adequacy ratio will decrease from 33.7% to 33.1% (regulatory minimum is 14.5%), while the leverage will decrease from 8.4% to 8.2% (regulatory minimum is 6%).

	31 December 2019	31 December 2018
Core capital – Tier 1 capital		
Ordinary shares	44,098	44,098
Retained earnings	18,419	14,539
Less: Intangible assets	(494)	(456)
Total Core Capital	**62,023**	**58,181**
Supplementary capital - Tier 2 capital		
General regulatory reserves according to FBA regulations	2,782	2,183
Subordinated debt	23,435	10,000
Revaluation reserves	6,125	(1,029)
Total Supplementary Capital	**32,346**	**10,321**
Decreases of capital		
Missing regulatory reserves	(3,500)	(833)
Net capital	**90,869**	**68,502**
Risk-weighted assets	248,420	204,156
Weighted operating risk (unaudited)	20,838	20,812
Total weighted risks	**269,258**	**224,968**
Capital adequacy (%)	**33,75%**	**30.45%**

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

31. RISK MANAGEMENT *(continued)*

b) Financial risk management objectives

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

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 *Foreign currency risk and Interest rate risk*). Market risk exposures are analyzed by sensitivity analysis. There has been no change to the Bank's exposure to market risks or the way it manages and measures the risk.

Foreign currency risk

The Bank performs certain transactions denominated in foreign currency. There is an exposure to foreign currency exchange rates.

The Bank's carrying amount of assets and liabilities in foreign currency at the reporting date are as follows:

	BAM	EUR	USD	Other currencies	Total
As of 31 December 2019					
ASSETS					
Cash and cash equivalents	220,045	14,471	1,013	2,325	238,854
Obligatory reserves with the CBBH	80,125	-	-	-	80,125
Loans and advances to clients, net	111,572	144,827	-	-	256,399
Financial assets at fair value through profit or loss	370	-	-	-	370
Financial assets at fair value through other comprehensive income	187,487	9,190	-	-	196,677
Other receivables	3,265	-	-	-	3,265
Total	**602,864**	**169,488**	**1,829**	**2,325**	**776,506**
LIABILITIES					
Liabilities to other banks and other financial institutions	1,348	5	-	-	1,353
Liabilities to customers	568,805	127,831	1,800	1,965	700,402
Subordinated debt		25,000			25,000
Total	**580,153**	**152,836**	**1,800**	**1,966**	**726,755**
As of 31 December 2018					
Total Monetary assets	**613,600**	**132,493**	**1,918**	**1,972**	**749,983**
Total Monetary liabilities	**590,754**	**115,641**	**1,860**	**1,621**	**709,876**

31. RISK MANAGEMENT *(continued)*

Foreign currency risk (*continued)*

Foreign currency sensitivity analysis

The Bank is mainly exposed to EUR and USD. Since Convertible Mark (BAM) 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 BAM against USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. 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 BAM strengthens 10% against USD. For a 10% weakening of BAM against USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Impact	
	2019	**2019**
Profit / (loss)	3	6

Interest rate risk management

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

The Bank’s exposures to the interest rates on financial assets and financial liabilities is presented in detail in the liquidity risk management section of this note (see point i).

c) Credit quality of financial assets

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 operating 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. Exposure to loans is controlled by customer limits that are continuously reviewed by the Risk Management Department (at the level of individual counterparty according to legal and regulatory constraints). Namely, a quarterly review is provided by the Credit Risk Management Committee.

Risk managements control function, on regular, basis, monitors the compliance of the Bank's exposure to the FBA restrictions set by the law and subordinated acts.

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

The process of impairment allowance measurement (ECL) involves the following steps:

1. segmentation of portfolios into homogeneous groups,
2. classification of portfolio into the stages (stages 1, 2 i 3),
3. determination of impairment assessment model (collective or individual).

Retail portfolio is segmented in homogeneous groups as follows:

- Retail loans,
- Retail loans 100% covered by deposit,
- Credit cards,
- Overdrafts on current accounts and
- Loans on which, due to inability to recover, impairment is determined at the level of exposure.

Corporate credit portfolio exposure is segmented in following homogenous product groups:

- Long-term (long-term loans), and
- Short-term (short-term loans, revolving loans, business cards).

Credit quality stages (client stage)

With the first application of IFRS 9, all financial assets were allocated to credit quality stages.

All financial instruments that impairment allowance is conducted for in accordance with the Methodology are allocated in the Stage 1 if they have low credit risk or have not faced deterioration in the credit risk in relation to initial recognition.

If the credit risk has increased significantly, but there is no objective evidence of impairment allowance, assets are allocated in Stage 2.

Assets that meet the criteria of objective impairment allowance (default status) are classified to Stage 3.

The Bank will use, as evidence of a decrease in quality compared to the moment of initial recognition (transition from Stage 1 to Stage 2), the following:

- Delay by material counter (Basel II) more than 30 days on the day of calculation,
- classification into the B category in accordance to the Decision on minimum standards for credit risk and assets classifications of banks,
- restructuring of the exposure related to the increase in credit risk,
- the client is on the watch list due to certain qualitative factors.

Evidence of the decrease in quality can be retrieved only id there are reasonable and available information indicating that there is no significant increase in credit quality.

Evaluation method implies collective or individual impairment assessment.

All exposures that are individually/independently significant are assessed individually and are classified in Stage 3 (status default).

Individually significant exposure is exposure that exceeds the following significance thresholds:

- retail exposure: BAM 25,000.00
- corporate exposure: BAM 0.00
- exposure to central government, regional government, and institutions: BAM 0.00.

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

The Bank determines the default status on the client level, i.e. borrower for all exposures. During the individual impairment allowance assessment, each contract classified as individually significant is analyzed so that the existence of objective evidence of impairment could be determined.

The transition from Stage 3 to Stage 1 is possible, but only after the defined period for the Stage 2 has passed, in which the instrument has shown decrease in credit risk, so that transition to Stage 1 is possible.

Expected Credit Loss Calculation ("ECL")

Impairment allowance ECL is calculated by applying PD, CR and LGD risk parameters to exposure. (EAD – exposure at default).

The PD parameter at the level of individual exposure, can be interpreted as the probability that certain transaction or client will, within a given time period, fulfil the definition of the default status in, in other words, the loss event will be identified at individual level. Hence, for the transaction/client already in default status, PD rate is assumed to be equal to 1.

The CR parameter, as a part of the LGD parameter, is the recovery rate and provides information on the part of the transaction/client that were in default status and went out of it in a regular way (without collection from collateral) in a given time period of t months, where it is a time horizon of the CR parameter. At the time, expression 1-CR represents a part of the exposure that meets the default status and will not be collected in a regular way over a given time period.

The LGD rates include the expected return from the following:

- deposit cash flows,
- cash flows from collaterals/real estates (estimated realizable value), limited to the amount of exposure with assumption of realization over the period defined by the ATR parameter, reduced to the present value of recovery
- cash flows that are not related to collaterals, and result in leaving the default status (modeled by CR parameter),

The LGD rate for the Stage 1 includes all the above mentioned cash flows, and for Stage 2 it only includes only those modeled by CR parameter.

Credit risk - Stage *1*

The calculation of the impairment on a group basis for Stage 1 is performed using the following formula:

ECL=PD * LGD * EAD

Credit risk - Stage *2*

For loans classified in Stage 2, the impairment allowance is calculated according to the principle of expected lifetime loss (lifetime PD).

ECL= ∑ **PD t 1** t * LGD* EADt * Dt
t1 – accounting period,
tn – accounting period increased for n years,
PDt- marginal PD rate for t period,
LGD – expected loss rate in case a client receives default status,

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Credit risk - Stage *3*

The calculation of impairment value on collective basis for Stage 3 is done using the following formula:

ECL=PD * LGD * EAD

The value of PD parameter is 100%.

The individual basis for Stage 3 implies the analysis of the expected future cash flows after the observed placement and the calculation of their present value.

The following formula is used for the impairment allowance: ECL = $\boldsymbol{EAD} - \sum \boldsymbol{CFi}/(\mathbf{1}+\boldsymbol{EIR})\ \boldsymbol{ti}$

Given that these are exposures in default status, it entails that the Bank has already initiated adequate legal actions or will do so in the shortest possible period.

The expected cash flows can be as follows:

- client return to the status of proper repayment without the initiation of legal actions (i.e. client healing)
- restructuring
- third party payment – e.g. guarantees, insurers etc.
- complete or partial repayment by the client after the introduction of legal actions
- collateral realization
- bankruptcy estate distribution upon the termination of the bankruptcy procedure

Impairment allowance for central governments, regional governments and institutions are calculated using the formula PD*LGD*EAD.

The value adjustment of PD and LGD parameters is performed at least once a year and is based on available research.

For the assets in domestic banks PD is reduced to the monthly level in accordance with the maturity, and the ability to get the information about possible adverse developments in the shortest possible period.

For the assets in foreign banks, the values of PD parameter are used on the annual level. For exposures to the state, entities, state institutions, and/or state-owned companies, the value adjustment is determined on the basis of the value of the PD for the rating B, (Standard & Poors –S&P) and the indicated LGD rates.

From 1 January 2020, the Bank is obliged to apply the Decision of the FBAon Credit Risk Management and Determination of Expected Credit Losses and the Guidelines for Classification and Valuation of Financial Assets. The Bank modified the methodology for determining expected credit losses in accordance with the Decision and calculated the preliminary unaudited effects as of 1 January 2020 in the amount of KM 1,349 thousand reflected in equity. The effects are calculated for each individual exposure of the loan portfolio. For other assets, the effects are reported on exposures where the application of this Decision entailed the formation of a higher level of expected credit losses.

On the day of application of the Decision on Credit Risk Management and Determination of Expected Credit Losses, the Decision on Minimum Standards for Credit Risk Management and Classification of Banks' Assets governing the calculation of reserves for credit losses shall cease to apply.

Except for the aforementioned table, carrying amount of the financial assets presented in financial statements, decreased by impairment losses, presents the maximum exposure of the Bank to credit risk without taking into account the value of collected collateral.

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

TOTAL EXPOSURE TO CREDIT RISK

	31 December 2019		31 December 2018	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**795,189**	**777,034**	**771,682**	**751,935**
Cash and balances with banks	238,906	238,846	377,463	377,422
Obligatory reserve with the Central Bank	80,135	80,129	70,070	70,067
Financial assets at fair value through profit or loss	372	372	553	553
Financial assets at fair value through OCI	196,490	196,490	102,571	102,571
Loans and receivables	273,685	256,399	211,680	192,876
Other assets and liabilities	5,601	4,799	9,345	8,446
II. Off-balance sheet items	**27,293**	**26,902**	**32,888**	**32,227**
Payment guarantee	3,565	3,536	5,605	5,561
Performance guarantee	10,142	10,065	9,902	9,824
Irrevocable obligations	13,587	13,301	17,381	16,842
Other	-	-	-	-
Total (I+II)	**822,482**	**803,936**	**804,570**	**784,161**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Credit exposure and collateral

	Credit risk exposure		
	Net exposure	**Undrawn loans / Guarantees**	**Fair value of collateral**
At 31 December 2019			
Cash and cash equivalents	238,846	-	-
Obligatory reserve with the CBBH	80,129	-	-
Financial assets at fair value through profit or loss	372	-	-
Financial assets at fair value through OCI	194,490	-	-
Loans to clients, net	256,399	27,293	438,085
Other receivables	4,799	-	-
	777,034	**27,293**	**438,085**
At 31 December 2018			
Cash and cash equivalents	377,422	-	-
Obligatory reserve with the CBBH	70,070	-	-
Loans to clients, net	192,876	32,888	365,978
Financial assets at fair value through profit or loss	553	-	-
Financial assets at fair value through OCI	102,571	-	-
Other receivables	6,491	-	-
	749,983	**32,888**	**365,978**

Fair value of the collateral

	31 December 2019	**31 December 2018**
Real estates	406,194	328,530
Movable assets	19,884	21,519
Deposits	12,006	15,929
	438,085	**365,978**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Arrears

31 December 2019	**Gross loan portfolio**	**Not due**	**Up to 30 days**	**31 – 90 days**
Corporate	139,149	133,716	5,329	104
Retail	113,643	112,993	618	32
Total	**252,793**	**246,710**	**5,947**	**136**
31 December 2018				
Corporate	115,115	113,195	1,920	-
Retail	70,438	69,959	436	43
Total	**185,553**	**183,154**	**2,356**	**43**

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

LOANS AND RECEIVABLES FROM COMMITTEES, BANKS AND OTHER FINANCIAL ORGANIZATIONS
In 000 BAM

31 December 2019	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total Impairment allowance	Net
Housing loans	70,533	598	52	71,183	544	40	52	637	70,546
Consumer loans and credit cards	41,931	581	3,094	45,606	462	18	2,866	3,346	42,260
Total retail	**112,465**	**1,179**	**3,146**	**116,789**	**1,007**	**58**	**2,918**	**3,983**	**112,806**
Large companies	87,933	7,764	4,649	100,346	2,188	341	3,728	6,257	94,089
Medium companies	28,356	1,788	3,235	33,379	566	103	2,281	2,950	30,429
Small companies	11,724	1,571	10,426	23,722	224	120	4,302	4,647	19,075
Total corporate	**128,013**	**11,124**	**18,310**	**157,447**	**2,979**	**564**	**10,311**	**13,854**	**143,593**
Total	**240,477**	**12,302**	**21,456**	**274,236**	**3,985**	**623**	**13,229**	**17,837**	**256,399**
Banks	**13,540**	**-**	**-**	**13,540**	**47**	**-**	**-**	**47**	**13,493**

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

LOANS AND RECEIVABLES FROM COMMITTEES, BANKS AND OTHER FINANCIAL ORGANIZATIONS *(continued)*
In 000 BAM

31 December 2018	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total Impairment allowance	Net
Housing loans	44,494	946	52	45,492	389	72	52	513	44,979
Consumer loans and credit cards	24,738	260	3,286	28,284	310	8	3,039	3,357	24,928
Total retail	**69,232**	**1,206**	**3,339**	**73,776**	**698**	**81**	**3,091**	**3,870**	**69,906**
Large companies	57,881	13,402	10,526	81,809	2,082	830	4,139	7,051	74,758
Medium companies	28,410	2,572	3,941	34,922	885	220	2,523	3,628	31,294
Small companies	10,606	2,244	8,322	21,172	279	311	3,664	4,254	16,918
Total corporate	**96,897**	**18,218**	**22,788**	**137,903**	**3,246**	**1,361**	**10,326**	**14,933**	**122,970**
Total	**166,128**	**19,424**	**26,127**	**211,680**	**3,944**	**1,442**	**13,417**	**18,803**	**192,877**
Banks	**13,027**	**-**	**-**	**13,027**	**25**	**-**	**-**	**25**	**13,002**

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

LOANS TO CUSTOMERS - STAGE 1 **In 000 BAM**

31 December 2019	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Total
Housing loans	70,300	233	-	-	**70,533**
Consumer loans and credit cards	41,693	239	-	-	**41,931**
Total retail	**111,993**	**472**	-	-	**112,465**
Large companies	84,917	3,015	-	-	**87,933**
Medium companies	26,934	1,421	-	-	**28,356**
Small companies	11,718	7	-	-	**11,724**
Total corporate	**123,569**	**4,443**	-	-	**128,013**
Total	**235,562**	**4,915**	-	-	**240,477**
of which: restructured	-	-	-	-	-
Bank Receivables	**13,540**	-	-	-	**13,540**

31 December 2018	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Total
Housing loans	44,335	159	-	-	**44,494**
Consumer loans and credit cards	24,537	200	-	-	**24,738**
Total retail	**68,872**	**359**	-	-	**69,232**
Large companies	57,881	-	-	-	**57,881**
Medium companies	28,410	-	-	-	**28,410**
Small companies	10,536	69	-	-	**10,606**
Total corporate	**96,827**	**69**	-	-	**96,897**
Total	**165,700**	**428**	-	-	**166,128**
of which: restructured	**-**	**-**	**-**		**-**
Bank Receivables	**13,027**	**-**	**-**	**-**	**13,027**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

LOANS TO CUSTOMERS - STAGE 2

31 December 2019	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Housing loans	598	-	-	-	-	**598**
Consumer loans and credit cards	403	147	18	13	-	**581**
Total retail	**1,001**	**147**	**18**	**13**	**-**	**1,179**
Large companies	7,077	687	-	-	-	**7,764**
Medium companies	1,788	-	-	-	-	**1,788**
Small companies	1,269	198	104	-	-	**1,571**
Total corporate	**10,134**	**885**	**104**	**-**	**-**	**11,124**
Total	**11,134**	**1,032**	**123**	**13**	**-**	**12,302**
of which: restructured	**-**	**-**	-	-	-	**-**
Bank Receivables	**-**	-	-	-	-	**-**

31 December 2018	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Housing loans	946	-	-	-	-	**946**
Consumer loans and credit cards	141	77	17	25	-	**260**
Total retail	**1,086**	**77**	**17**	**21**	-	**1,206**
Large companies	11,551	1,851	-	-	-	**13,402**
Medium companies	2,572	-	-	-	-	**2,572**
Small companies	2,244	-	-	-	-	**2,244**
Total corporate	**16,367**	**1,851**	-	-	-	**18,218**
Total	**17,454**	**1,928**	**17**	**25**	**-**	**19,424**
of which: restructured	-	**-**	-	-	-	**-**
Bank Receivables	**-**	**-**	-	-	-	**-**

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

LOANS TO CUSTOMERS - STAGE 3

In 000 BAM

31 December 2019	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Housing loans	-	-	-	-	52	52
Consumer loans and credit cards	79	9	-	21	2,985	3,094
Total retail	**79**	**9**	**-**	**21**	**3,037**	**3,146**
Large companies	-	-	-	-	4,649	4,649
Medium companies	832	-	-	-	2,403	3,235
Small companies	5,710	23	-	-	4,693	10,426
Total corporate	**6,542**	**23**	**-**	**-**	**11,745**	**18,310**
Total	**6,621**	**32**	**-**	**21**	**14,782**	**21,456**
of which: restructured	**-**	**-**	**-**	**-**	**-**	**-**
Bank Receivables	**-**	**-**	**-**	**-**	**-**	**-**

31 December 2018	Not in delay	Delay up to 30 days	31-60 days	61-90 days	Over 90 days	Total
Housing loans	-	-	-	-	52	**52**
Consumer loans and credit cards	45	24	5	15	3,145	**3,286**
Total retail	**45**	**24**	**5**	**15**	**3,198**	**3,339**
Large companies	-	-	-	-	10,526	**10,526**
Medium companies	-	-	1,007	-	2,934	**3,941**
Small companies	126	69	-	-	8,127	**8,322**
Total corporate	**126**	**69**	**1,007**	-	**21,586**	**22,788**
Total	**171**	**93**	**1,012**	**15**	**24,784**	**26,127**
of which: restructured	**126**	**-**	**-**	**-**	342	**468**
Bank Receivables	**-**	**-**	**-**	**-**	**-**	**-**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Cash and balances with Central Bank

In BAM 000	**31 December 2019**	**31 December 2018**
Cash on hand	13,619	8,875
Obligatory reserve with the Central Bank	80,129	70,073
Deposits with the Central Bank	212,567	355,560
Less: Allowance for impairment losses	(13)	(19)
Deposits with other Central Banks	-	-
	306,302	434,489

In BAM 000	**2019**	**2018**
Placement with Banks	13,540	13,027
Less: Provisions for credit loss	(47)	(25)

The following table shows the analysis of the change in gross carrying amount of the placements with banks and expected loan loss:

	Stage 1 individual	**Stage 1 Collective**	**Stage 2 individual**	**Stage 2 Collective**	**Stage 3**	**Total**
Gross carrying amount	-	13.027	-	-	-	13.027
Assets derecognized or repaid	-	513	-	-	-	513
At 31 December 2019	**-**	**13,540**	**-**	**-**	**-**	**13,540**

	Stage 1 individual	**Stage 1 Collective**	**Stage 2 individual**	**Stage 2 Collective**	**Stage 3**	**Total**
Gross carrying amount	**-**	**17.027**	**-**	**-**	**-**	**17.027**
Assets derecognized or repaid	-	(4.000)	-	-	-	(4.000)
At 31 December 2018	**-**	**13.027**	**-**	**-**	**-**	**13.027**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Placements with Banks (*continued*)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2019 under IFRS 9	**-**	**25**	**-**	**-**	**-**	**25**
Assets derecognized or repaid (excluding write offs)	-	22	-	-	-	22
At 31 December 2019	**-**	**47**	**-**	**-**	**-**	**47**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2018 under IFRS 9	**-**	**27**	**-**	**-**	**-**	**27**
Assets derecognized or repaid (excluding write offs)	-	(2)	-	-	-	(2)
At 31 December 2018	**-**	**25**	**-**	**-**	**-**	**25**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Impairment allowance for loans– Large companies

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	**Stage 1 Collective**	**Stage 2 individual**	**Stage 2 Collective**	**Stage 3**	**Total**
Gross carrying amount	-	57,881	-	13,402	10,526	81,809
New assets originated or purchased	-	64,413	-	4,728	-	69,141
Assets derecognized or repaid (excluding write offs)	-	(34,757)	-	(9,971)	(5,877)	(50,604)
Transfers to Stage 1	-	396	-	(396)	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2019	**-**	**87,933**	**-**	**7,764**	**4,649**	**100,346**

	Stage 1 individual	**Stage 1 Collective**	**Stage 2 individual**	**Stage 2 Collective**	**Stage 3**	**Total**
Gross carrying amount	**-**	**64.214**	**-**	**23.591**	**4.870**	**92.675**
New assets originated or purchased	-	39.406	-	8.441	102	47.948
Assets derecognized or repaid (excluding write offs)	-	(48.415)	-	(9.486)	(913)	(58.814)
Transfers to Stage 1	-	3.366	-	(3.366)	-	-
Transfers to Stage 2	-	(689)	-	689	-	-
Transfers to Stage 3	-	-	-	(6.467)	6.467	-
At 31 December 2018	**-**	**57.881**	**-**	**13.402**	**10.526**	**81.809**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets (*continued)*

Impairment allowance for loans– Large companies (*continued*)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2019 under IFRS 9	-	2,082	-	830	4,139	7,051
New assets originated or purchased	-	1,575	-	193	-	1,769
Assets derecognized or repaid (excluding write offs)	-	(1,478)	-	(674)	(411)	(2,562)
Transfers to Stage 1	-	62	-	(62)	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	(54)	-	54	-	-
At 31 December 2019	**-**	**2,188**	**-**	**341**	**3,728**	**6,257**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2018 under IFRS 9	**-**	**3,175**	**-**	**1,654**	**4,013**	**8,842**
New assets originated or purchased	-	1,404	-	474	102	1,980
Assets derecognized or repaid (excluding write offs)	-	(2,572)	-	(476)	(918)	(3,966)
Transfers to Stage 1	-	142	-	(142)	-	-
Transfers to Stage 2	-	(55)	-	55	-	-
Transfers to Stage 3	-	-	-	(942)	942	-
Impact on year end ECL of exposures transferred between stages during the year	-	(11)	-	206	-	194
At 31 December 2018	**-**	**2,082**	**-**	**830**	**4,139**	**7,051**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets (*continued)*

Impairment allowance for loans– Medium and small companies

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	**Stage 1 Collective**	**Stage 2 individual**	**Stage 2 Collective**	**Stage 3**	**Total**
Gross carrying amount	-	39,016	-	4,816	12,263	56,094
New assets originated or purchased	-	20,072	-	1,026	6,351	27,449
Assets derecognized or repaid	-	(18,547)	-	(2,902)	(4,980)	(26,429)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(419)	-	419	-	-
Transfers to Stage 3	-	(28)	-	-	28	-
At 31 December 2019	**-**	**40,094**	**-**	**3,359**	**13,661**	**57,101**

	Stage 1 individual	**Stage 1 Collective**	**Stage 2 individual**	**Stage 2 Collective**	**Stage 3**	**Total**
Gross carrying amount	**-**	**31,589**	**-**	**12,299**	**7,890**	**51,778**
New assets originated or purchased	-	20,803	-	2,286	126	23,215
Assets derecognized or repaid	-	(12,692)	-	(5,251)	(956)	(18,899)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(684)	-	684	-	-
Transfers to Stage 3	-	-	-	(5,202)	5,201	-
At 31 December 2018	**-**	**39,016**	**-**	**4,816**	**12,263**	**56,094**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets (*continued)*

Impairment allowance for loans– Medium and small companies (*continued*)

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2019 under IFRS 9	**-**	**1,164**	**-**	**532**	**6,187**	**7,883**
New assets originated or purchased	-	422	-	51	667	1,141
Assets derecognized or repaid (excluding write offs)	-	(742)	-	(387)	(297)	(1,427)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(12)	-	12	-	-
Transfers to Stage 3	-	(3)	-	-	3	-
Impact on year end ECL of exposures transferred between stages during the year	-	(39)	-	16	23	-
At 31 December 2019	**-**	**790**	**-**	**223**	**6,583**	**7,597**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2018 under IFRS 9	**-**	**1,726**	**-**	**843**	**5,194**	**7,763**
New assets originated or purchased	-	705	-	203	79	987
Assets derecognized or repaid (excluding write offs)	-	(1,210)	-	(263)	(20)	(1,493)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(78)	-	78	-	-
Transfers to Stage 3	-	-	-	(935)	935	-
Impact on year end ECL of exposures transferred between stages during the year	-	20	-	606	-	626
At 31 December 2018	**-**	**1,164**	**-**	**532**	**6,187**	**7,883**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Impairment allowance for loans– Consumer loans

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	**-**	**24,738**	**-**	**260**	**3,286**	**28,284**
New assets originated or purchased	-	25,728	-	366	49	26,143
Assets derecognized or repaid (excluding write offs)	-	(8,360)	-	(122)	(339)	(8,821)
Transfers to Stage 1	-	95	-	(90)	(5)	-
Transfers to Stage 2	-	(183)	-	183	-	-
Transfers to Stage 3	-	(87)	-	(17)	104	-
At 31 December 2019	**-**	**41,931**	**-**	**581**	**3,094**	**45,606**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	**-**	**15,944**	**-**	**228**	**3,430**	**19,602**
New assets originated or purchased	-	15,725	-	101	23	15,849
Assets derecognized or repaid (excluding write offs)	-	(6,740)	-	(99)	(326)	(7,166)
Transfers to Stage 1	-	56	-	(56)	-	-
Transfers to Stage 2	-	(123)	-	123	-	-
Transfers to Stage 3	-	(125)	-	(35)	160	-
At 31 December 2018	**-**	**24,738**	**-**	**260**	**3,286**	**28,284**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Impairment allowance for loans– Consumer loans *(continued)*

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2019 under IFRS 9	**-**	**310**	**-**	**8**	**3.040**	**3.358**
New assets originated or purchased	-	280	-	13	34	327
Assets derecognized or repaid (excluding write offs)	-	(124)	-	(3)	(272)	(398)
Transfers to Stage 1	-	1	-	(1)	-	-
Transfers to Stage 2	-	(4)	-	4	-	-
Transfers to Stage 3	-	(61)	-	(12)	73	-
Impact on year end ECL of exposures transferred between stages during the year	-	60	-	8	(9)	59
At 31 December 2019	**-**	**462**	-	**18**	**2.866**	**3.346**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2018 under IFRS 9	**-**	**205**	**-**	**7**	**3,158**	**3,370**
New assets originated or purchased	-	191	-	4	16	211
Assets derecognized or repaid (excluding write offs)	-	(82)	-	(2)	(251)	(335)
Transfers to Stage 1	-	1	-	(1)	-	-
Transfers to Stage 2	-	(3)	-	3	-	-
Transfers to Stage 3	-	(93)	-	(26)	119	-
Impact on year end ECL of exposures transferred between stages during the year	-	91	-	23	(2)	111
At 31 December 2018	**-**	**310**	**-**	**8**	**3,039**	**3,357**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Impairment allowance for loans – Housing loans

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	**Stage 1 Collective**	**Stage 2 individual**	**Stage 2 Collective**	**Stage 3**	**Total**
Gross carrying amount	**-**	**44,494**	**-**	**946**	**52**	**45,492**
New assets originated or purchased	-	29,547	-	-	-	29,547
Assets derecognized or repaid (excluding write offs)	-	(3,776)	-	(80)	-	(3,856)
Transfers to Stage 1	-	789	-	(789)	-	-
Transfers to Stage 2	-	(521)	-	521	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2019	-	**70,533**	-	**598**	**52**	**71,183**

	Stage 1 individual	**Stage 1 Collective**	**Stage 2 individual**	**Stage 2 Collective**	**Stage 3**	**Total**
Gross carrying amount	**-**	**18,643**	**-**	**157**	**52**	**18,851**
New assets originated or purchased	-	29,943	-	324	-	30,267
Assets derecognized or repaid (excluding write offs)	-	(3,619)	-	(8)	-	(3,626)
Transfers to Stage 1	-	149	-	(149)	-	-
Transfers to Stage 2	-	(621)	-	621	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2018	**-**	**44,494**	**-**	**946**	**52**	**45,492**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Impairment allowance for loans – Housing loans *(continued)*

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2019 under IFRS 9	**-**	**389**	**-**	**72**	**52**	**513**
New assets originated or purchased	-	242	-	-	-	242
Assets derecognized or repaid (excluding write offs)	-	(87)	-	(3)	-	(90)
Transfers to Stage 1	-	6	-	(6)	-	-
Transfers to Stage 2	-	(36)	-	36	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	32	-	(60)	-	(28)
At 31 December 2019	-	**544**	-	**40**	**52**	**637**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2018 under IFRS 9	**-**	**223**	**-**	**12**	**52**	**287**
New assets originated or purchased	-	274	-	32	-	306
Assets derecognized or repaid (excluding write offs)	-	(101)	-	-	-	(101)
Transfers to Stage 1	-	1	-	(1)	-	-
Transfers to Stage 2	-	(40)	-	40	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	32	-	(11)	-	22
At 31 December 2018	**-**	**389**	**-**	**72**	**52**	**513**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Provision for impairment - Financial guarantees

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	**-**	**10,114**	**-**	**5,393**	**-**	**15,508**
New assets originated or purchased	-	5,263	-	2,665	-	7,928
Assets derecognized or repaid (excluding write offs)	-	(8,738)	-	(990)	-	(9,728)
Transfers to Stage 1	-	1,677	-	(1,677)	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2019	-	**8,316**	-	**5,391**	-	**13,707**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	**-**	**7,305**	**-**	**5,777**	**98**	**13,180**
New assets originated or purchased	-	5,689	-	3,253	-	8,942
Assets derecognized or repaid (excluding write offs)	-	(2,835)	-	(3,681)	(98)	(6,614)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	(45)	-	45	-	-
Transfers to Stage 3	-	-	-	-	-	-
At 31 December 2018	**-**	**10,114**	**-**	**5,393**	**-**	**15,508**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Provision for impairment - Financial guarantees *(continued)*

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2019 under IFRS 9	**-**	**80**	**-**	**43**	**-**	**123**
New assets originated or purchased	-	40	-	20	-	60
Assets derecognized or repaid (excluding write offs)	-	(69)	-	(9)	-	(79)
Transfers to Stage 1	-	13	-	(13)	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-	-	-
At 31 December 2019	**-**	**63**	**-**	**41**	**-**	**104**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
ECL on 1 January 2018 under IFRS 9	**-**	**75**	**-**	**38**	**65**	**178**
New assets originated or purchased	-	45	-	26	-	71
Assets derecognized or repaid (excluding write offs)	-	(37)	-	(22)	(65)	(124)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	(2)	-	1	-	(1)
At 31 December 2018	**-**	**80**	**-**	**43**	**-**	**123**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Provision for impairment - Unused liabilities

An analysis of change in the gross carrying amount and the corresponding ECL:

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	-	17.356	-	22	3	17.381
New assets originated or purchased	-	11.485	-	7	-	11.492
Assets derecognized or repaid	-	(15.285)	-	(1)	-	(15.287)
Transfers to Stage 1	-	23	-	(20)	(3)	-
Transfers to Stage 2	-	(9)	-	9	-	-
Transfers to Stage 3	-	(8)	-	-	8	-
At 31 December 2019	-	**13.561**	-	**17**	**8**	**13.587**

	Stage 1 individual	Stage 1 Collective	Stage 2 individual	Stage 2 Collective	Stage 3	Total
Gross carrying amount	**-**	**8,319**	**-**	**25**	**3**	**8,347**
New assets originated or purchased	-	15,179	-	4	-	15,184
Assets derecognized or repaid	-	(6,135)	-	(12)	(3)	(6,150)
Transfers to Stage 1	-	13	-	(13)	-	-
Transfers to Stage 2	-	(17)	-	17	-	-
Transfers to Stage 3	-	(3)	-	-	3	-
At 31 December 2018	**-**	**17,356**	**-**	**22**	**3**	**17,381**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Provision for impairment - Unused liabilities *(continued)*

	Stage 1 individual	**Stage 1 Collective**	**Stage 2 individual**	**Stage 2 Collective**	**Stage 3**	**Total**
ECL on 1 January 2019 under IFRS 9	-	537	-	-	2	539
New assets originated or purchased	-	287	-	-	-	287
Assets derecognized or repaid	-	(514)	-	-	(2)	(516)
Transfers to Stage 1	-	0	-	-	-	-
Transfers to Stage 2	-	0	-	-	-	-
Transfers to Stage 3	-	(7)	-	-	7	-
Impact on the ECL of exposures transferred between stages during the year	-	7	-	-	-	7
At 31 December 2019	-	**309**	-	-	**7**	**317**

	Stage 1 individual	**Stage 1 Collective**	**Stage 2 individual**	**Stage 2 Collective**	**Stage 3**	**Total**
ECL on 1 January 2018 under IFRS 9	**-**	**266**	**-**	**1**	**12**	**280**
New assets originated or purchased	-	509	-	-	-	509
Assets derecognized or repaid	-	(239)	0,00	(1)	(12)	(252)
Transfers to Stage 1	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-
Transfers to Stage 3	-	(2)	-	-	2	-
Impact on the ECL of exposures transferred between stages during the year	-	2	-	-	-	2
At 31 December 2018	**-**	**537**	**-**	**-**	**2**	**539**

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

31. RISK MANAGEMENT *(continued)*

Branch structure of Financial Assets

Exposure of financial assets per industry as of 31 December 2019

DESCRIPTION			
1. Loans for corporate entities	**Gross carrying amount**	**Impairment allowance**	**Net exposure**
Production	59,682	4,757	54,925
Commerce	43,238	4,300	38,938
Construction	18,422	1,787	16,635
Real estate, renting and business services	11,565	397	11,168
Financial services	4,637	592	4,045
Public administration and defense, compulsory social security	5,677	208	5,469
Catering	4,563	130	4,433
Transport, storage and communication	2,923	277	2,646
Agriculture	3,376	172	3,205
Other	3,363	1,233	2,130
TOTAL 1.	**157,447**	**13,854**	**143,593**
2. Retail loans	**Gross carrying amount**	**Impairment allowance**	**Net exposure**
Consumer loans and credit cards	45,606	3,346	42,260
Housing loans	71,183	637	70,546
TOTAL 2.	**116,789**	**3,983**	**112,806**
TOTAL (1.+ 2.)	**274,236**	**17,837**	**256,399**

Exposure of financial assets per industry as of 31 December 2018

DESCRIPTION			
1. Loans for corporate entities	**Gross carrying amount**	**Impairment allowance**	**Net exposure**
Production	57,603	5,815	51,788
Commerce	27,382	3,835	23,547
Construction	16,917	1,739	15,178
Real estate, renting and business services	11,193	529	10,664
Financial services	5,173	647	4,526
Public administration and defense, compulsory social security	6,718	370	6,348
Catering	5,888	340	5,548
Transport, storage and communication	2,853	301	2,552
Agriculture	424	91	333
Other	3,753	1,266	2,487
TOTAL 1.	**137,903**	**14,933**	**122,970**
2. Retail loans	**Gross carrying amount**	**Impairment allowance**	**Net exposure**
Consumer loans and credit cards	28,284	3,357	24,928
Housing loans	45,492	513	44,979
TOTAL 2.	**73,776**	**3,870**	**69,906**
TOTAL (1.+ 2.)	**211,680**	**18,803**	**192,877**

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

31. RISK MANAGEMENT *(continued)*

c) Credit quality of financial assets *(continued)*

Credit concentration with the Federation of Bosnia and Herzegovina

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

	Note	31 December 2019	31 December 2018
Bonds:			
Ministry of Finance of FBiH	18	191,789	98,257
Interest receivables:			
Ministry of Finance of FBiH	18	308	160
		192,097	**98,417**

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

	Note	31 December 2019	31 December 2018
Liabilities to customers:			
Ministry of Finance of FBiH	24	334,923	148,404
Interest payables:			
Ministry of Finance of FBiH	24	-	353
Subordinated debt:			
Ministry of Finance of FBiH	25	25,000	10,000
		359,923	**158,757**

The Bank does not have concentration beyond the territory of the Federation of Bosnia and Herzegovina

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

31. RISK MANAGEMENT *(continued)*

d) Liquidity risk management

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

Liquidity and interest risk tables

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

Maturity of financial assets

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2019							
Non-interest bearing		240,680	-	3,337	481	-	244,498
Fixed interest rate instruments	2.38%	291,603	14,950	69,368	107,999	81,438	565,358
		532,283	**14,950**	**72,705**	**108,480**	**81,438**	**809,856**
31 December 2018							
Non-interest bearing	-	379,748	-	3,337	3,789	-	386,874
Fixed interest rate instruments	2.96%	185,005	15,482	54,761	83,691	45,187	384,126
		564,753	**15,482**	**58,098**	**87,480**	**45,187**	**771,000**

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.

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

31. RISK MANAGEMENT *(continued)*

d) Liquidity risk management *(continued)*

Liquidity and interest rate tables (continued)

Maturity of financial liabilities

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2019							
Non-interest bearing		213,837	22	746	1,321	9,630	225,556
Fixed interest rate instruments	0.28%	389,104	3,630	64,792	22,204	10,202	489,932
		602,941	**3,652**	**65,538**	**23,525**	**19,832**	**715,488**
31 December 2018							
Non-interest bearing	-	446,109	67	844	702	4,009	451,731
Fixed interest rate instruments	0.60%	184,330	4,413	27,322	37,220	10,244	263,529
	-	**630,439**	**4,480**	**28,166**	**37,922**	**14,253**	**715,260**

The Bank expects to meet other obligations from due financial assets operating cash flows and inflows.

The Bank does not have any financial assets related to variable interest rate instruments. For financial assets there has been a decrease in the level of interest rates in accordance with market movements, and an increase in the share of the retail housing loans in the Bank's portfolio. In general, financial assets reflect prolonged periods of interest rate contracting, monitored through indicators set by the local regulator.

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

32. FAIR VALUE MEASUREMENT

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

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

Financial assets / financial liabilities	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
	31 December 2019	**31 December 2018**		
1) Financial assets at fair value through profit or loss (see Note 17)	Equity securities quoted on stock exchanges in other countries: • Serbia - BAM 372 thousand	Equity securities quoted on stock exchanges in other countries: • Serbia - BAM 553 thousand	Level 1	Quoted bid prices in an active market.
2) Financial assets at fair values through OCI (see Note 18)	Equity securities quoted on stock exchanges in Bosnia and Herzegovina: • Bosna reosiguranje d.d. Sarajevo - BAM 427 thousand • Sarajevo osiguranje d.d. Sarajevo – BAM 32 thousand	Equity securities quoted on stock exchanges in Bosnia and Herzegovina: • Bosna reosiguranje d.d. Sarajevo - BAM 427 thousand • Sarajevo osiguranje d.d. Sarajevo – BAM 15 thousand	Level 1	Quoted bid prices in an active market.
	Debt securities not quoted in Bosnia and Herzegovina: • Ministry of finance of the FBiH- BAM 191,789 thousand • Sarajevo Canton – BAM 692 thousand • JP Autoceste FBiH - BAM 3,221 thousand	Debt securities not quoted in Bosnia and Herzegovina: • Ministry of finance of the FBiH - BAM 98,257 thousand • Sarajevo Canton – BAM 501 thousand • JP Autoceste FBiH - BAM 3,201 thousand	Level 2	Discounted cash flows, by considering the last available rate on owned or similar debt securities as yield rate.
	Equity securities quoted on stock exchanges in other countries: • Belgium - BAM 21 thousand	Equity securities quoted on stock exchanges in other countries: • Belgium - BAM 10 thousand	Level 3	Unquoted bid prices in an active market.

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

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

32. FAIR VALUE MEASUREMENT *(continued)*

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

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

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
- Loans to customers	256,399	257,212	192,870	193,266
Other receivables	4,799	4,761	8,446	8,331
Financial liabilities				
At amortized cost:				
- liabilities to banks and clients	701,785	699,931	699,876	701,656

	Fair value hierarchy as at 31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- Loans to customers	-	257,212		257,212
Other receivables	-	4,761		4,761
	-	**261,973**		**261,973**
Financial liabilities				
At amortized cost:				
- liabilities to banks and clients	-	699,931		699,931
	-	**699,931**		**699,931**

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

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

33. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date that would need to be disclosed in the financial statement.

34. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board on 28 February 2020.

UNION BANKA DD SARAJEVO
SARAJEVO
BR. 3

Vedran Hadžiahmetović
President of the Management Board