# ASA BANKA D.D. SARAJEVO

Financial statements for the year ended
31 December 2018 prepared in accordance with
International Financial Reporting Standards and
Independent Auditor's Report

# Contents

## Responsibility for the financial statements

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

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

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

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

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

Signed on behalf of the Management Board

| Samir Mustafić<br>Chairman of the Board | Edina Vuk<br>Member of the Board | Davor Tomić<br>Member of the Board |
|---|---|---|

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Trg međunarodnog prijateljstva 25
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Bosnia and Herzegovina

ASA BANKA DIONIČKO DRUŠTVO SARAJEVO
ASA BANKA
2

20 February 2019

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# *Independent Auditor's Report*

**To the shareholders of ASA Banka d.d. Sarajevo**

### *Opinion*

We have audited the accompanying financial statements of ASA Bank d.d. Sarajevo (the "Bank"), which comprise the balance sheet as at 31 December 2018, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Basis for Opinion*

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

### *Key Audit Matters*

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

*Key Audit Matters (continued)*

| Key Audit Matter | How the key audit matter was addressed in the audit |
|---|---|
| ***Adoption of IFRS 9*** <br><br> International Accounting Standards Board (IASB) published International Financial Reporting Standard 9 - "Financial instruments" which replaces "IAS 39 – Financial Instruments: Recognition and Measurement " in three phases as follows: <br><br> Phase 1 - classification and measurement of financial assets and financial liabilities; <br><br> Phase 2 - Impairment methodology; and <br><br> Phase 3 – Hedge accounting. <br><br> As at 1 January 2018, Bank has adopted IFRS 9. As permitted by IFRS 9, the requirements have been applied retrospectively without restating comparatives. <br><br> Differences between previously reported carrying amounts and new carrying amounts of financial instruments as of 31 December 2017 and 1 January 2018 amounting to BAM 10,801 thousand has been recognized in the opening retained earnings. <br><br> The key changes arising from adoption of IFRS 9, compared to the previous methodology of impairment, are that the Bank's credit losses are now based on expected losses rather than an incurred loss model, and the change in the classification and measurement of the Bank's financial assets and liabilities, which are detailed in Note 3 to the financial statements. <br><br> There were no significant changes arising from the adoption of the hedge accounting requirements of IFRS 9. | ***Procedures undertaken*** <br><br> With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following: <br><br> • We read the Bank's policies regarding the classification and measurement of financial assets and liabilities and compared them to the requirements of IFRS 9; <br><br> • We obtained an understanding and checked the Bank's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are "solely payments of principal and interest" (SPPI test). <br><br> • We checked the appropriateness of the opening balance adjustments. <br><br> With respect to impairment methodology, our audit procedures comprised the following: <br><br> • We read the Bank's impairment provisioning methodology and compared it with the requirements of IFRS 9; <br><br> • We obtained an understanding of the Bank's internal rating models for loans by the level of risk in order to assess the adequacy of the risk allocation model. <br><br> • We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages (*Stage 1, Stage 2 and Stage 3)*; <br><br> • For a sample of balance sheet and off-balance sheet exposures, we checked the appropriateness of Bank's staging; <br><br> • We checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) models (the Models) used by the Bank to determine impairment provisions; |

- For forward looking assumptions used by the Bank's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information;

- For a sample of balance sheet and off-balance sheet exposures, we checked the appropriateness of determining Exposure at Default and the resultant arithmetical calculations;

- For Probability of Default (PD) used in the ECL calculations we checked the basis for PDs calculation;

- We checked the calculation of the Loss Given Default (LGD) used by the Bank in the ECL calculations, including the appropriateness of the use of collateral and the resultant arithmetical calculations;

- We checked the completeness of balance sheet items, off balance sheet items, investment securities, placements and other financial assets included in the ECL calculations as of 31 December 2018;

- For data from external sources (PD factors used for calculations ECL for investments, placements, and other financial assets) we understood the process of choosing such data, its relevance for the Bank, and the controls and governance over such data;

- Where relevant, we used Information System specialists to gain comfort on data integrity;

- We checked consistency of various inputs and assumptions used by the Bank's management to determine impairment provisions;

- We checked the appropriateness of the opening balance adjustments.

- We assessed the financial statement disclosures arising on adoption of IFRS 9 to determine if they were in accordance with the requirements of the Standard (Notes 2.3, 3 and 4 to the financial statements).

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

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

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

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

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

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

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

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

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

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

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

**RSM BH d.o.o.**

Lejla Kaknjo, Director and Certified Auditor

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

Berna Šljokić, Partner and Certified Auditor

Sarajevo, 20 February 2019

## Income statement
## For the year ended on 31 December 2018
*(all amounts are expressed in thousands of BAM, unless otherwise stated)*

| | Notes | 2018 | 2017 |
|---|---|---|---|
| Interest income | 5 | 16,678 | 17,179 |
| Interest expense | 6 | (4,717) | (4,742) |
| **Net interest income** | | **11,961** | **12,437** |
| Fee and commission income | 7 | 6,605 | 7,206 |
| Fee and commission expense | 8 | (2,692) | (2,098) |
| **Net fee and commission income** | | **3,913** | **5,108** |
| Other gains | 9 | 4,131 | 1,383 |
| Other operating income | 10 | 321 | 226 |
| **Income from operating activities** | | **20,326** | **19,154** |
| Employee expenses | 11 | (6,992) | (7,258) |
| Depreciation expenses | 23 | (1,288) | (1,364) |
| Other administrative expenses | 12 | (6,402) | (8,486) |
| **Operating expenses** | | **(14,682)** | **(17,108)** |
| **PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND TAXATION** | | **5,644** | **2,046** |
| Impairment losses and provisions, net | | (398) | (5,217) |
| **PROFIT / (LOSS) BEFORE TAXATION** | | **5,246** | **(3,171)** |
| Income tax | 14 | - | - |
| Loss as a result of decrease in deferred tax assets | | (11) | (7) |
| **PROFIT / (LOSS) AFTER TAXATION** | | **5,235** | **(3,178)** |
| **Earnings / (loss) per share – basic and diluted (in BAM)** | 15 | **7.95** | **(4.82)** |

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

## Statemenent of comprehensive income
## for the year ended on 31 December 2018

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

| | Notes | 2018 | 2017 |
|---|---|---|---|
| Net profit / (loss) | | **5,235** | **(3,178)** |
| ***Other comprehensive income:*** | | | |
| *Items that are or may be reclassified to profit or loss:* | | | |
| Net gains from debt investment securities at fair value through other comprehensive income | 21 | 174 | - |
| *Items that will not be reclassified through an income statement:* | | | |
| Net gains from equity instruments at fair value through other comprehensive income | 21 | 90 | - |
| Change in fair value of financial assets available-for-sale | 20 | - | 27 |
| **TOTAL COMPREHENSIVE INCOME / (LOSS)** | | **5,499** | **(3,151)** |

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

## Balance sheet
## as at 31 December 2018

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

| | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 16 | 91,614 | 94,962 |
| Obligatory reserve with Central bank B&H | 17 | 42,925 | 40,358 |
| Loans and receivables at amortised cost | 18 | 304,471 | 289,864 |
| Financial assets at fair value through profit and loss | 19 | 2,721 | 8,144 |
| Financial assets available-for-sale | 20 | - | 27,204 |
| Financial assets at fair value through other comprehensive income | 21 | 35,491 | - |
| Debt instruments at amortised cost | 22 | 1,973 | 1,867 |
| Other assets and receivables, net | 23 | 7,818 | 10,236 |
| Tangible and intangible assets | 24 | 7,413 | 9,987 |
| Deferred tax assets | 14 | 113 | 124 |
| **TOTAL ASSETS** | | **494,539** | **482,746** |
| **LIABILITIES** | | | |
| Due to banks | 25 | 7,609 | 2,700 |
| Due to customers | 26 | 418,472 | 397,992 |
| Subordinated debt | 27 | 3,059 | 8,058 |
| Other liabilities | 28 | 2,326 | 5,970 |
| Provisions | 29 | 775 | 646 |
| **Total liabilities** | | **432,241** | **415,366** |
| **EQUITY** | | | |
| Shareholders' equity | 30 | 65,870 | 65,870 |
| Regulatory reserves | | 231 | 231 |
| Reserves | | 6,003 | 5,992 |
| Revaluation reserves for investments available for sale | | - | 107 |
| Revaluation reserves – financial assets at fair value through comprehensive income | | 580 | - |
| Accumulated loss | | (10,386) | (4,820) |
| **Total equity** | | **62,298** | **67,380** |
| **TOTAL LIABILITIES AND EQUITY** | | **494,539** | **482,746** |

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

Signed on behalf of Bank on 20 February 2019:

| Samir Mustafić | Edina Vuk | Davor Tomić |
|---|---|---|
| Chairman of the Board | Member of the Board | Member of the Board |

## Statement of cash flows
## for the year ended on 31 December 2018

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

| | 2018 | 2017 |
|---|---|---|
| **Operating activities** | | |
| Profit / (loss) before taxation | 5,235 | (3,178) |
| *Adjustments:* | | |
| Depreciation | 1,288 | 1,364 |
| First-time adoption of IFRS 9 – effects | (10,581) | - |
| Impairment losses and provisions, net | 398 | 5,217 |
| Decrease in deferred tax assets, net | 11 | 13 |
| Gain on disposal of property and equipment, net | (2,281) | (19) |
| Effects of fair value adjustment on assets at fair value through profit and loss | (29) | 38 |
| Dividend income recognized in profit and loss | (27) | (26) |
| Interest income on financial assets available for sale recognized in profit and loss | - | (884) |
| Interest income on financial assets at fair value through other comprehensive income recognized in profit and loss | (1,039) | - |
| Interest income on financial assets held to maturity recognized in profit or loss | (186) | (179) |
| Decrease in value on financial asset at fair value through profit and loss and financial assets available for sale | - | 123 |
| *Changes in assets and liabilities:* | | |
| Increase / (decrease) in receivables from Central bank BH | (2,567) | 14,050 |
| Net increase in loans and receivables, before impairment | (14,725) | (47,376) |
| Net decrease / (increase) in other assets, before impairment | 2,418 | (3,089) |
| Net increase in due to customers | 20,480 | 73,463 |
| Net increase / (decrease) / in due to banks | 4,909 | (589) |
| Net (decrease) /increase in other liabilities | (3,644) | 3,726 |
| Net decrease in provisions | (151) | (988) |
| Income tax paid | - | - |
| **NET CASH (USED) IN / FROM OPERATING ACTIVITIES** | **(491)** | **41,666** |
| **Investing activities** | | |
| Proceeds from financial assets held-to maturity, net | 80 | 68 |
| (Purchase of) / proceeds from financial assets at FVOCI (2017: AFS), net | (892) | 5,427 |
| Purchase of financial assets at fair value through profit and loss | (640) | (128) |
| Dividends received | 27 | 26 |
| Purchase of tangible and intangible assets | (1,329) | (1,291) |
| Proceeds from sale of property and equipment | 4,896 | 60 |
| **NET CASH FROM INVESTMENT ACTIVITIES** | **2,142** | **4,162** |
| ***Financial activities*** | | |
| Decrease in liabilities for subordinated debt | (4,999) | (60) |
| Sale of own shares | - | 1,466 |
| **NET CASH (USED) IN / FROM FINANCIAL ACTIVITIES** | **(4,999)** | **1,406** |
| **NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS** | **(3,348)** | **47,234** |
| **CASH AND CASH EQUIVALENTS AT THE YEAR START** | **94,962** | **47,728** |
| ***CASH AND CASH EQUIVALENTS AT THE YEAR END*** | **91,614** | **94,962** |

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

# Statement of changes in equity
## for year ended on 31 December 2018

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

| | Shareholders' equity | Own / treasury shares | Regulatory reserves | Reserves | Valuation of financial assets through other comprehensive income | Expected credit loss for assets through other comprehensive income | Revaluation reserves for investments available for sale | Accumulated (loss)/ retained earnings | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 31 December 2016** | **65,870** | **(2,953)** | **231** | **7,479** | - | - | **80** | **(1,642)** | **69,065** |
| Net profit | - | - | - | - | - | - | - | (3,178) | (3,178) |
| Other comprehensive income | - | - | - | - | - | - | 27 | - | 27 |
| ***Total comprehensive income*** | - | - | - | - | - | - | **27** | ***(3,178)*** | ***(3,151)*** |
| Sale of treasury shares | | 2,953 | - | (1,487) | - | - | - | - | 1,466 |
| **Balance as at 31 December 2017** | **65,870** | - | **231** | **5,992** | - | - | **107** | **(4,820)** | **67,380** |
| *The effects of the first-time adoption of the new International Accounting Standard 9* | - | - | - | - | - | *220* | - | *(10,801)* | *(10,581)* |
| **Balance as at 31 December 2017 – re-stated** | **65,870** | - | **231** | **5,992** | - | **220** | **107** | **(15,621)** | **56,799** |
| Net profit | - | - | - | - | - | - | - | 5,235 | 5,235 |
| Other comprehensive income | - | - | - | - | 223 | 41 | - | - | 264 |
| *Total comprehensive income* | - | - | - | - | ***223*** | ***41*** | - | ***5,235*** | ***5,499*** |
| Transfer from revaluation investments available for sale | - | - | - | - | 107 | - | (107) | - | - |
| Sale of shares in investment fund „Lillum Cash“ Sarajevo – IFRS 9.5.7.1 | - | - | - | 11 | (11) | - | - | - | - |
| **Balance as at 31 December 2018** | **65,870** | - | **231** | **6,003** | **319** | **261** | - | **(10,386)** | **62,298** |

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

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

## 1. GENERAL

Investiciono - komercijalna banka d.d. Zenica (the „Bank “) was registered at the Cantonal Court in Zenica on 20 August 1998. The Bank was established in 1957 as Komunalna banka, Zenica. The Bank operates under that name since 30 March 1990, when it has separated from Privredna banka Sarajevo. The Bank holds a license No. 04-3-1370-1/05 issued by the Banking Agency of the Federation of Bosnia and Herzegovina on 10 February 2006.

Based on the Decision of the Shareholders Assembly of Investiciono-komercijalna banka d.d. Zenica on status change of merger with Moja banka d.d. Sarajevo with Investiciono-komercijalna banka d.d. Zenica, No. 01/3-7491-12/16, dated 26 June 2016, and the Decision of the Shareholders Assembly of Moja banka d.d. Sarajevo on status change of merger of Moja banka d.d. Sarajevo with Investiciono-komercijalna banka d.d. Zenica, No. 1-5750-11/16, dated 15 September 2016, the merger of Moja Banka d.d. Sarajevo with Investiciono-komercijalna banka d.d. Sarajevo was registered in the Companies Registry at the Municipality Court in Zenica.

By the Decision of the Municipality Court in Sarajevo, no. 065-0-Reg-16-004922, dated 30 December 2016, the name and registered address of Investiciono-komercijalna banka d.d. Zenica were changed into ASA Banka d.d. Sarajevo, with the headquarters at the address Trg međunarodnog prijateljstva 25 in Sarajevo.

The Bank's main operations are as follows:

- accepting and placing of deposits;
- accepting of a vista and term deposits;
- granting long – and short-term loans and guarantees to the local authorities, corporate customers, private individuals and other credit institutions dealing with finance lease and foreign exchange transactions;
- interbanking market activities,
- services of local and international payments;
- foreign currency exchange and other banking-related activities and
- providing banking services through an extensive agencies network in Bosnia and Herzegovina.

### Supervisory board and Management board

*Supervisory board*

| | |
|---|---|
| Hadžiselimović Eldin | President |
| Aganspahić Sead | Member |
| Samir Redžepović | Member |
| Fazlić Ibrahim | Member |
| Arif Brkić | Member |

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

## 1. GENERAL (CONTINUED)

**Supervisory board and Management board (continued)**

*Management Board*

| | |
|---|---|
| Samir Mustafić | Chairman of the Board |
| Edina Vuk | Member of the Board from 1st August 2018 |
| Davor Tomić | Member of the Board from 1st July 2018 |
| Arnela Alagić | Acting Member of the Board from 1st July 2018 until 30th July 2018 |
| Azemina Smailbegović | Acting Member of the Board from 17th June 2018 until 30th June 2018 |
| Edin Mujagić | Member of the Board until 30th June 2018 |
| Jasmin Spahić | Member of the Board from 1st July 2017 until 16 June 2018 |

## 2. ADOPTION OF NEW AND REVISED STANDARDS

### 2.1 Standards and Interpretation effective in the current period

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

- Amendments to IFRS 2: „Share-based Payment" – Clarification of accounting treatment of share-based payments (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4: „Insurance Contracts" – Applying IFRS 9 "Financial Instruments" with IFRS 4 „Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018);
- IFRS 9: "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15: "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 9 „Financial instruments" – regarding prepayment features with negative compensation and modifications of financial liabilities (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 40: „Investment property" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IAS 28) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2018);
- IFRIC 22: „Foreign currency transactions – advance consideration" (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 1: „First-time Adoption of International Financial Reporting Standards" short-term exemptions for those who adopt standards for the first time.

### 2.2 Standards and Interpretations in issue not yet adopted

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

- IFRS 16: „Leases" (effective for annual periods beginning on or after 1 January 2019);
- IFRS 17: „Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);

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

### 2.2 Standards and Interpretations in issue not yet adopted (continued)

- Amendments to IAS 28: „Investments in Associates and Joint Ventures" – Long term investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- Amendments to various standards "Improvements to IFRSs (cycle 2015-2017)";
- IFRIC 23: „Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 19 „Employee benefits".

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

#### 2.2.1 International Financial Reporting Standard 16 - Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IAS 17 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under IFRS 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component.

The Bank will adopt this standard from 1 January 2019 and the impact of its adoption is presented below:

- assets in amount of BAM 3,616 thousand;
- lease obligation in amount of BAM 3,616 thousand.

### 2.3 Changes in accounting policies

**IFRS 9 „Financial Instruments"**

The Bank adopted IFRS 9, in the form published in July 2014 by the IASB, whose application is mandatory for a period beginning on or after 1 January 2018. The first-time adoption effects resulted changes in accounting policies and adjustment of the amounts previously recognized in the financial statements. The Bank did not choose earlier adoption of IFRS 9. As allowed by IFRS 9, the Bank has not restated information in their comparative financial statements. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings.

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

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

### 2.3 Changes in accounting policies (continued)

Consequential changes required by IFRS 7 are applied only for current period. Comparative data represent the publications made and presented in the previous year.

The first-time adoption of IFRS 9 resulted changes in accounting policies which determine recognition, classification and measurement of financial assets and liabilities, or impairment of financial assets. Also, IFRS – has improved the requirements of other standards related to financial instruments, such as IFRS 7: "Financial instruments": Disclosures. The adoption effects of IFRS 9 are presented below. Accounting policies details applied in current and previous period are presented below:

***Classification and measurement of Financial instruments***

The table below shows differences in measurement model of net book values in accordance with IAS 39 and IFRS 9 on 1 January 2018:

| | IFRS 9 | | IAS 39 | |
|---|---|---|---|---|
| | **Measurement category** | **Amount** | **Measurement category** | **Amount** |
| Cash and cash equivalents | AC | 94,957 | AC | 94,962 |
| Obligatory reserve with Central bank B&H | AC | 40,358 | AC | 40,358 |
| Loans and receivables, net | AC | 279,778 | AC | 289,864 |
| Equity instruments measured at fair value through profit and loss | FVPL | 2,052 | FVPL | 8,144 |
| Debt instruments measured at fair value through other comprehensive income | FVOCI | 33,076 | FVOCI | - |
| Financial assets available-for-sale | FVOCI | - | FVOCI | 27,204 |
| Financial assets held to maturity | AC | 1,850 | AC | 1,867 |

IFRS 9 is divided into three main phases: classification and measurement of financial instruments, impairment and hedge accounting.

With regard to the first area, IFRS 9 provides that the classification of financial asset is determined, on one hand by characteristics of the associated contractual cash flows and, on the other hand, by financial instrument management intent (business model). Instead of the previous four accounting categories, financial assets, according to IFRS 9, can be classified into three categories:

- Financial assets measured at amortised cost (AC),
- Financial assets measured at fair value through other comprehensive income – (FVOCI)
- Financial assets measured at fair value through profit and loss (FVPL).

Financial assets can be classified in the first two categories and valued at amortised cost or fair value through other comprehensive income only if it is proved that it leads to cash flows that are solely principal and interest payments (so-called "solely payment of principal and interest" – "SPPI test"). Equity securities are always classified in the third category and are valued at fair value through profit or loss, unless the entity chooses (irrevocably, at the time of the initial entry) that shares which are not held for trading are classified at fair value through other comprehensive income. In that case, reserves recognized within other comprehensive income will never be transferred to the profit and loss account, even in the event of termination of a financial instrument (financial assets valued at fair value through other comprehensive income without "recycling").

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

### 2.3 Changes in accounting policies (continued)

In respect of impairment, for instruments valued at amortised cost and at fair value through other comprehensive income (other than equity instruments), a model based on the concept of expected losses is introduced instead of the current "loss incurred", with an aim of faster loss recognition. IFRS 9 requires companies to enter the expected losses at the level of losses expected in the next 12 months (stage 1) from the initial entry of the financial instrument. The time horizon for calculating the expected loss becomes the entire remaining life of the asset that is the subject of the valuation where the credit quality of the financial instrument has experienced a "significant" credit risk deterioration in relation to the initial measurement (stage 2) or in case the asset is partially or fully non-performing (Stage 3).

More specifically, the introduction of new impairment provisions includes:

- Allocation of performing financial assets at different levels of credit risk ("staging"), corresponding to value adjustments based on expected losses over the next 12 months (the so-called "Stage 1") or lifetime for the entire remaining duration of the instrument (the so-called "Stage 2"), in the presence of a significant increase in credit risk;
- Allocation of partially or fully non-performing financial assets in the so-called "Stage 3", always with value adjustments based on expected losses over the entire duration of the instrument;
- Inclusion of Expected Credit Losses ("ECL") in the calculation, as well as the expected future changes of the macroeconomic scenario.

**Methodology**

*Classification and Measurement*

In order to comply with IFRS 9 rules - introducing a model that classifies financial assets defined, on the one hand, by contractual features of cash flows of instruments and, on the other hand, by management intent for which they are held - defines the methods of implementing the test of contractual characteristics of cash flows (the so-called SPPI Test).

*Impairment*

According to accepted impairment methodology, its measurement relates to financial assets classified in the business model "Held to maturity", valued at the amortised cost (AC). Methodology defines methods of measurement of changes in loan position quality in financial assets portfolio which is measured at amortised cost or at fair value through other comprehensive income. Also, methodology defines criteria for identification of increase of loan loss risks with the purpose of adequate allocation of performing exposure in "Stage 1" or in "Stage 2". Stage 3 defines exposures for which there is objective evidence of impairment, exposures which are recognized as default or those clients which are declared as non-performing.

There are two bases of measurement of expected credit losses:

- 12-month ECL applicable to all items when there is no significant increase of credit risk (Stage 1);
- Lifetime ECL which indicates significant increase of credit risk compared to initial recognition.

Calculation of impairment is based on:

- Portfolio segmentation (corporate loans, retail housing loans, other retail loans),
- Determined risk level (Stage 1, Stage 2, Stage 3),
- Assessment method (group/individual).

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

### 2.3 Changes in accounting policies (continued)

Basic criteria used to determine the materiality threshold relative to portfolio assessment on individual basis is defined by FBA regulation and Bank adopted and defines following:

- Total exposure to the client is greater than BAM 25,000 for individuals
- Total exposure to the client is greater than BAM 0,00 for legal entities

The Bank identifies the status of non-fulfilment of the obligation, starting from the IFRS standard, in the following manner:

- The debtor is in delay for more than 90 days in a material amount,
- Based on client's monitoring, the Bank estimates that the client will not be able to pay the liabilities,
- Restructuring and reprogramming of liabilities in relation to initially contracted due to financial difficulties of the client,
- Write-off of receivables,
- The liquidation or bankruptcy of the debtor.

The Bank has implemented a time lag counter which takes into account the threshold of material significance. Under the material obligation, it is assumed when the maturity of the bank's debts from the debtor of a legal entity is greater than BAM of 500 and 2.5% of the total exposure of the debtor

For the purpose of collective assessment of impairment, the PD, LCD and EAD parameters are determined.

In assessing PD, the following are made: calculation of transitional matrices for each homogenous group, derivation of lifetime cumulative PD, calculation of lifetime marginal PD and its macroeconomics adjustment.

The estimation and calculation of the LGD parameter is based on the CR parameter, as on the effective value of the collateral belonging to each contract. CR parameter (recovery rate) gives an information about which part of transaction that were in the status of default, went out of that status (without collateral) over a given periods of *t* moths, where *t* is also called the time horizon of the CR parameter.

Exposure at the moment of meeting the default status (EAD) implies total exposure which is the subject of provisions for impairment losses as for impairment under IFRS 9.

EIR (effective interest rate) is used for discounting cash flows.

*Effects on first adoption of IFRS 9*

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

### 2.3 Changes in accounting policies (continued)

Based on previously described, the following IFRS 9 impact on 1 January 2018 has been estimated as follows:

| Description | Total exposure | IFRS 9 impairments | IAS 39 impairments | EFFECTS presented in thousands of BAM |
|---|---|---|---|---|
| ***Portfolio type analysis*** | | | | |
| *Loan portfolio – legal entities* | *290,326* | *36,682* | *26,842* | *9,840* |
| Performing | 244,380 | 4,569 | 3,431 | 1,138 |
| non-performing | 45,946 | 32,113 | 23,411 | 8,702 |
| *Loan portfolio – individuals* | *64,090* | *6,943* | *6,224* | *719* |
| Performing | 55,913 | 284 | 263 | 21 |
| non-performing | 8,177 | 6,659 | 5,961 | 698 |
| **Loan portfolio – total** | **354,416** | **43,625** | **33,066** | **10,559** |
| Performing | 300,293 | 4,853 | 3,694 | 1,159 |
| non-performing | 54,123 | 38,772 | 29,372 | 9,400 |
| **Securities – total** | **37,323** | **238** | **1** | **237** |
| Performing | 37,323 | 238 | 1 | 237 |
| non-performing | - | - | - | - |
| **Cash placements – total** | **82,798** | **22** | **17** | **5** |
| Performing | 82,798 | 22 | 17 | 5 |
| non-performing | - | - | - | - |
| **Other financial assets** | **10,782** | **1,173** | **1,173** | - |
| Performing | 6,857 | 3 | 3 | - |
| non-performing | 3,925 | 1,170 | 1,170 | - |
| ***TOTAL*** | ***485,319*** | ***45,058*** | ***34,257*** | ***10,801*** |
| Performing | 427,271 | 5,116 | 3,715 | 1,401 |
| non-performing | 58,048 | 39,942 | 30,542 | 9,400 |
| ***Risk-based analysis*** | | | | |
| Stage 1 – collective assessment | 406,574 | 4,315 | 3,512 | 803 |
| Stage 2 – collective assessment | 24,622 | 1,971 | 1,373 | 598 |
| Stage 3 – collective and individual assessment | 54,123 | 38,772 | 29,372 | 9,400 |
| ***TOTAL*** | ***485,319*** | ***45,058*** | ***34,257*** | ***10,801*** |

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

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

### 2.3 Changes in accounting policies (continued)

A reconciliation between the carrying amounts of assets, liabilities and equity under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

| IAS 39 | 31 December 2017 | Reclassification | Remeasurement | IFRS 9 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 94,962 | - | (5) | 94,957 |
| Obligatory reserve with Central bank B&H | 40,358 | - | - | 40,358 |
| Loans and receivables at amortised cost | 289,864 | - | (10,559) | 279,305 |
| Equity instruments measured at fair value through profit and loss | 8,144 | (6,092) | | 2,052 |
| Financial assets available-for-sale | 27,204 | (27,204) | - | - |
| Debt instruments measured at fair value through other comprehensive income | - | 33,296 | (220) | 33,076 |
| Financial assets at amortised cost | 1,867 | - | (17) | 1,850 |
| Other assets and receivables, net | 10,236 | - | - | 10,236 |
| Tangible and intangible assets | 9,987 | - | - | 9,987 |
| Deferred tax assets | 124 | - | - | 124 |
| **TOTAL ASSETS** | **482,746** | | **(10,801)** | **471,945** |
| **LIABILITIES** | | | | |
| Due to banks | 2,700 | - | - | 2,700 |
| Due to customers | 397,992 | - | - | 397,992 |
| Subordinated debt | 8,058 | - | - | 8,058 |
| Other liabilities | 5,970 | - | - | 5,970 |
| Provisions | 646 | - | - | 646 |
| **Total liabilities** | **415,366** | **-** | **-** | **415,366** |
| **EQUITY** | | | | |
| Shareholders' equity | 65,870 | - | - | 65,870 |
| Regulatory reserves | 231 | - | - | 231 |
| Reserves | 5,992 | - | - | 5,992 |
| Revaluation reserves for investments | 107 | - | - | 107 |
| Accumulated loss | (4,820) | - | (10,801) | (15,621) |
| **Total equity** | **67,380** | **-** | **(10,801)** | **56,579** |
| **TOTAL LIABILITIES AND EQUITY** | **482,746** | | **(10,801)** | **471,945** |

## 3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance**

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

**Going concern**

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

**Basis of preparation**

The financial statements have been prepared on the historical cost basis, except for certain financial instruments measured at fair value at the end of each reporting period.

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

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

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

- Level 1 inputs are quoted prices (uncorrected) on active markets for identical assets or liabilities that the Bank may access on the measurement date; fair value indicators are those derived from quoted prices in active markets
- Level 2 inputs, other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are not observable inputs for the asset or liability.

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

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

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

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

Accounting policies, stated below, are adequately adopted and implemented for all periods presented in these financial statements

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

**Interest income and expense**

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

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

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

**Fee and commission income and expense**

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

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

**Taxation**

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting period date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

**Cash and cash equivalents**

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

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

**Financial instruments**

*Initial recognition and measurement*

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

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial assets and financial liabilities are initially measured at fair value, except in the case of financial assets and financial liabilities recorded at FVPL. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

By 1 January 2018, financial assets are classified into the following specified categories: financial assets as "loans and receivables", "at fair value through profit or loss" (FVTPL), "available-for-sale" (AFS), and "held-to-maturity investments".

Financial liabilities, except commitments and contingencies, are measured at amortised cost or fair value through profit and loss.

a) Financial assets from 1 January 2018

*Financial assets at amortised cost*

From 1 January 2018, the Bank measures financial assets at amortised costs using the effective interest method, if both of the following conditions are met:

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

The details of these conditions are outlined below.

*Business model assessment*

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

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

a) Financial assets from 1 January 2018 (continued)

*Business model assessment (continued)*

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

Consequently, this assessment is performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario would not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur.

If cash flows are not realised in a way that is different from the entity's expectations at the date that the entity assessed the business model (for example, if the entity sells more or fewer financial assets than it expected when it classified the assets), that does not give rise to a prior period error in the entity's financial statements nor does it change the classification of the remaining financial assets held in that business model (i.e. those assets that the entity recognised in prior periods and still holds) as long as the entity considered all relevant information that was available at the time that it made the business model assessment. However, when an entity assesses the business model for newly originated or newly purchased financial assets, it must consider information about how cash flows were realised in the past, along with all other relevant information.

*The SPPI test*

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

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

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

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

a) the financial assets are held within a business model, which objective is achieved by both collecting contractual cash flows and selling financial assets.

b) contractual terms of a financial asset arise, on a specific date, cash flows that are solely payments of principal and interest on the principal outstanding.

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

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

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

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

a) Financial assets from 1 January 2018 (continued)

*Equity instruments at fair value through other comprehensive income (FVOCI)*

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

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

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

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

*Impairment of financial assets*

*Recognition of expected credit losses*

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

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

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

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

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

*Derecognition of financial assets*

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

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

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

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

a) Financial assets from 1 January 2018 (continued)

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

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

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

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

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

(ii) if the Company retained the control, it is obliged to continue to recognize the financial assets in the amount of its part in financial assets.

b) Financial assets until 1 January 2018

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

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

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

*Method of effective interest rate.*

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

Until 1 January 2018, "held- to maturity" financial instruments, "available for sale" financial instruments and "loans and receivable" have been recognized an income based on effective interest rate.

*Loans and receivables*

Loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". The same arise when the Bank provides money to a debtor with no intention of simultaneous sale of these receivables or selling in the near future.

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

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

b) Financial assets until 1 January 2018 (continued)

Financial assets at fair value through profit and loss

The Bank classifies financial assets as at fair value through profit and loss when assets are either held for trading or it is expressed as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking.

Financial assets at fair value through profit and loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 33.

*Held-to-maturity investments*

Financial investments held to maturity include financial instruments with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

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

Certain shares and securities with the possibility of redemption, held by the Bank, are classified as being available for sale (AFS) and are stated at fair value. Fair value is determined in the manner described in the Note 34. Gains and losses arising from changes in fair value are recognized directly in equity in the revaluation reserve for investments with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the revaluation reserve is included in profit or loss for the period.

Dividends on equity instruments classified as available for sale are recognized in profit or loss when the Bank's right to receive payments is established.

*Impairment of financial assets*

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

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the debtor will enter bankruptcy or financial re-organisation.

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

b) Financial assets to 1 January 2018 (continued)

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed on a group basis. Individually significant financial assets that are not impaired are included in the basis for impairment on a group basis. For the purpose of group assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

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

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

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

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

*Derecognition of financial assets*

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

c) Financial liabilities and equity instruments issued by the Bank

*Classification as debt or equity*

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

*Equity instruments*

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

*Financial guarantee contract liabilities*

Financial guarantee contract liabilities initially are measured at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37: "Provisions, Contingent Liabilities and Contingent Assets"; or
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out at above.

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

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

**Financial liabilities**

Financial liabilities are classified as either financial liabilities "at fair value through profit or loss", or "other financial liabilities".

*Other financial liabilities*

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

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

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

*Derecognition of financial liabilities*

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

**Property and equipment**

Property and equipment are initially stated at procurement cost less impairment losses and accumulated impairment losses. Procurement cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. The costs of ongoing maintenance and repairs, replacement and investment maintenance of a smaller scale are recognized as an expense when incurred.

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

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

| | **2018** | **2017** |
|---|---|---|
| Buildings | 1.5% | 1.5% |
| Furnitures and vehicles | 10% do 15% | 10% do 15% |
| Computers and other equipment | 10% -20% | 10% -20% |

The gain and loss arising on the disposal or retirement of an asset is recognized in the statement of profit and loss in the period they occur.

**Impairment**

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

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

**Impairment (continued)**

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

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

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

**Intangible assets**

Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives using rate of 14.3% annually.

**Assets classified as held for sale**

Non-current assets are classified as held for sale if its carrying amount will be largely compensated by selling rather than by constant use. This requirement is met only if the sale is highly probable and the assets available for sale in the current state. Management must be decisive in sales, which should be determined for recognition as a complete sale within one year from the date of classification. Assets classified as held for sale are measured at a lower of the carrying amount and fair value less costs to sell.

**Employee benefits**

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

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

**Foreign currency translation**

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

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

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

**Foreign currency translation (continued)**

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

| | | | |
|---|---|---|---|
| **31 December 2018** | 1 EUR = 1.95583 BAM | 1 USD = 1.707552 BAM | 1 CHF = 1.742077 BAM |
| **31 December 2017** | 1 EUR = 1.95583 BAM | 1 USD = 1.630810 BAM | 1 CHF = 1.671364 BAM |

**Provisions**

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

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

**Borrowing costs**

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

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

**Equity and reserves**

*Share capital*

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

*Regulatory reserves for credit losses*

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

*Revaluation reserve for investments*

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

**Earnings per share**

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

loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

During 2018 and 2017 there were no dilution effects.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in Note 3, the Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**Key sources of estimation uncertainty**

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

***Useful lives of property and equipment***

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

***Impairment losses on loans and receivables***

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

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

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

With regard to the financial assets carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists individually for assets that are individually significant and collectively for assets that are not individually significant.

In assessing collective impairment, the following guidelines are used:

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

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

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

***Impairment losses on loans and receivables (continued)***

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

As of 27th February 2018, Supervisory Board adopted Internal Methodology for impairment in accordance with IFRS 9, with effective implementation date starting from 1th January 2018.

*Regulatory reserves calculated in accordance with FBA regulations*

For the purposes of assessing capital adequacy and recognizing reserves for credit losses formed from profit in equity and reserves, in accordance with local regulations and relevant FBA regulations, the Bank also calculates provisions. In accordance with these regulations, the relevant placements are classified into appropriate risk groups, depending on the past due days, the financial position of the borrower and collateral; and are provided for at prescribed rates.

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

*Fair value of financial instruments*

As described in Note 34, the Management use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

## 5. INTEREST INCOME

| | 2018 | 2017 |
|---|---|---|
| Interest on corporate loans | 11,589 | 11,727 |
| Interest on retail loans | 3,795 | 3,874 |
| Financial assets at fair value through OCI (Note 21) | 1,039 | - |
| Debt instruments at amortised cost (Note 22) | 186 | 179 |
| Factoring income | 11 | 297 |
| Financial assets available for sale (Note 20) | - | 884 |
| Other interest income | 58 | 218 |
| | **16,678** | **17,179** |

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

## 6. INTEREST EXPENSES

| | 2018 | 2017 |
|---|---|---|
| Interest on retail deposits | 2,420 | 2,506 |
| Interest on corporate deposits | 1,754 | 1,632 |
| Interest on subordinated debt | 413 | 510 |
| Other interest expenses | 130 | 94 |
| | **4,717** | **4,742** |

## 7. FEE AND COMMISSION INCOME

| | 2018 | 2017 |
|---|---|---|
| Fees from payment transactions | 2,777 | 3,941 |
| Fees from services rendered | 3,387 | 2,837 |
| Fees for guarantees issued | 441 | 428 |
| | **6,605** | **7,206** |

## 8. FEE AND COMMISSION EXPENSE

| | 2018 | 2017 |
|---|---|---|
| Payment transactions fees | 2,128 | 1,634 |
| Other fees to banks | 564 | 464 |
| | **2,692** | **2,098** |

## 9. OTHER GAINS

| | 2018 | 2017 |
|---|---|---|
| Gain on sale of disposed equipment (Note 24) | 2,281 | 19 |
| Foreign exchange differences, net | 1,194 | 767 |
| Income from rented premises or equipment | 439 | 424 |
| Collected written-off receivables | 161 | 308 |
| Fair value adjustment – financial assets at FVPL (Note 19) | 29 | (38) |
| Income from dividends | 27 | 26 |
| Impairment of shares related to merger of Lilium Balanced OIF Lilium Global (Note 20.) | - | (87) |
| Decrease in value of shares Eurohouse (Note 19) | - | (36) |
| | **4,131** | **1,383** |

## 10. OTHER OPERATING INCOME

| | 2018 | 2017 |
|---|---|---|
| Income from suspended interest | 237 | 32 |
| Other income | 84 | 194 |
| | **321** | **226** |

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

## 11. PERSONNEL EXPENSES

| | 2018 | 2017 |
|---|---|---|
| Net salaries | 3,954 | 4,032 |
| Tax and contributions | 2,384 | 2,449 |
| Other | 654 | 777 |
| | **6,992** | **7,258** |

The average number of personnel employed by the Bank during the year ended 31 December 2018 and 2017 was 218 and 214, respectively.

## 12. OTHER ADMINISTRATIVE EXPENSES

| | 2018 | 2017 |
|---|---|---|
| Rent | 1,283 | 1,348 |
| Services | 1,162 | 1,015 |
| Equipment and building maintenance | 1,127 | 1,002 |
| Energy | 405 | 428 |
| Expenses due to Court decisions (Note 28) | 373 | 2,348 |
| Marketing and representation | 354 | 629 |
| Telecommunication services | 327 | 389 |
| Tax expenses | 285 | 300 |
| Material expenses | 252 | 250 |
| Membership fees | 186 | 159 |
| Donations | 158 | 151 |
| Insurance | 126 | 122 |
| Utilities | 103 | 101 |
| Subsequently identified other expenses | 62 | 24 |
| Supervisory Board fees | 49 | 48 |
| Service contracts | 48 | 76 |
| Penalties | 10 | 18 |
| Card operations | 5 | 18 |
| Other expenses | 87 | 60 |
| | **6,402** | **8,486** |

## 13. IMPAIRMENT LOSSES AND PROVISIONS

| | Note | 2018 | | | | 2017 |
|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | Total | |
| Cash and cash equivalents | 16 | - | - | - | - | - |
| Loans to customers | 18 | 1,563 | 2 | (1,484) | 81 | 4,602 |
| Provisions for litigations | 29 | 250 | - | - | 250 | 270 |
| Financial assets at FVOCI | 21 | 41 | - | - | 41 | |
| Provisions for commitments and contingencies | 29 | 22 | - | - | 22 | 227 |
| Provisions for employee benefits | 29 | 8 | - | - | 8 | 16 |
| Financial assets at amortised cost | 22 | (4) | - | - | (4) | - |
| Other assets | 23 | - | - | - | - | 103 |
| Provisions based on the Collective Agreement | 29 | - | - | - | - | (1) |
| | | **1,880** | **2** | **(1,484)** | **398** | **5,217** |

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

## 14. INCOME TAX

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

| | 2018 | 2017 |
|---|---|---|
| Current income tax | - | - |
| Unrecognised deferred tax – temporary difference | - | - |
| **Total tax** | - | - |

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

| | 2018 | 2017 |
|---|---|---|
| **Profit / (loss) before income tax** | **5,246** | **(3,171)** |
| ***Income tax expense, at the statutory rate of 10%*** | ***525*** | ***(317)*** |
| Effects of non-deductible expenses | 178 | 170 |
| Effects of non-taxable income | (95) | (49) |
| Capital losses | (940) | - |
| **Current income tax** | - | - |
| **Effective income tax rate** | - | - |

Responsible bodies of the Bank believe that tax losses of Moja Banka d.d. Sarajevo can be carried forward to the successor bank through the merger process. In accordance with the Corporate Income Tax Act, rights and obligations of merged, acquired or divided taxpayers are assumed by legal successors in tax-legal relation.

Provisions of the Rulebook on implementation of Corporate Income Tax Act stipulate that a taxpayer that merges another taxpayer cannot use tax loss of the merged entity for decrease of its future tax base. Responsible bodies of the Bank believe that, in this case, the provisions of the Law, as the supreme legal act, are applicable. On 4 April 2018, Bank received Report from the Tax Authorities, denying usage of losses of Moja banka d.d., and, consequently, stipulates additional tax obligation in amount of 289 thousand KM (principal and penalty). On 24 April 2018, Bank has filed a complaint to the Tax Authorities, arguing above mentioned facts. Until the day of our audit, there were no significant changes in this segment.

Changes in deferred tax asset can be presented as follows:

| | 2018 | 2017 |
|---|---|---|
| **Balance as at 1 January** | **124** | **137** |
| Used deferred tax assets | (11) | (13) |
| **Balance as at 31 December** | **113** | **124** |

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

## 15. PROFIT/(LOSS) PER SHARE

| | 2018 | 2017 |
|---|---|---|
| Net result (in BAM thousands) | 5,235 | (3,178) |
| Weighted average number of shares for the purpose of basic earnings per share | 658,695 | 658,695 |
| **Basic earnings / (loss) per share (in BAM)** | **7.95** | **(4.82)** |

## 16. CASH AND CASH EQUIVALENTS

| | 31 December 2018 | | | | 31 December 2017 |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | |
| Current account in domestic currency with the Central Bank of BH | 51,532 | - | - | 51,532 | 69,502 |
| Current accounts with other banks | 20,616 | - | - | 20,616 | 12,171 |
| Cash in hand in domestic currency | 12,972 | - | - | 12,972 | 7,348 |
| Cash in hand in foreign currency | 6,494 | - | - | 6,494 | 5,941 |
| | **91,614** | **-** | **-** | **91,614** | **94,962** |

Changes in gross carrying amount and related impairments in 2018 are presented below

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| ***Gross carrying amount as at 1 January 2018*** | ***94,962*** | ***-*** | ***-*** | ***94,962*** |
| Acquired financial assets | - | - | - | - |
| Derecognition or proceeds from collection (excluding write off) | (3,327) | - | - | (3,327) |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| **At 31 December 2018** | **91,635** | **-** | **-** | **91,635** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| ***Gross carrying amount as at 1 January 2018*** | ***21*** | ***-*** | ***-*** | ***21*** |
| Acquired financial assets | - | - | - | - |
| Derecognition or proceeds from collection (excluding write off) | - | - | - | - |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| **At 31 December 2018** | **21** | **-** | **-** | **21** |

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

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Obligatory reserve with CBBH | 42,925 | 40,358 |
| | **42,925** | **40,358** |

With the new Law on Banks that has come into force in April 2018, Banks are no longer obliged to hold special reserve as prescribed by previous Law article 42 a.

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

Governing Council of the Central Bank of Bosnia and Herzegovina (CBBiH) adopted the Decision on determining and maintaining obligatory reserves and determining CBBiH fee on the amount of reserve ("Official Gazette of BiH", no. 30/16).

As prescribed in this Decision, base for the calculation of mandatory reserve is deposits and loaned funds, regardless of the currency. Decision prescribes unified rate of 10% that CBBiH applies in calculation of the obligatory reserve.

The Decision also determine that no fee will be calculated for the obligatory reserve amount. For the amount of assets over the obligatory reserve, CBBH calculates fee at the rate equal to 50% of the rate applied by the European Central Bank (ECB) on commercial bank's deposits.

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

## 18. LOANS AND RECEIVABLES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| *Short-term loans:* | | |
| (including current portion of long-term loans) | | |
| Corporate | 120,478 | 131,762 |
| Retail | 10,741 | 17,477 |
| | *131,219* | *149,239* |
| *Long-term loans:* | | |
| (excluding current portion of long-term loans) | | |
| Corporate | 164,071 | 131,381 |
| Retail | 54,046 | 41,858 |
| | *218,117* | *173,239* |
| ***Total loans before allowance for impairment*** | ***349,336*** | ***322,478*** |
| Less: Allowance for impairment losses based on individual assessment | (35,464) | (25,715) |
| Less: Allowance for impairment losses based on collective assessment | (9,401) | (6,899) |
| | **304,471** | **289,864** |

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

| | Stage 1 | Stage 2 | Stage 3 | | |
|---|---|---|---|---|---|
| | **Collective assessment** | **Collective assessment** | **Individually assessed** | **Collective assessment** | **Total** |
| ***Loans to individuals*** | | | | | |
| Housing loan | 13,216 | - | 661 | 122 | 13,999 |
| Other loans to individuals | 42,817 | 159 | 3,684 | 4,128 | 50,788 |
| | *56,033* | *159* | *4,345* | *4,250* | *64,787* |
| ***Loans to corporate*** | | | | | |
| Revolving loans | 57,897 | 711 | 4,933 | - | 63,541 |
| Investment loans | 18,979 | 200 | 4,460 | - | 23,639 |
| Other loans to corporate | 148,728 | 13,358 | 35,283 | - | 197,369 |
| | *225,604* | *14,269* | *44,676* | - | *284,549* |
| Less: Impairment | (4,746) | (707) | (35,464) | (3,948) | (44,865) |
| | **276,891** | **13,721** | **13,557** | **302** | **304,471** |

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

## 18. LOANS AND RECEIVABLES (CONTINUED)

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

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| ***Gross carrying amount as at 1 January 2018*** | ***247,980*** | ***20,377*** | ***54,121*** | ***322,478*** |
| Acquired financial assets | 181,225 | 3,057 | 46 | 184,328 |
| Derecognition or proceeds from collection (excluding write off) | (149,143) | (8,476) | (4,163) | (161,782) |
| Transfer to Stage 1 | - | (316) | 509 | 193 |
| Transfer to Stage 2 | 316 | - | 216 | 532 |
| Transfer to Stage 3 | (508) | (217) | - | (725) |
| Increase in impairment due to changes in risk parameters | 1,767 | 3 | 911 | 2,681 |
| Transfer of accrued interest receivables from off-balance sheet | - | - | 1,654 | 1,654 |
| Write off | - | - | (23) | (23) |
| **At 31 December 2018** | **281,637** | **14,428** | **53,271** | **349,336** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| ***Impairments as at 1 January 2018*** | ***3,589*** | ***794*** | ***38,769*** | ***43,152*** |
| Acquired financial assets | 3,552 | 90 | 14 | 3,656 |
| Derecognition or proceeds from collection (excluding write off) | (2,289) | (146) | (1,620) | (4,055) |
| Transfer to Stage 1 | - | 69 | 337 | 406 |
| Transfer to Stage 2 | (69) | - | 158 | 89 |
| Transfer to Stage 3 | (338) | (157) | - | (495) |
| Increase in impairment due to changes in risk parameters | 531 | 194 | 1,371 | 2,096 |
| Decrease in impairment due to changes in risk parameters (unwinding) | (231) | (136) | (1,249) | (1,616) |
| Transfer of accrued interest receivables from off-balance sheet | - | - | 1,654 | 1,654 |
| Write off | - | - | (22) | (22) |
| **At 31 December 2018** | **4,745** | **708** | **39,412** | **44,865** |

Changes in allowance for impairment losses on loans to customers during 2017 may be presented as follows:

| | 2017 |
|---|---|
| **Balance at beginning of the year** | **28,343** |
| Increase, net (Note 13) | 4,602 |
| Write off | (331) |
| **Balance at the end of the year** | **32,614** |

Weighted average interest rate can be presented as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Corporate | 5.57% | 5.79% |
| Retail | 5.05% | 10.42% |

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

| 31 December 2018 | Average PD | Average CR | Average LGD |
|---|---|---|---|
| Corporate | 0.037 | 0.063 | 0.937 |
| Retail | 0.006 | 0.077 | 0.923 |

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

## 18. LOANS AND RECEIVABLES (CONTINUED)

Analysis of loans before allowance for impairment losses by industry:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade | 128,047 | 111,583 |
| Agriculture, forestry, mining and industry | 66,375 | 69,791 |
| Citizens | 64,787 | 60,145 |
| Services, finance, sport and tourism | 51,924 | 22,810 |
| Construction industry | 21,400 | 43,052 |
| Governmental institutions, NGO's and other | 11,076 | 10,115 |
| Transport and communications | 5,727 | 4,982 |
| | **349,336** | **322,478** |

Reprograms and restructuring

Restructuring measures include a "concession" to the debtor as a result of the deterioration in the economic and financial position of the client and the impossibility of repaying the debt under the initially agreed terms. The "concession" may be change in terms of the original contract (annex) or a new contract (refinancing). Restructuring of the liabilities aims to enable the client to repay the obligations according to his real possibilities, with the provision of more efficient and secure collection of the Bank's receivables. According to this, restructuring of the liabilities represents a change in the terms and conditions agreed in the moment of loan approving (e.g. extension of repayment deadlines, reduction of interest rates, etc.). Decision on restructuring of the liabilities make authorized body of the Bank. Restructured exposures can be identified both in the non-performing and performing parts of the portfolio.

| 31 December 2018 | Number of reprogramed loans | Gross credit exposure | Stage 1 | Stage 2 | Stage 3 |
|---|---|---|---|---|---|
| Corporate | 39 | 13,949 | 1,000 | - | 12,949 |
| Retail | 18 | 1,256 | 103 | - | 1,153 |
| | **57** | **15,205** | **1,103** | - | **14,102** |

### Syndicated loan

During 2018, the Bank approved 11 syndicated loans to the clients together with other banks. On this basis, the participation of other banks as at 31 December 2018, was in amount of KM 12,076 thousand. The Bank bears risks only for its portion of syndicated loans.

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

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| ***Shares:*** | | |
| Shares of private companies | 219 | 199 |
| Shares of public companies | 38 | 40 |
| Shares of banks | 21 | 17 |
| Shares of non-banking financial institutions | 5 | 5 |
| | ***283*** | ***261*** |
| ***Debt instruments:*** | | |
| Budgetary expenses FBiHK17A | - | 5,070 |
| Budgetary expenses | - | 1,022 |
| Budgetary expenses – B series | 809 | 647 |
| Budgetary expenses – A series | 699 | 622 |
| Budgetary expenses – D series | 397 | 272 |
| Budgetary expenses – E series | 343 | 173 |
| Budgetary expenses – C series | 146 | 77 |
| Budgetary expenses - FBIHK2A | 19 | - |
| Budgetary expenses - FBIHK2B | 16 | - |
| Budgetary expenses - FBIHK2C | 9 | - |
| | *2,438* | *7,883* |
| | 2,721 | 8,144 |

Movements in fair value of assets through profit and loss were as follows:

| | 2018 | 2017 |
|---|---|---|
| **Balance at beginning of the year** | **8,144** | **8,090** |
| Transfer to financial assets at fair value through other comprehensive income (Note 21) | (6,092) | - |
| Purchase during the year | 640 | 154 |
| Gains / (losses) related to fair value adjustments (Note 9) | 29 | (38) |
| Decrease of share value Eurohouse (Note 9) | - | (36) |
| Decrease | - | (26) |
| **Balance at end of the year** | **2,721** | **8,144** |

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

## 20. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets classified as available for sale according to IAS 39 (debt and equity securities), from 1 January 2018, according to IFRS 9, the Bank classifies as financial assets at fair value through other comprehensive income.

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| ***Debt instruments:*** | | |
| Ministry of Finance FBiH | - | 26,052 |
| Accrued interest | - | 115 |
| | - | ***26,167*** |
| ***Investment in funds:*** | | |
| Open investment fund “Lilium Global” Sarajevo | - | 515 |
| Open investment fund “Lilium Cash” Sarajevo | - | 162 |
| Open investment fund “Lilium Balanced” Sarajevo | - | - |
| | - | ***677*** |
| ***Equity securities:*** | | |
| Bamcard d.d. Sarajevo | - | 219 |
| Sarajevo Stock Exchange d.d. Sarajevo | - | 103 |
| Security Registry in FBiH | - | 15 |
| Vakufska banka d.d. Sarajevo | - | 14 |
| Bank Association | - | 9 |
| | - | ***360*** |
| | - | **27,204** |

Changes in financial assets available for sale were as follows:

| | 2018 | 2017 |
|---|---|---|
| **Balance at beginning of the year** | **27,204** | **31,807** |
| Interest (Note 5) | - | 884 |
| Impairment of shares related to merger Lilium Balanced OIF Lilium Global (Note 9) | - | (87) |
| Unrealised gain from fair value adjustment | - | 27 |
| Decrease, net | - | (5,427) |
| Transfer to financial assets at FVOCI (Note 21) | (27,204) | - |
| **Balance at end of the year** | - | **27,204** |

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

## 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| ***Debt instruments:*** | | |
| Ministry of Finance FBiH | 26,482 | - |
| Ministry of Finance RS | 6,864 | - |
| JP Autoceste FBiH d.o.o. Mostar | 1,000 | - |
| Accrued interest | 286 | - |
| *Sub-total* | *34,632* | - |
| ***Equity instruments:*** | | |
| Bamcard d.d. Sarajevo | 219 | - |
| Sarajevo Stock exchange d.d. Sarajevo | 103 | - |
| Securities' Register of FBiH d.d. | 15 | - |
| Vakufska banka d.d. Sarajevo | 9 | - |
| Bank Association | 9 | - |
| *Sub-total* | *355* | - |
| | | - |
| ***Investment in funds:*** | | |
| Open investment fund "Lilium Global" Sarajevo | 504 | - |
| | *504* | - |
| | **35,491** | - |

Changes in gross carrying amount and related impairments in 2018 are presented below:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| ***Gross carrying amount as at 1 January 2018*** | ***33,296*** | - | - | ***33,296*** |
| New financial assets (purchased) | 10,058 | - | - | 10,058 |
| Derecognition or proceeds from collection (excluding write off) | (9,155) | - | - | (9,155) |
| Interest (Note 5) | 1,039 | - | - | 1,039 |
| Unrealised gain from fair value adjustment, net | 264 | - | - | 264 |
| Sale of shares „Lillum Cash" Sarajevo | (11) | - | - | (11) |
| **At 31 December 2018** | **35,491** | - | - | **35,491** |

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

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| ***Impairment as at 1 January 2018*** | ***220*** | - | - | ***220*** |
| Changes in models / parameters for credit risk assessment | 41 | - | - | 41 |
| **At 31 December 2018** | **261** | - | - | **261** |

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

## 22. DEBT INSTRUMENTS AT AMORTISED COST

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| ***Debt instruments:*** | | |
| Ministry of Finance of FBiH | 1,987 | 1,857 |
| Bonds Municipality Hadžići | - | 10 |
| | ***1,987*** | ***1,867*** |
| Less: Impairment, net | (14) | - |
| | **1,973** | **1,867** |

Changes in debt instruments at amortised cost are presented below:

| | 2018 | 2017 |
|---|---|---|
| **At 1 January 2018** | **1,867** | **1,756** |
| Interest (Note 5) | 186 | 179 |
| Decrease, net | (80) | (68) |
| **Balance at end of the year** | **1,973** | **1,867** |

Changes in gross carrying amount and related impairments in 2018 are presented below:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Gross carrying amount as at 1 January 2018** | ***1,867*** | - | - | ***1,867*** |
| New financial assets (purchased) | - | - | - | - |
| Derecognition or proceeds from collection (excluding write off) | (66) | - | - | (66) |
| Interest (Note 5) | 186 | - | - | 186 |
| **At 31 December 2018** | **1,987** | - | - | **1,987** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| ***Impairment as at 1 January 2018*** | ***18*** | - | - | ***18*** |
| Decrease in impairment due to changes in risk parameters | (4) | - | - | (4) |
| ***At 31 December 2018*** | 14 | - | - | 14 |

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

## 23. OTHER ASSETS AND RECEIVABLES, NET

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Receivables from BH Pošta based on the foreign exchange Contract | 2,919 | 2,818 |
| Acquired tangible assets | 2,161 | 1,570 |
| Receivables from banks | 1,010 | 3,289 |
| Advances paid | 611 | 513 |
| Prepaid income tax | 219 | 219 |
| Deposits placed in other banks | 147 | 1,125 |
| Receivables from government institutions | 107 | 107 |
| Inventories and other office material | 45 | 62 |
| Other | 1,766 | 1,724 |
| | ***8,985*** | ***11,427*** |
| Less: Impairment | (1,167) | (1,191) |
| | **7,818** | **10,236** |

Changes in impairment are as follows:

| | 2018 | 2017 |
|---|---|---|
| **Balance at 1 January** | **1,191** | **1,222** |
| Increase of impairment (Note 13) | - | 103 |
| Write off | (24) | (134) |
| **Balance at 31 December** | **1,167** | **1,191** |

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

## 24. TANGIBLE AND INTANGIBLE ASSETS

| | Buildings and land | Vehicles | Computer and other equipment | Intangible assets | Leasehold improvements | Investments in progress | Total |
|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | |
| **At 31 December 2016** | **15,295** | **591** | **9,742** | **4,301** | **1,482** | **138** | **31,549** |
| Additions | - | - | - | - | - | 1,291 | 1,291 |
| Transfer (from) / to | - | 195 | 191 | 592 | 90 | (1,068) | - |
| Disposals | - | (99) | (110) | - | - | (25) | (234) |
| Transfer to acquired assets | (1,776) | - | - | - | - | - | (1,776) |
| **At 31 December 2017** | **13,519** | **687** | **9,823** | **4,893** | **1,572** | **336** | **30,830** |
| Additions | - | - | - | - | - | 1,329 | 1,329 |
| Transfer (from) / to | 171 | - | 401 | 372 | 333 | (1,277) | - |
| Disposals | (8,540) | (53) | (8) | - | - | (36) | (8,637) |
| **At 31 December 2018** | **5,150** | **634** | **10,216** | **5,265** | **1,905** | **352** | **23,522** |
| **ACCUMULATED DEPRECIATION** | | | | | | | |
| **At 31 December 2016** | **7,646** | **290** | **8,013** | **3,083** | **1,071** | - | **20,103** |
| Depreciation | 193 | 86 | 556 | 452 | 77 | - | 1,364 |
| Disposals | - | (83) | (110) | - | - | - | (193) |
| Transfer to acquired assets | (431) | - | - | - | - | - | (431) |
| **At 31 December 2017** | **7,408** | **293** | **8,459** | **3,535** | **1,148** | - | **20,843** |
| Depreciation | 177 | 86 | 475 | 451 | 99 | - | 1,288 |
| Disposals | (6,006) | (12) | (4) | - | - | - | (6,022) |
| **At 31 December 2018** | **1,579** | **367** | **8,930** | **3,986** | **1,247** | - | **16,109** |
| **NET BOOK VALUE** | | | | | | | |
| **At 31 December 2018** | **3,571** | **267** | **1,286** | **1,279** | **658** | **352** | **7,413** |
| **At 31 December 2017** | **6,111** | **394** | **1,364** | **1,358** | **424** | **336** | **9,987** |

Cost of fully depreciated tangible and intangible assets in use is BAM 11,408 thousand as at 31 December 2018 (2017: BAM 8,677 thousand)

During the year of 2018, Bank sold its building in Zenica, and based on this transaction realised a gain of sale in amount of BAM 2,276 thousand (Note 9).

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

## 25. DUE TO BANKS

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Deposits:** | | |
| Demand deposits | 2,109 | 200 |
| Fixed-term deposits | 5,500 | 2,500 |
| | **7,609** | **2,700** |

## 26. DUE TO CUSTOMERS

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| ***Demand deposits:*** | | |
| *Retail:* | | |
| In domestic currency | 55,792 | 52,002 |
| In foreign currencies | 17,711 | 16,161 |
| | *73,503* | *68,163* |
| *Corporate:* | | |
| In domestic currency | 38,664 | 35,934 |
| In foreign currencies | 3,523 | 3,728 |
| | *42,187* | *39,662* |
| *Deposits from non-profit organisations, cantonal government, municipalities etc.:* | | |
| In domestic currency | 69,352 | 82,751 |
| In foreign currencies | 10,626 | 831 |
| | *79,978* | *83,582* |
| | **195,668** | **191,407** |
| ***Fixed-term deposits:*** | | |
| *Retail:* | | |
| In domestic currency | 52,692 | 43,318 |
| In foreign currencies | 70,033 | 62,278 |
| | *122,725* | *105,596* |
| *Corporate:* | | |
| In domestic currency | 13,114 | 16,552 |
| In foreign currencies | 1,188 | 493 |
| | *14,302* | *17,045* |
| *Deposits from non-profit organisations, cantonal government, municipalities etc.:* | | |
| In domestic currency | 59,556 | 59,293 |
| In foreign currencies | 26,221 | 24,651 |
| | *85,777* | *83,944* |
| | **222,804** | **206,585** |
| | **418,472** | **397,992** |

As of 31 December 2018, annual interest rates on demand deposits were 0.05% to 0.60% (2017: 0.05% to 0.50%). As of 31 December 2018, annual interest rates on fixed-term deposits of legal entities were 0.10% to 4.50%, (2017: 0.10% to 4.80%) or 0.09% to 6.4% for private individuals (2017: from 0.10% to 6.40%).

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

## 27. SUBORDINATED DEBT

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| ASA Finance d.d. Sarajevo *(3,000,000 BAM, interest rate 5% p.a., maturity 11 August 2020 - bonds)* | 3,000 | 3,000 |
| ASA Finance d.d. Sarajevo *(3,000,000 BAM, interest rate 8% p.a., maturity 13 December 2018 - loan)* | - | 3,000 |
| ASA Finance d.d. Sarajevo *(2,000,000 BAM interest rate 6% p.a., maturity 28 March 2018 - loan)* | - | 2,000 |
| Accrued interest | 59 | 58 |
| | **3,059** | **8,058** |

## 28. OTHER LIABILITIES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Liabilities for inactive accounts | 794 | 1,204 |
| Card operations | 383 | 2,263 |
| Liabilities to suppliers | 336 | 344 |
| Liabilities for dividends | 127 | 316 |
| Liabilities for managed funds commissions (Note 31) | 35 | 36 |
| Liabilities to employees by Court decisions [1] (Note 12.) | 24 | 1,342 |
| Liabilities for undistributed inflows | 11 | 11 |
| Other | 616 | 454 |
| | **2,326** | **5,970** |

[1] In the course of 2017, Bank received Court executive decisions on labour court cases for 69 former and current employees in total amount of BAM 1,964 thousand (court expenses, principal and penalties included in the amount), as well as second instance court decisions in total amount of BAM 139 thousand. Based on these decisions, the Bank calculated obligatory taxes and contributions on adjudicated principal, and for this purpose accrued expenses in amount of BAM 2,348 thousand, as well as additional provisioning in 2017 based on Court Decisions in amount of BAM 270 thousand (Note 12 and 13). Stated liability as of 31 December 2017 represent unpaid portion of the mentioned liabilities towards former and current employees. In the course of 2018, Bank paid majority of liabilities to former and current employees.

## 29. PROVISIONS

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Provisions for commitments and contingencies | 492 | 588 |
| Provisions for legal proceedings | 240 | - |
| Provisions for employee benefits | 43 | 58 |
| | **775** | **646** |

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

## 29. PROVISIONS (CONTINUED)

*Commitments and contingencies*

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

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Unused approved loans | 13,552 | 15,901 |
| Performance guarantees | 10,508 | 8,825 |
| Payment guarantees | 4,204 | 5,601 |
| Letters of credit | 71 | - |
| | **28,335** | **30,327** |

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

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Gross carrying amount as at 1 January 2018.** | ***30,004*** | ***320*** | ***3*** | ***30,327*** |
| New financial liabilities | 22,079 | 53 | - | 22,132 |
| Derecognition or payment of liabilities (excluding write off) | (24,570) | (197) | (2) | (24,769) |
| Increase in exposure by existing contracts | 643 | 2 | - | 645 |
| Transfer to Stage 1 | - | 96 | - | 96 |
| Transfer to Stage 2 | (96) | - | - | (96) |
| Transfer to Stage 3 | - | - | - | - |
| **At 31 December 2018** | **28,060** | **274** | **1** | **28,335** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Impairments as at 1 January 2018** | ***463*** | ***7*** | ***3*** | ***473*** |
| New financial liabilities | 409 | - | - | 409 |
| Derecognition or payment of liabilities (excluding write off) | (403) | (6) | (3) | (412) |
| Transfer to Stage 1 | - | 2 | 1 | 3 |
| Transfer to Stage 2 | (2) | - | - | (2) |
| Transfer to Stage 3 | (1) | - | - | (1) |
| Increase in impairment due to changes in risk parameters | 22 | - | - | 22 |
| **At 31 December 2018** | **488** | **3** | **1** | **492** |

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

## 29. PROVISIONS (CONTINUED)

Changes in provisions are presented below:

| | Court proceeding | Commitments and contingencies | Employee benefits | Other provisions | Total |
|---|---|---|---|---|---|
| **Balance as of 1 January 2017** | **703** | **361** | **57** | **1** | **1.122** |
| Increase of provision (Note 13) | 270 | 227 | 16 | - | 513 |
| Release of provisions (Note 13) | - | - | - | (1) | (1) |
| Decrease due to payment | (973) | - | (15) | - | (988) |
| **Balance as of 31 December 2017** | **-** | **588** | **58** | **-** | **646** |
| Effects of first-time adoption of IFRS 9 | - | 21 | - | - | 21 |
| Reclassification | 136 | (136) | - | - | - |
| Increase of provision (Note 13) | 250 | 432 | 8 | | 690 |
| Release of provisions (Note 13) | - | (413) | - | - | (413) |
| Decrease due to payment | (146) | - | (23) | - | (169) |
| **Balance as of 31 December 2018** | **240** | **492** | **43** | **0** | **775** |

According to Bank's records, the value of claims of former and current employees as of 31 December 2018 was 283 thousand KM (2017: 390 thousand KM). Bank did not make provisions due to claims, because Management believes that disputes will be resolved in settlement and in amount that is not material for the Bank.

On 4 April 2018, Bank received Bank received Report from the Tax Authorities, denying usage of losses of Moja banka d.d., and, consequently, stipulates additional tax obligation in amount of 289 thousand KM (principal and penalty). On 24 April 2018, Bank has filed a complaint to the Tax Authorities, arguing above mentioned facts. Until the day of audit, there were no significant changes in a complaint status filed to the Tax Authorities.

## 30. SHARE CAPITAL

Share capital as of 31 December 2018 consists of 658,695 ordinary shares at nominal value of 100 KM.

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | '000 KM | % of ownership | '000 KM | % of ownership |
| ASA Finance d.d. Sarajevo | 30,964 | 47.01% | 30,964 | 47.01% |
| ZIF "prevent INVEST" d.d. Sarajevo | 7,548 | 11.46% | 7,548 | 11.46% |
| E-MARDIN d.o.o. Sarajevo | 4,015 | 6.10% | 4,015 | 6.10% |
| Validus d.d. Varaždin – in liquidation | 1,780 | 2.70% | 1,780 | 2.70% |
| Almy d.o.o. Zenica | 1,403 | 2.13% | 1,403 | 2.13% |
| Raiffeisen bank d.d. BiH | 1,337 | 2.03% | 1,337 | 2.03% |
| ZIF "PROF-PLUS" d.d. Sarajevo | 1,010 | 1.53% | 1,010 | 1.53% |
| Other shareholders | 17,813 | 27.04% | 17,813 | 27.04% |
| | **65,870** | **100.00%** | **65,870** | **100.00%** |

## 31. MANAGED FUNDS

The funds for which the Bank acts as commissioner for and of behalf of third party are not Bank's assets and therefore are not the part of financial statements. Analysis of managed funds is presented as follows:

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

## 31. MANAGED FUNDS (CONTINUED)

| | 31 December 2018. | 31 December 2017 |
|---|---|---|
| **PLACEMENTS** | | |
| Corporate | 9,794 | 9,617 |
| Retail | 2,513 | 2,787 |
| | **12,307** | **12,404** |
| **SOURCES:** | | |
| Zenica - Doboj Canton | 9,907 | 10,036 |
| Sarajevo Canton | 1,962 | 1,940 |
| Others | 473 | 464 |
| | **12,342** | **12,440** |
| **Current obligations due to Managed funds** (Note 28) | **35** | **36** |

In accordance with agreement signed between government of Zenica – Doboj Canton and Sarajevo Canton with the Bank, the Bank has placed 9,794 thousand KM as landing funds to legal entities and 2,513 thousand KM to individuals, for investment in apartments construction for third parties, employment incentive and agriculture.

In accordance with above mentioned agreements the Bank is obliged to place these funds to third parties. Sources bear all the risk in full.

## 32. RELATED PARTY TRANSACTIONS

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

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

(i) has control or joint control of the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

## 32. RELATED PARTY TRANSACTIONS (CONTINUED)

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

As at 31 December 2018 and 2017 balance outstanding with related parties comprised:

| | 31. December 2018 | | | 31. December 2017 | | |
|---|---|---|---|---|---|---|
| | Loans | Off-balance sheet exposure | Total | Loans | Off-balance sheet exposure | Total |
| Employees | 2,154 | 272 | 2,426 | 2,116 | 293 | 2,409 |
| Shareholders | 4,167 | 251 | 4,418 | 5,969 | 507 | 6,476 |
| | **6,321** | **523** | **6,844** | **8,085** | **800** | **8,885** |

### Directors' remuneration

The remuneration of directors and other key management personnel during the year ended 31 December 2018 may be presented as follows

| | 2018 | 2017 |
|---|---|---|
| Compensation for Chairman and members of the Board | 577 | 443 |
| Taxes and contributions and other compensations | 244 | 255 |
| | **821** | **698** |

## 33. FINANCIAL INSTRUMENTS

### a) Capital risk management

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

- To comply with the capital requirements set by the regulators of the banking markets;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- 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 2018 | 31 December 2017 |
|---|---|---|
| Debt | 429,140 | 408,750 |
| Capital | 62,298 | 67,380 |
| **Net debt to capital ratio** | **6.89** | **6.07** |

Debt is defined as liabilities toward clients, other banks and financial institutions presented in detail in Notes 25, 26 and 27. Capital includes share capital and accumulated losses.

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

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

### 33. FINANCIAL INSTRUMENTS (CONTINUED)

FBA requires each bank to: (a) hold the minimum level of the share capital and the lowest level of net capital (regulatory capital) of KM 15 million, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum of 12%, and to maintain the capital conservation buffer at the minimum of 2.5%.

On 13 October 2017, FBA issued new Decision on minimum standards for capital management and capital hedge, effective for 2018. By this decision, the Bank's regulatory capital is divided into two tiers:
Tier 1 capital or Core Capital; share capital, share premium and accumulated profit, reduced by negative revaluation reserves, intangible assets and deferred tax assets; and
Tier 2 capital or Supplementary Capital: general regulatory reserves in accordance with FBA regulations (calculated for regulatory reporting only), preference non-cumulative shares.

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

At 31 December 2017 the Bank complied with the externally imposed capital requirements effective for previous periods. At 31 December 2017, capital adequacy of the Bank amounted to 15.4%.

One of the basic processes that the Bank implements in the context of strategic risk management is the internal capital adequacy assessment process ("ICAAP"). The main objective of this process is to determine the positive level of capital that is sufficient to cover all risks that the Bank is exposed to and that are assessed as material. ICAAP serves as an internal capital adequacy assessment tool in relation to the risk profile of the Bank and the implementation of the Bank's strategy appropriate to maintaining an adequate level of internal capital. On June 28, 2018, the Bank's Supervisory Board adopted the Procedures with the ICAAP assessment methodology. At 31 December 2018, the rates and levels of capital were as follows:

| | |
|---|---|
| The rate of core capital | 14.93% |
| The rate of regulatory capital | 14.93% |
| The rate of core capital including adjustments from Pillar 2 | 6.62% |
| The rate of core capital including adjustments from Pillar 2 | 8.83% |
| The rate of regulatory capital including adjustments from Pillar 21 | 11.77% |

At 31 December 2018, in accordance with the new FBA regulations, the Bank complied with the externally imposed capital requirements. At 31 December 2018, capital adequacy of the Bank amounted to 14.93%.

**Capital adjustment plan**

As of 31 December 2018, the ratio “tangible assets/Core capital” amounted to 13.59% (31 December 2017: 17.15%). According to the Law on Banks, total bank’s investments into tangible assets may not exceed 40% of the core capital.

Share capital and total risk assets ratio amounts to 15.8% (31 December 2017: 20.2%), which means that the Bank has provided security instruments. Financial leverage ratio at 31 December 2018 amounts to 10.2% (31 December 2017: 12.9%). According to FBA Decision on Capital Requirements, Bank is obliged to ensure and maintain financial leverage rate in minimum amount of 6%.

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

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

**Capital adjustment plan (continued)**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **The share capital of the bank – Tier 1** | | |
| Share capital | 65,870 | 65,870 |
| Statutory reserves | 124 | 124 |
| Other reserves | 5,867 | 5,867 |
| Retained earnings carried forward from previous years | | - |
| Uncovered losses carried forward from previous years | (15,620) | (1,643) |
| Current year loss | - | (3,178) |
| Deferred tax assets | (113) | (124) |
| Negative revaluation reserves | (323) | (96) |
| *Less: Intangible assets* | (1,314) | (1,570) |
| **Total tier 1 capital** | **54,491** | **65,250** |
| **Tier 2 capital** | | |
| General regulatory reserves under FBA rules | 4,316 | 4,035 |
| Subordinated debt | 967 | 1,566 |
| Positive revaluation reserves based on effects of changes in fair value of assets | 914 | 204 |
| **Total tier 2 capital** | **6,197** | **5,805** |
| **Deductions from capital** | | |
| Investments that exceed 5% of basic capital | - | - |
| Adjustment for shortfall in regulatory reserves | (12,778) | (21,326) |
| **Net capital** | **47,910** | **49,729** |
| Risk Weighted Assets (unaudited) | 321,312 | 299,039 |
| Weighted Operational Risk (unaudited) | 23,974 | 23,740 |
| **Total weighted risk** | **345,286** | **322,779** |
| **Capital adequacy (%)** | **13,9** | **15,4** |

### b) Significant accounting policies

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

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

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### c) Categories of financial instruments

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables: | | |
| *Cash and cash equivalents (including Obligatory reserves with the CBBH)* | 134,539 | 135,320 |
| *Loans to clients and receivables, net* | 304,471 | 289,864 |
| Financial assets at FVTPL | 2,721 | 8,144 |
| Financial assets at FVTOCI | 35,491 | - |
| Financial assets at amortised cost | 1,973 | 1,867 |
| Financial assets available-for-sale | - | 27,204 |
| | **479,195** | **462,399** |
| **Financial liabilities** | | |
| At amortised cost: | | |
| *Borrowings and liabilities to banks* | 7,609 | 2,700 |
| *Subordinated debt* | 3,059 | 8,058 |
| *Due to customers* | 418,472 | 397,992 |
| | **429,140** | **408,750** |

### d) Financial risk management objectives

The Bank's Finance department provides services to the business, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports, which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

### e) Market risk

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

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

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

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### f) Foreign currency risk management

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

| | BAM | EUR | USD | CHF | Other | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 2018** | | | | | | |
| **ASSETS** | | | | | | |
| Cash and balances with other banks | 64,495 | 21,958 | 2,501 | 1,390 | 1,270 | 91,614 |
| Obligatory reserves with the CBBH | 42,925 | - | - | - | - | 42,925 |
| Loans to customers, net | 143,749 | 160,722 | - | - | - | 304,471 |
| Financial assets at FVTPL | 2,721 | - | - | - | - | 2,721 |
| Financial assets at FVTOCI | 27,498 | 7,993 | - | - | - | 35,491 |
| Debt instruments at amortised cost | 1,973 | - | - | - | - | 1,973 |
| Other receivables | 7,351 | 467 | - | - | - | 7,818 |
| **Total** | **290,712** | **191,140** | **2,501** | **1,390** | **1,270** | **487,013** |
| **LIABILITIES** | | | | | | |
| Due to other banks and financial Institutions | 2,107 | 5,502 | - | - | - | 7,609 |
| Amounts due to customers | 217,642 | 196,081 | 2,482 | 1,350 | 917 | 418,472 |
| Other financial liabilities | 2,322 | 4 | - | - | - | 2,326 |
| Subordinated debt | 3,059 | - | - | - | - | 3,059 |
| **Total** | **225,130** | **201,587** | **2,482** | **1,350** | **917** | **431,466** |
| **As at 31 December 2017.** | | | | | | |
| **Total monetary assets** | **295,094** | **173,330** | **1,867** | **1,102** | **1,242** | **472,635** |
| **Total monetary liabilities** | **246,009** | **165,249** | **1,846** | **963** | **652** | **414,719** |

***Foreign currency sensitivity analysis***

The Bank is mainly exposed to EUR, USD and CHF. 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 and CHF, 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in USD. A positive number below indicates an increase in profit where KM strengthens 10% against USD. For a 10% weakening of KM against USD and CHF, there would be an equal and opposite impact on the profit, and the balances below would be negative.

| | USD Effect | | CHF Effect | |
|---|---|---|---|---|
| | **31. December 2018** | **31. December 2017** | **31. December 2018** | **31. December 2017** |
| Profit/(loss) | 2 | 2 | 4 | 14 |

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### g) Interest rate risk management

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

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

***Interest rate sensitivity analysis***

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank' net result for the year ended 31 December 2018 would decrease / increase by BAM 778 thousand (2017: BAM 554 thousand).

### h) Credit risk management

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

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

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

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

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

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### h) Credit risk management (continued)

*Financial assets*

| | Total gross carrying amount | Unimpaired assets | Individually impaired assets | Individual impairment allowance | Collective impairment allowance | Total net carrying amount |
|---|---|---|---|---|---|---|
| **As of 31 December, 2018** | | | | | | |
| Cash and balances with other banks | 91,635 | 19,465 | 72,170 | - | -21 | 91,614 |
| Obligatory reserves with the CBBH | 42,925 | 42,925 | - | - | - | 42,925 |
| Loans to customers and receivables at amortised cost | 349,336 | 1,968 | 347,368 | (35,464) | (9,401) | 304,471 |
| Financial assets at FVTPL | 2,721 | 2,721 | - | - | - | 2,721 |
| Debt instruments at amortised cost | 1,987 | - | 1,987 | | (14) | 1,973 |
| Financial assets at FVTOCI | 35,491 | 859 | 34,632 | - | - | 35,491 |
| | **524,095** | **67,938** | **456,157** | **(35,478)** | **(9,422)** | **479,195** |
| **As of 31 December 2017** | | | | | | |
| Cash and balances with other banks | 94,962 | 94,962 | - | - | - | 94,962 |
| Obligatory reserves with the CBBH | 40,358 | 40,358 | - | - | - | 40,358 |
| Loans to customers, net | 322,478 | - | 322,478 | (25,715) | (6,899) | 289,864 |
| Financial assets at FVTPL | 8,144 | 8,144 | - | - | - | 8,144 |
| Financial assets held to maturity | 1,867 | 1,867 | - | - | - | 1,867 |
| Financial assets available-for-sale | 27,204 | 27,204 | - | - | - | 27,204 |
| | **495,013** | **172,535** | **322,478** | **(25,715)** | **(6,899)** | **462,399** |

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

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### h) Credit risk management (continued)

***Credit exposure and collateral***

| | Credit risk exposure | | |
|---|---|---|---|
| | **Net exposure** | **Loan commitments / Guarantees** | **Fair value of collateral** |
| **As at 31 December 2018** | | | |
| Cash and balances with other banks | 91,614 | - | - |
| Obligatory reserves with the CBBH | 42,925 | - | - |
| Loans to customers and receivables at amortised cost | 304,471 | 28,335 | 404,387 |
| Financial assets at FVTPL | 2,721 | - | - |
| Financial assets at FVTOCI | 35,491 | - | - |
| Debt instruments at amortised cost | 1,973 | - | - |
| | **479,195** | **28,335** | **404,387** |
| **As at 31 December 2017** | | | |
| Cash and balances with other banks | 94,962 | - | - |
| Obligatory reserves with the CBBH | 40,358 | - | - |
| Loans to customers, net | 289,864 | 30,327 | 505,941 |
| Financial assets at FVTPL | 8,144 | - | - |
| Financial assets available-for-sale | 27,204 | - | - |
| Financial assets held to maturity | 1,867 | - | - |
| | **462,399** | **30,327** | **505,941** |

***Fair value of the collaterals***

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Real estate | 380,145 | 462,375 |
| Movable properties | 16,983 | 35,872 |
| Deposits | 7,259 | 7,694 |
| **Total** | **404,387** | **505,941** |

***Arrears***

| | **Total gross loans to clients** | **Not due** | **Up to 30 days** | **31 to 90 days** | **91 to 180 days** | **181 to 270 days** | **Over 270 days** |
|---|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | | |
| Corporate | 285,330 | 240,935 | 1,359 | 342 | 1 | 27 | 42,666 |
| Retail | 65,499 | 57,575 | 284 | 6 | 21 | 61 | 7,552 |
| **Total** | **350,829** | **298,510** | **1,643** | **348** | **22** | **88** | **50,218** |
| **31 December 2017** | | | | | | | |
| Corporate | 263,142 | 219,157 | 1,319 | 327 | 1,130 | 140 | 41,069 |
| Retail | 59,336 | 51,575 | 247 | 41 | 159 | 113 | 7,201 |
| **Total** | **322,478** | **270,732** | **1,566** | **368** | **1,289** | **253** | **48,270** |

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

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### i) Liquidity risk management

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

***Liquidity and interest risk tables***

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

*Maturity for financial assets*

| | Weighted average effective interest rate | Less than 1 month | 2 to 3 months | 4 months to 1 year | 2 to 5 years | 5+ years | Total |
|---|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | | |
| Non-interest bearing | - | 83,352 | - | - | - | 170 | 83,522 |
| Variable interest rate instruments | 4.60% | 60,964 | 14,331 | 72,836 | 125,526 | 46,661 | 320,318 |
| Fixed interest rate instruments | 3.79% | 8,957 | 4,433 | 29,142 | 58,615 | 377 | 101,524 |
| | | **153,272** | **18,764** | **101,978** | **184,142** | **47,208** | **505,364** |
| **31 December 2017** | | | | | | | |
| Non-interest bearing | - | 78,721 | - | - | - | 23 | 78,744 |
| Variable interest rate instruments | 3.48% | 74,349 | 47,974 | 44,486 | 84,658 | 36,055 | 287,522 |
| Fixed interest rate instruments | 2.55% | 35,732 | 11,133 | 17,770 | 18,841 | 1,362 | 84,838 |
| | | **188,802** | **59,107** | **62,256** | **103,499** | **37,440** | **451,104** |

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

*Maturity for financial liabilities*

| | Weighted average effective interest rate | Less than 1 month | 2 to 3 months | 4 months to 1 year | 2 to 5 years | 5+ years | Total |
|---|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | | |
| Non-interest bearing | - | 9,217 | - | - | 72 | - | 9,289 |
| Variable interest rate instruments | 0.29% | 144,089 | 1,447 | 11,281 | 7,451 | 501 | 164,770 |
| Fixed interest rate instruments | 1.51% | 54,043 | 10,319 | 77,345 | 122,198 | 2,164 | 266,070 |
| | | **207,349** | **11,765** | **88,627** | **129,722** | **2,666** | **440,129** |
| **31 December 2017** | | | | | | | |
| Non-interest bearing | - | 5,641 | 35 | 1,377 | 206 | | 7,259 |
| Variable interest rate instruments | 0.42% | 137 | 0 | 152,102 | 0 | 0 | 152,239 |
| Fixed interest rate instruments | 0.44% | 13,842 | 7,367 | 109,721 | 120,163 | 2,253 | 253,346 |
| | | **19,620** | **7,402** | **263,200** | **120,369** | **2,253** | **412,844** |

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

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

## 34. FAIR VALUE MEASUREMENT

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

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

.

| **Financial assets / financial liabilities** | **Fair value as at** | | **Fair value hierarchy** | **Valuation techniques and key inputs** |
|---|---|---|---|---|
| | **31. December 2018** | **31. December 2017** | | |
| 1) Financial assets as at FVTPL (see Note19) | Equity securities listed on a stock exchange in Bosnia and Herzegovina:<br>Shares of private and public companies, banks and non-banking financial institutions– KM 283 thousand.<br>Debt securities listed on a stock exchange in Bosnia and Herzegovina:<br>FBiH Government bonds – KM 2,438 thousand. | Equity securities listed on a stock exchange in Bosnia and Herzegovina:<br>Shares of private and public companies, banks and non-banking financial institutions– KM 261 thousand.<br>Debt securities listed on a stock exchange in Bosnia and Herzegovina:<br>FBiH Government bonds – KM 7,883 thousand. | Level 1 | Quoted bid prices in an active market. |
| 2) Financial assets as at FVTOCI (previously Financial assets available for sale – see Note 20.) | Debt securities listed on a stock exchange in Bosnia and Herzegovina:<br>• FBiH Government bonds – 26,768 thousand KM<br>• RS bonds – 6,964 thousand KM<br>• JP Autoceste FBIH – 1,000 thousand KM | Equity securities listed on a stock exchange in Bosnia and Herzegovina:<br>• Bamcard d.d. Sarajevo – KM 219 thousand<br>• Vakufska banka d.d. Sarajevo – KM 10 thousand<br>• Sarajevo Stock Exchange d.d. – KM 103 thousand<br>• Securities Registry of FBiH – KM 15 thousand.<br><br>Debt securities listed on a stock exchange in Bosnia and Herzegovina:<br>• FBiH Government bonds– KM 26,167 thousand | Level 1 | Quoted bid prices in an active market. |
| | Share in investment funds:<br>Open investment funds – KM 504 thousand. | Share in investment funds:<br>Open investment funds – KM 677 thousand. | Level 2 | Prices derived from prices of other similar assets quoted on active market |

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

## 34. FAIR VALUE MEASUREMENT (CONTINUED)

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

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

| | 31. December 2018 | | 31. December 2017 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| ***Financial assets*** | | | | |
| *Loans and receivables:* | | | | |
| - loans to customers and receivables at amortised cost | 304,471 | 302,205 | 289,864 | 287,021 |
| - debt instruments at amortised cost | 1,987 | 2,210 | 1,867 | 2,186 |
| ***Financial liabilities*** | | | | |
| *At amortised cost:* | | | | |
| - due to customers, other banks and financial institutions | 418,472 | 422,699 | 397,991 | 401,475 |
| - subordinated debt | 3,059 | 2,834 | 8,058 | 7,741 |

| | Fair value hierarchy as of 31 December 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ***Financial assets*** | | | | |
| *Loans and receivables:* | | | | |
| - loans to customers and receivables at amortised cost | - | 302,205 | - | 302,205 |
| - debt instruments at amortised cost | 2,210 | - | - | 2,210 |
| | **2,210** | **302,205** | - | 304,415 |
| ***Financial liabilities*** | | | | |
| *At amortised cost:* | | | | |
| - due to customers, other banks and financial institutions | - | 422,699 | - | 422,699 |
| - subordinated debt | - | 2,834 | - | 2,834 |
| | - | **425,533** | - | **425,533** |

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

## 35. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board on 20 February 2019:

| Samir Mustafić | Edina Vuk | Davor Tomić |
|---|---|---|
| Chairman of the Board | Member of the Board | Member of the Board |

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