

**ASA BANKA D.D. SARAJEVO**

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

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## 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  
Chairman of the Board

  
\_\_\_\_\_  
Arnela Alagić  
Acting Member of the Board

  
\_\_\_\_\_  
Davor Tomić  
Member of the Board

ASA Banka d.d. Sarajevo  
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Bosna and Herzegovina



20 February 2020

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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 2019, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

### ***Basis for Opinion***

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

### ***Key Audit Matters***

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

#### ***Key Audit Matter:***

#### ***Impairment on expected credit losses on loans to customers***

For accounting policies, see note Impairment of financial assets in Section 3 Basis for presentation and summary of significant accounting policies. For more information about key audit matter see Impairment losses on loans and receivables in Section 4 Critical accounting judgments and key sources of estimation uncertainty.

As at 31 December 2019 gross carrying amount of loans to costumers was BAM 374,999 thousand. The related impairment allowance amounted to BAM 42,166 thousand.

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**Key Audit Matter (continued):**

**Impairment on expected credit losses on loans to customers (continued)**

Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination impairment allowances for expected credit losses on loans and receivables from customers represent key considerations for Bank's Management.

In determining the timing and amount of impairment losses on expected credit losses on loans to customers, the Bank's management uses statistical models and a certain level of judgment in the following areas:

- Use of historical data in the process of determining risk parameters;
- Credit risk exposure assessment;
- Assessment of credit level risk assignment;
- Assessment of the significance of subsequent changes in credit risk in order to determine a significant increase of credit risk, which leads to changes in the levels of risks and the necessary measurement of expected credit losses over the lifetime cycle;
- Expected future cash flows from operating activities;
- Valuation of collateral and estimation of realization period.

Since determination of appropriate impairment allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to management bias. This fact led to the determination of impairment allowances for expected credit losses on loans and receivables from customers as key audit matter in our audit of the Bank's financial statements for the year ended 31 December 2019.

**How the matter was addressed in our audit:**

Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans and receivables allocated to Stage 1 and Stage 2, focusing on:

- Models applied in stage allocation;
- Assumptions used by the Management in the expected credit loss measurement models;
- Criteria used for determination of significant increase in credit risk;
- Assumptions applied to calculate lifetime probability of default;
- Methods applied to calculate loss given default;
- Methods applied to calculate loss given default;

Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans and receivables allocated to Stage 3, which included:

- Assessment of borrower's financial position and performance following latest financial reports and available information;
- Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance;
- Reviewing and critically assessing estimated value of collateral and estimated realisation period, discount rates used in the estimation of the expected cash flows from operations and/or collateral, re-performing calculation of expected credit losses by applying our own judgment and assumptions on to calculation and comparing derived result of the impairment losses per certain sampled loans and receivables with the ones provided by the Bank.

### ***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



Berna Šljokić, Partner and Certified Auditor

Sarajevo, 20 February 2020

## Income statement

For the year ended on 31 December 2019

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

|                                                                 | Note | 2019            | 2018            |
|-----------------------------------------------------------------|------|-----------------|-----------------|
| Interest income                                                 | 5    | 16,195          | 16,678          |
| Interest expense                                                | 6    | (4,727)         | (4,717)         |
| <b>Net interest income</b>                                      |      | <b>11,468</b>   | <b>11,961</b>   |
| Fee and commission income                                       | 7    | 7,654           | 6,605           |
| Fee and commission expense                                      | 8    | (2,681)         | (2,692)         |
| <b>Net fee and commission income</b>                            |      | <b>4,973</b>    | <b>3,913</b>    |
| Other gains                                                     | 9    | 2,927           | 4,131           |
| Other operating income                                          | 10   | 312             | 321             |
| <b>Income from operating activities</b>                         |      | <b>19,680</b>   | <b>20,326</b>   |
| Employee expenses                                               | 11   | (7,364)         | (6,992)         |
| Depreciation expenses                                           | 23   | (2,036)         | (1,288)         |
| Other administrative expenses                                   | 12   | (4,905)         | (6,402)         |
| <b>Operating expenses</b>                                       |      | <b>(14,305)</b> | <b>(14,682)</b> |
| <b>PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND TAXATION</b> |      | <b>5,375</b>    | <b>5,644</b>    |
| Impairment losses and provisions, net                           | 13   | 474             | (398)           |
| <b>PROFIT BEFORE TAXATION</b>                                   |      | <b>5,849</b>    | <b>5,246</b>    |
| Income tax                                                      | 14   | (93)            | -               |
| Loss as a result of decrease in deferred tax assets             | 14   | (6)             | (11)            |
| <b>PROFIT AFTER TAXATION</b>                                    |      | <b>5,750</b>    | <b>5,235</b>    |
| <b>Earnings per share – basic and diluted (in BAM)</b>          | 15   | <b>8.73</b>     | <b>7.95</b>     |

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



Statement of comprehensive income  
for the year ended on 31 December 2019

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

|                                                                                            | Note | 2019         | 2018         |
|--------------------------------------------------------------------------------------------|------|--------------|--------------|
| Net profit                                                                                 |      | 5,750        | 5,235        |
| <b>Other comprehensive income:</b>                                                         |      |              |              |
| <i>Items that are or may be reclassified to profit or loss:</i>                            |      |              |              |
| Net gains from debt investment securities at fair value through other comprehensive income | 20   | 178          | 174          |
| <i>Items that will not be reclassified through an income statement:</i>                    |      |              |              |
| Net gains from equity instruments at fair value through other comprehensive income         | 20   | (8)          | 90           |
| <b>TOTAL COMPREHENSIVE INCOME</b>                                                          |      | <b>5,920</b> | <b>5,499</b> |

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

Balance sheet  
as at 31 December 2019

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

|                                                                                    | Note | 31 December<br>2019 | 31 December<br>2018 |
|------------------------------------------------------------------------------------|------|---------------------|---------------------|
| <b>ASSETS</b>                                                                      |      |                     |                     |
| Cash and cash equivalents                                                          | 16   | 103,658             | 91,614              |
| Obligatory reserve with Central bank B&H                                           | 17   | 47,831              | 42,925              |
| Loans and receivables at amortised cost                                            | 18   | 332,833             | 304,471             |
| Financial assets at FVTPL                                                          | 19   | 243                 | 2,721               |
| Financial assets at FVTOCI                                                         | 20   | 49,609              | 35,491              |
| Debt instruments at amortised cost                                                 | 21   | 1,541               | 1,973               |
| Other assets and receivables, net                                                  | 22   | 11,002              | 7,818               |
| Tangible and intangible assets                                                     | 23   | 9,122               | 7,413               |
| Deferred tax assets                                                                | 14   | 108                 | 113                 |
| <b>TOTAL ASSETS</b>                                                                |      | <b>555,947</b>      | <b>494,539</b>      |
| <b>LIABILITIES</b>                                                                 |      |                     |                     |
| Due to banks                                                                       | 24   | 5,360               | 7,609               |
| Due to customers                                                                   | 25   | 473,233             | 418,472             |
| Subordinated debt                                                                  | 26   | 3,059               | 3,059               |
| Lease liabilities                                                                  | 27   | 2,749               | -                   |
| Other liabilities                                                                  | 28   | 2,400               | 2,326               |
| Provisions                                                                         | 29   | 976                 | 775                 |
| <b>Total liabilities</b>                                                           |      | <b>487,777</b>      | <b>432,241</b>      |
| <b>EQUITY</b>                                                                      |      |                     |                     |
| Shareholders' equity                                                               | 30   | 65,870              | 65,870              |
| Reserves                                                                           |      | 6,003               | 6,003               |
| Revaluation reserves – financial assets at fair value through comprehensive income |      | 701                 | 580                 |
| Regulatory reserves                                                                |      | -                   | 231                 |
| Accumulated loss                                                                   |      | (4,404)             | (10,386)            |
| <b>Total equity</b>                                                                |      | <b>68,170</b>       | <b>62,298</b>       |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                                |      | <b>555,947</b>      | <b>494,539</b>      |

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

Signed on behalf of Bank on 20 February 2020.

  
\_\_\_\_\_  
Samir Mustafić  
Chairman of the Board

  
\_\_\_\_\_  
Arnela Alagić  
Acting Member of the Board

  
\_\_\_\_\_  
Davor Tomić  
Member of the Board



Statement of cash flows  
for the year ended on 31 December 2019

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

|                                                                                                                    | 2019           | 2018           |
|--------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Operating activities</b>                                                                                        |                |                |
| Profit / (loss) before taxation                                                                                    | 5,849          | 5,235          |
| <i>Adjustments:</i>                                                                                                |                |                |
| Depreciation                                                                                                       | 2,036          | 1,288          |
| First-time adoption of IFRS 9 – effects                                                                            | -              | (10,581)       |
| Impairment losses and provisions, net                                                                              | (474)          | 398            |
| Decrease in deferred tax assets, net                                                                               | 5              | 11             |
| Gain on disposal of property and equipment, net                                                                    | (728)          | (2,281)        |
| Effects of fair value adjustment on assets at fair value through profit and loss                                   | (32)           | (29)           |
| Dividend income recognized in profit and loss                                                                      | (3)            | (27)           |
| Interest income on financial assets available for sale recognized in profit and loss                               | (1,167)        | (1,039)        |
| Interest income on financial assets at fair value through other comprehensive income recognized in profit and loss | (151)          | (186)          |
| Lease adjustment                                                                                                   | (63)           | -              |
| Gains from sale of financial assets under FVOCI                                                                    | (49)           | -              |
| <i>Changes in assets and liabilities:</i>                                                                          |                |                |
| Increase / (decrease) in receivables from Central bank BH                                                          | (4,906)        | (2,567)        |
| Net increase in loans and receivables, before impairment                                                           | (27,291)       | (14,725)       |
| Net decrease / (increase) in other assets, before impairment                                                       | (3,189)        | 2,418          |
| Net increase in due to customers                                                                                   | 54,761         | 20,480         |
| Net increase / (decrease) / in due to banks                                                                        | (2,249)        | 4,909          |
| Net (decrease) / increase in other liabilities                                                                     | 74             | (3,644)        |
| Net decrease in provisions                                                                                         | (73)           | (151)          |
| Income tax paid                                                                                                    | (93)           | -              |
| <b>NET CASH (USED) IN / FROM OPERATING ACTIVITIES</b>                                                              | <b>22,257</b>  | <b>(491)</b>   |
| <b>Investing activities</b>                                                                                        |                |                |
| Proceeds from financial assets held-to maturity, net                                                               | 583            | 80             |
| (Purchase of) / proceeds from financial assets at FVOCI, net                                                       | (10,312)       | (892)          |
| Purchase of financial assets at fair value through profit and loss                                                 | 41             | (640)          |
| Dividends received                                                                                                 | 3              | 27             |
| Purchase of tangible and intangible assets                                                                         | (1,291)        | (1,329)        |
| Proceeds from sale of property and equipment                                                                       | 1,748          | 4,896          |
| <b>NET CASH FROM INVESTMENT ACTIVITIES</b>                                                                         | <b>(9,228)</b> | <b>2,142</b>   |
| <b>Financial activities</b>                                                                                        |                |                |
| Payment leases                                                                                                     | (985)          | -              |
| Decrease in liabilities for subordinated debt                                                                      | -              | (4,999)        |
| <b>NET CASH (USED) IN / FROM FINANCIAL ACTIVITIES</b>                                                              | <b>(985)</b>   | <b>(4,999)</b> |
| <b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>                                                      | <b>12,044</b>  | <b>(3,348)</b> |
| <b>CASH AND CASH EQUIVALENTS AT THE YEAR START</b>                                                                 | <b>91,614</b>  | <b>94,962</b>  |
| <b>CASH AND CASH EQUIVALENTS AT THE YEAR END</b>                                                                   | <b>103,658</b> | <b>91,614</b>  |

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

Statement of changes in equity  
for year ended on 31 December 2019

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

|                                                                                              | Shareholders' equity | 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 2017                                                               | 65,870               | 231                 | 5,992    | -                                                                | -                                                                  | 107                                                     | (4,820)                              | 67,380   |
| <i>The effects of the first-time adoption of the new International Accounting Standard 9</i> | -                    | -                   | -        | -                                                                | 220                                                                | -                                                       | (10,801)                             | (10,581) |
| Balance as at 1 January 2018- 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 „Lilium 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   |
| Net profit                                                                                   | -                    | -                   | -        | -                                                                | -                                                                  | -                                                       | 5,750                                | 5,750    |
| Other comprehensive income                                                                   | -                    | -                   | -        | 8                                                                | 162                                                                | -                                                       | -                                    | 170      |
| Total comprehensive income                                                                   | -                    | -                   | -        | 8                                                                | 162                                                                | -                                                       | -                                    | 170      |
| Transfer (from) / to                                                                         | -                    | (231)               | -        | -                                                                | -                                                                  | -                                                       | 231                                  | -        |
| Transfer to the income statement based on maturity of debt securities                        | -                    | -                   | -        | (48)                                                             | -                                                                  | -                                                       | -                                    | (48)     |
| Balance as at 31 December 2019                                                               | 65,870               | -                   | 6,003    | 279                                                              | 423                                                                | -                                                       | (4,405)                              | 68,170   |

The accompanying notes form an integral part of these financial statement

## Notes to the financial statements for the year ended on 31 December 2019

(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 20 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 20 June 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 as of 15 September 2016 with the Decision no. 043-0-Reg-16-000-747.

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 or other funds with repayment liability;
- granting and receiving of loans;
- granting of guarantees;
- services of local and international payments according to regulation;
- foreign exchange transactions and buying of precious metals;
- issuing and managing with payment instruments (including cards, travellers and banking cheques);
- financial lease;
- buy, sale and collection of receivables (factoring, forfeiting, etc.);
- participation, buying and selling of money market instruments on its own benefit and on behalf of third parties
- securities transactions (brokerage-dealers transaction);
- managing od securities portfolio and other valuable items;
- support to securities markets, agent transactions, support to issues of securities according to regulation;
- investing consultancy services and custody accounts;
- financial advisory and consultancy services;
- collecting data services, providing analysis and information about creditworthiness of legal entities and entrepreneurs;
- renting of vaults;
- agency services in insurance transactions according to regulation except for car liability insurance;
- other, which represent support to bank main activities.

### Supervisory board and Management board

#### Supervisory board

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

Notes to the financial statements  
for the year ended on 31 December 2019

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

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**1. GENERAL (CONTINUED)**

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

*Management Board*

|                |                                                                |
|----------------|----------------------------------------------------------------|
| Samir Mustafić | Chairman of the Board                                          |
| Davor Tomić    | Member of the Board                                            |
| Edina Vuk      | Member of the Board from 18 <sup>th</sup> December 2019        |
| Arneta Alagić  | Acting Member of the Board from 19 <sup>th</sup> December 2019 |

**2. ADOPTION OF NEW AND REVISED STANDARDS**

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

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

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

**2.2 Standards and Interpretations in issue but not adopted yet**

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

- Amendments to IFRS 3 „Business combinations“ – Definition of business (effective for annual periods beginning on or after 1 January 2020);

## Notes to the financial statements for the year ended on 31 December 2019

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

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

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

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

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

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

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

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

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

1. Level 1: if the Bank does not have an adequate time series, and/or quantity or quality of historical relevant data and is unable to determine a value of PD parameter using its model in an adequate and documented manner, the Bank cannot determine expected credit losses for other exposures which are allocated to the credit level risk 1 less than 1 % of the exposure.
2. Level 2: For exposure allocated to credit risk level 2, the Bank is required to determine and record expected credit losses in the amount greater than two:
  - a) 5% exposures,
  - b) amount determined in accordance with internal methodology of the Bank.

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

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



Notes to the financial statements  
for the year ended on 31 December 2019

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2.1 Decision on credit risk management and determination of expected credit losses (continued)

a) exposures secured by acceptable collateral:

| Ordinal number | Day of delay          | Minimum expected credit loss |
|----------------|-----------------------|------------------------------|
| 1.             | from 180 days         | 15%                          |
| 2.             | from 181 to 270 days  | 25%                          |
| 3.             | from 271 to 365 days  | 40%                          |
| 4.             | from 366 to 730 days  | 60%                          |
| 5.             | from 731 to 1460 days | 80%                          |
| 6.             | over 1460 days        | 100%                         |

b) exposures not secured by acceptable collateral:

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

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

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

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

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

*Parameters of credit risk*

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

Notes to the financial statements  
for the year ended on 31 December 2019

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2.1 Decision on credit risk management and determination of expected credit losses (continued)

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

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

*Probability of default status (PD parameter)*

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

*Loss given default (LGD parameter)*

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

- a. 45% for exposures secured by acceptable collateral,
- b. 75% for exposures not secured by acceptable collateral.

**The effects of first-time adoption of Decision**

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

|                                            | IFRS 9<br>31 December<br>2019 | Re-measurement | FBA Decision<br>1 January<br>2020 |
|--------------------------------------------|-------------------------------|----------------|-----------------------------------|
| <b>ASSETS</b>                              |                               |                |                                   |
| Credit guarantee portfolio                 |                               |                |                                   |
| Stage 1                                    | 345,700                       | (1,422)        | 344,278                           |
| Stage 2                                    | 10,640                        | (91)           | 10,549                            |
| Stage 3                                    | 58,592                        | (7,704)        | 50,888                            |
| <b>Total credit guarantee portfolio</b>    | <b>414,932</b>                | <b>(9,217)</b> | <b>405,715</b>                    |
| Cash and cash equivalents and other assets | 169,461                       | (446)          | 169,015                           |
| <b>CAPITAL</b>                             |                               |                |                                   |
| Retained earnings                          | (4,404)                       | (9,663)        | (14,067)                          |

Considering that the effects have a significant impact on the total capital, in order to confirm fulfilment of regulatory requirements regarding the capital in the forthcoming period, the Bank calculated the ordinary core capital rate in percentage of 14.63%, rate of core capital in percentage of 14.63% and rate of regulatory capital (including of 1.25% of RWA) in percentage of 15.76% of as at 1 January 2020, and which are above the prescribed minimum rates.

Notes to the financial statements  
for the year ended on 31 December 2019

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

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

**2.3. International Financial Reporting Standard 16 - Leases**

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

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

| <b>Impact on the balance sheet</b> | <b>1 January 2019</b> |
|------------------------------------|-----------------------|
| Increase in assets                 | 3,616                 |
| Increase in liabilities            | 3,616                 |

**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.

Notes to the financial statements  
for the year ended on 31 December 2019

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

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

**Basis of preparation (continued)**

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

**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.

## Notes to the financial statements for the year ended on 31 December 2019

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

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

#### **Taxation**

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

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

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

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

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

#### **Cash and cash equivalents**

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

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

#### **Financial instruments**

##### *Initial recognition and measurement*

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

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

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

Notes to the financial statements  
for the year ended on 31 December 2019

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

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

**Financial instruments (continued)**

*Financial assets at amortised cost*

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

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

The details of these conditions are outlined below.

*Business model assessment*

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

An entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's business model determines whether 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.

Notes to the financial statements  
for the year ended on 31 December 2019

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

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

**Financial instruments (continued)**

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

The Bank applies the new category under IFRS 9 of debt instruments measured at FVTOCI 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.

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 IFRS 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 (FVTPL)*

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.



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for the year ended on 31 December 2019

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

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

**Financial instruments (continued)**

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.

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.

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.

Notes to the financial statements  
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*(all amounts are expressed in thousands of BAM, unless otherwise stated)*

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

*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.

**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.

**Leases**

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

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

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments, less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable by the lessee under *residual value* guarantees;
- (d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Notes to the financial statements  
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(all amounts are expressed in thousands of BAM, unless otherwise stated)

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

**Leases (continued)**

The Bank adjusts the value of the lease liability determined by remeasurement and recognises it as an adjustment to the right-of-use of asset using the effective interest method. The cost of the right-of-use asset shall comprise the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any *lease incentives* received, any *initial direct costs* incurred by the lessee. Asset with the right-of-use is subsequently measure at cost less any accumulated depreciation and any accumulated impairment losses.

**Property and equipment**

Property 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:

|                               | 2019      | 2018      |
|-------------------------------|-----------|-----------|
| Buildings                     | 1.5%      | 1.5%      |
| Furnitures and vehicles       | 10% - 15% | 10% - 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).

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.

Notes to the financial statements  
for the year ended on 31 December 2019

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

**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.

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for the year ended on 31 December 2019

*(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:

|                         |                    |                     |                     |
|-------------------------|--------------------|---------------------|---------------------|
| <b>31 December 2019</b> | 1 EUR = 1.95583 KM | 1 USD = 1.747994 KM | 1 CHF = 1.799126 KM |
| <b>31 December 2018</b> | 1 EUR = 1.95583 KM | 1 USD = 1.707552 KM | 1 CHF = 1.742077 KM |

**Provisions**

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, 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 2019 and 2018 there were no dilution effects.

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for the year ended on 31 December 2019

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

**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.

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.

Notes to the financial statements  
for the year ended on 31 December 2019

(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 and provisions for off-balance exposure (continued)*

As of 27<sup>th</sup> February 2018, Supervisory Board adopted Internal Methodology for impairment in accordance with IFRS 9, with effective implementation date starting from 1<sup>st</sup> January 2018. Based on the validation of Methodology from 25<sup>th</sup> March 2019, a revised Methodology for impairment in accordance with IFRS 9 was adopted.

*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. The Banking Agency requires that amounts of credit loss reserves (RGG) calculated in accordance with FBA rules be set aside or subtracted from equity when calculating equity adequacy, to the extent that the RGG calculate greater than the total impairments under IFRS at the contractual level.

*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**

|                                                      | <u>2019</u>   | <u>2018</u>   |
|------------------------------------------------------|---------------|---------------|
| Interest on corporate loans                          | 10,862        | 11,589        |
| Interest on retail loans                             | 3,946         | 3,795         |
| Financial assets at fair value through OCI (Note 20) | 1,167         | 1,039         |
| Debt instruments at amortised cost (Note 21)         | 151           | 186           |
| Interest income from banks                           | 52            | -             |
| Factoring income                                     | 8             | 11            |
| Other interest income                                | 9             | 58            |
|                                                      | <u>16,195</u> | <u>16,678</u> |

**6. INTEREST EXPENSES**

|                                | <u>2019</u>  | <u>2018</u>  |
|--------------------------------|--------------|--------------|
| Interest on retail deposits    | 2,587        | 2,420        |
| Interest on corporate deposits | 1,657        | 1,754        |
| Interest on subordinated debt  | 168          | 413          |
| Other interest expenses        | 315          | 130          |
|                                | <u>4,727</u> | <u>4,717</u> |



Notes to the financial statements  
for the year ended on 31 December 2019

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

**7. FEE AND COMMISSION EXPENSE**

|                           | <u>2019</u>  | <u>2018</u>  |
|---------------------------|--------------|--------------|
| Payment transactions fees | 2,108        | 2,128        |
| Other fees to banks       | 573          | 564          |
|                           | <u>2,681</u> | <u>2,692</u> |

**9. OTHER GAINS**

|                                                                                     | <u>2019</u>  | <u>2018</u>  |
|-------------------------------------------------------------------------------------|--------------|--------------|
| Foreign exchange differences, net                                                   | 1,262        | 1,194        |
| Gains on sale of property, equipment and assets available for sale (Note 22 and 23) | 728          | 2,281        |
| Income from rented premises or equipment                                            | 496          | 439          |
| Collected written-off receivables                                                   | 343          | 161          |
| Sale of bonds - financial assets at FVTOCI                                          | 63           | -            |
| Fair value adjustment – financial assets at FVPL (Note 19)                          | 32           | 29           |
| Income from dividends                                                               | 3            | 27           |
|                                                                                     | <u>2,927</u> | <u>4,131</u> |

**10. OTHER OPERATING INCOME**

|                                | <u>2019</u> | <u>2018</u> |
|--------------------------------|-------------|-------------|
| Income from suspended interest | 190         | 237         |
| Other income                   | 122         | 84          |
|                                | <u>312</u>  | <u>321</u>  |

**11. PERSONNEL EXPENSES**

|                       | <u>2019</u>  | <u>2018</u>  |
|-----------------------|--------------|--------------|
| Net salaries          | 4,091        | 3,954        |
| Tax and contributions | 2,472        | 2,384        |
| Other                 | 801          | 654          |
|                       | <u>7,364</u> | <u>6,992</u> |

The average number of personnel employed by the Bank at 31 December 2019 and 2018 was 219 and 218 respectively.

During 2018, Bank recognized additional costs based on court claims initiated by former employees in amount of KM 373 thousand. Costs of court claims are presented under other administrative expenses (Note 12).

Notes to the financial statements  
for the year ended on 31 December 2019

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

**12. OTHER ADMINISTRATIVE EXPENSES**

|                                        | <u>2019</u>  | <u>2018</u>  |
|----------------------------------------|--------------|--------------|
| Equipment and building maintenance     | 1,257        | 1,127        |
| Services                               | 1,226        | 1,162        |
| Energy                                 | 400          | 405          |
| Telecommunication services             | 288          | 327          |
| Tax expenses                           | 271          | 285          |
| Marketing and representation           | 226          | 354          |
| Material expenses                      | 191          | 252          |
| Membership fees                        | 180          | 186          |
| Insurance                              | 179          | 126          |
| Donations                              | 169          | 158          |
| Rent                                   | 126          | 1,283        |
| Utilities                              | 56           | 103          |
| Subsequently identified other expenses | 53           | 62           |
| Supervisory Board fees                 | 49           | 49           |
| Services contracts                     | 27           | 48           |
| Penalties                              | 12           | 10           |
| Expenses due to Court decisions        | 1            | 373          |
| Card operations                        | -            | 5            |
| Other                                  | 194          | 87           |
|                                        | <u>4,905</u> | <u>6,402</u> |

**13. IMPAIRMENT LOSSES AND PROVISIONS**

|                                              | Note | <u>2019</u>  | <u>2018</u> |
|----------------------------------------------|------|--------------|-------------|
| Cash and cash equivalents                    | 16   | (4)          | -           |
| Loans to customers                           | 18   | (1,071)      | 81          |
| Provisions for litigations                   | 29   | (77)         | 250         |
| Financial assets at FVOCI                    | 20   | 162          | 41          |
| Provisions for commitments and contingencies | 29   | (7)          | 22          |
| Provisions for employee benefits             | 29   | 358          | 8           |
| Financial assets at AC                       | 21   | (4)          | (4)         |
| Other assets                                 | 22   | 169          | -           |
|                                              |      | <u>(474)</u> | <u>398</u>  |

**14. INCOME TAX**

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

|                                                  | <u>2019</u> | <u>2018</u> |
|--------------------------------------------------|-------------|-------------|
| Current income tax                               | 93          | -           |
| Unrecognised deferred tax – temporary difference | -           | -           |
| <b>Total tax</b>                                 | <u>93</u>   | <u>-</u>    |

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14. INCOME TAX (CONTINUED)

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

|                                                         | <u>2019</u>  | <u>2018</u>  |
|---------------------------------------------------------|--------------|--------------|
| <b>Profit / (loss) before income tax</b>                | <b>5,849</b> | <b>5,246</b> |
| <b>Income tax expense, at the statutory rate of 10%</b> | <b>585</b>   | <b>525</b>   |
| Effects of non-deductible expenses                      | 155          | 178          |
| Effects of non-taxable income                           | (128)        | (95)         |
| Capital losses/ gains                                   | 39           | (940)        |
| Impairment of tax liability based on accumulated losses | (558)        | -            |
| <b>Current income tax</b>                               | <b>93</b>    | <b>-</b>     |
| <b>Effective income tax rate</b>                        | <b>1.59%</b> | <b>-</b>     |

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:

|                                  | <u>2019</u> | <u>2018</u> |
|----------------------------------|-------------|-------------|
| <b>Balance as at 1 January</b>   | <b>113</b>  | <b>124</b>  |
| Used deferred tax assets         | (6)         | (11)        |
| Adjustment                       | 1           | -           |
| <b>Balance as at 31 December</b> | <b>108</b>  | <b>113</b>  |

15. PROFIT PER SHARE

|                                                                               | <u>2019</u> | <u>2018</u> |
|-------------------------------------------------------------------------------|-------------|-------------|
| Net result (in BAM thousands)                                                 | 5,750       | 5,235       |
| Weighted average number of shares for the purpose of basic earnings per share | 658,695     | 658,695     |
| <b>Basic earnings per share (in BAM)</b>                                      | <b>8.73</b> | <b>7.95</b> |

Notes to the financial statements  
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(all amounts are expressed in thousands of BAM, unless otherwise stated)

16. CASH AND CASH EQUIVALENTS

|                                                                  | 31 December 2019 |         |         |                |
|------------------------------------------------------------------|------------------|---------|---------|----------------|
|                                                                  | Stage 1          | Stage 2 | Stage 3 | Total          |
| Current account in domestic currency with the Central Bank of BH | 39,849           | -       | -       | 39,849         |
| Current accounts with other banks                                | 20,791           | -       | -       | 20,791         |
| Cash in hand in domestic currency                                | 35,041           | -       | -       | 35,041         |
| Cash in hand in foreign currency                                 | 7,977            | -       | -       | 7,977          |
|                                                                  | <b>103,658</b>   |         |         | <b>103,658</b> |

|                                                                  | 31 December 2018 |         |         |               |
|------------------------------------------------------------------|------------------|---------|---------|---------------|
|                                                                  | Stage 1          | Stage 2 | Stage 3 | Total         |
| Current account in domestic currency with the Central Bank of BH | 51,532           | -       | -       | 51,532        |
| Current accounts with other banks                                | 20,616           | -       | -       | 20,616        |
| Cash in hand in domestic currency                                | 12,972           | -       | -       | 12,972        |
| Cash in hand in foreign currency                                 | 6,494            | -       | -       | 6,494         |
|                                                                  | <b>91,614</b>    |         |         | <b>91,614</b> |

Changes in gross carrying amount are presented below:

|                                                                 | Stage 1        | Stage 2 | Stage 3 | Total          |
|-----------------------------------------------------------------|----------------|---------|---------|----------------|
| <b>Gross carrying amount as at 1 January 2019</b>               | <b>91,635</b>  | -       | -       | <b>91,635</b>  |
| Acquired financial assets                                       | 12,040         | -       | -       | 12,040         |
| Derecognition or proceeds from collection (excluding write off) | -              | -       | -       | -              |
| Transfer to Stage 1                                             | -              | -       | -       | -              |
| Transfer to Stage 2                                             | -              | -       | -       | -              |
| Transfer to Stage 3                                             | -              | -       | -       | -              |
| <b>At 31 December 2019</b>                                      | <b>103,675</b> |         |         | <b>103,675</b> |

|                                                                 | Stage 1       | Stage 2 | Stage 3 | Total         |
|-----------------------------------------------------------------|---------------|---------|---------|---------------|
| <b>Gross carrying amount as at 1 January 2018</b>               | <b>94,962</b> | -       | -       | <b>94,962</b> |
| 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                                             | -             | -       | -       | -             |
| <b>At 31 December 2018</b>                                      | <b>91,635</b> |         |         | <b>91,635</b> |

Changes in impairments are presented below:

|                                                                 | Stage 1   | Stage 2 | Stage 3 | Total     |
|-----------------------------------------------------------------|-----------|---------|---------|-----------|
| <b>Impairment as at 1 January 2019</b>                          | <b>21</b> | -       | -       | <b>21</b> |
| Derecognition or proceeds from collection (excluding write off) | (4)       | -       | -       | (4)       |
| Transfer to Stage 1                                             | -         | -       | -       | -         |
| Transfer to Stage 2                                             | -         | -       | -       | -         |
| Transfer to Stage 3                                             | -         | -       | -       | -         |
| <b>At 31 December 2019</b>                                      | <b>17</b> |         |         | <b>17</b> |

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16. CASH AND CASH EQUIVALENTS (CONTINUED)

|                                                                 | Stage 1   | Stage 2  | Stage 3  | Total     |
|-----------------------------------------------------------------|-----------|----------|----------|-----------|
| <i>Impairment as at 1 January 2018</i>                          | 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                                             | -         | -        | -        | -         |
| <b>At 31 December 2018</b>                                      | <b>21</b> | <b>-</b> | <b>-</b> | <b>21</b> |

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

|                              | 31 December<br>2019 | 31 December<br>2018 |
|------------------------------|---------------------|---------------------|
| Obligatory reserve with CBBH | 47,831              | 42,925              |
|                              | <b>47,831</b>       | <b>42,925</b>       |

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 applied by the European Central Bank (ECB) on commercial bank's deposits.

18. LOANS AND RECEIVABLES

|                                                                             | 31 December<br>2019 | 31 December<br>2018 |
|-----------------------------------------------------------------------------|---------------------|---------------------|
| <i>Short- term loans:</i><br>(including current portion of long-term loans) |                     |                     |
| Corporate                                                                   | 129,088             | 120,478             |
| Retail                                                                      | 10,574              | 10,741              |
|                                                                             | <b>139,662</b>      | <b>131,219</b>      |
| <i>Long- term loans:</i><br>(including current portion of long-term loans)  |                     |                     |
| Corporate                                                                   | 167,088             | 164,071             |
| Retail                                                                      | 68,249              | 54,046              |
|                                                                             | <b>235,337</b>      | <b>218,117</b>      |
| <b>Total loans before allowance for impairment</b>                          | <b>374,999</b>      | <b>349,336</b>      |
| Less: Allowance for impairment losses based on individual assessment        | (34,130)            | (35,464)            |
| Less: Allowance for impairment losses based on collective assessment        | (8,036)             | (9,401)             |
|                                                                             | <b>332,833</b>      | <b>304,471</b>      |

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**18. LOANS AND RECEIVABLES (CONTINUED)**

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

|                             | Stage 1               | Stage 2               | Stage 3               |                       | Total          |
|-----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------|
|                             | Collective assessment | Collective assessment | Individually assessed | Collective assessment |                |
| <b>31 December 2019</b>     |                       |                       |                       |                       |                |
| <i>Loans to individuals</i> |                       |                       |                       |                       |                |
| Housing loan                | 13,778                | 68                    | 483                   | 81                    | 14,410         |
| Other loans to individuals  | 56,211                | 642                   | 3,619                 | 3,941                 | 64,413         |
|                             | <u>69,989</u>         | <u>710</u>            | <u>4,102</u>          | <u>4,022</u>          | <u>78,823</u>  |
| <i>Loans to corporate</i>   |                       |                       |                       |                       |                |
| Revolving loans             | 75,186                | 2,378                 | 4,730                 | -                     | 82,294         |
| Investment loans            | 21,427                | 660                   | 3,795                 | -                     | 25,882         |
| Other loans to corporate    | 142,755               | 12,233                | 33,012                | -                     | 188,000        |
|                             | <u>239,368</u>        | <u>15,271</u>         | <u>41,537</u>         | <u>-</u>              | <u>296,176</u> |
| Less: Impairment            | (3,799)               | (443)                 | (34,129)              | (3,795)               | (42,166)       |
|                             | <u>305,558</u>        | <u>15,538</u>         | <u>11,510</u>         | <u>227</u>            | <u>332,833</u> |
| <b>31 December 2018</b>     |                       |                       |                       |                       |                |
| <i>Loans to individuals</i> |                       |                       |                       |                       |                |
| Housing loans               | 13,216                | -                     | 661                   | 122                   | 13,999         |
| Other loans to individuals  | 42,817                | 159                   | 3,684                 | 4,128                 | 50,788         |
|                             | <u>56,033</u>         | <u>159</u>            | <u>4,345</u>          | <u>4,250</u>          | <u>64,787</u>  |
| <i>Loans to corporate</i>   |                       |                       |                       |                       |                |
| 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        |
|                             | <u>225,604</u>        | <u>14,269</u>         | <u>44,676</u>         | <u>-</u>              | <u>284,549</u> |
| Less: Impairment            | (4,746)               | (707)                 | (35,464)              | (3,948)               | (44,865)       |
|                             | <u>276,891</u>        | <u>13,721</u>         | <u>13,557</u>         | <u>302</u>            | <u>304,471</u> |

Changes in gross carrying amount for loans are shown below:

|                                                                 | Stage 1        | Stage 2       | Stage 3       | Total          |
|-----------------------------------------------------------------|----------------|---------------|---------------|----------------|
| <i>Gross carrying amount as at 1 January 2019</i>               | <b>281,637</b> | <b>14,428</b> | <b>53,271</b> | <b>349,336</b> |
| Acquired financial assets                                       | 184,357        | 4,134         | 633           | 189,124        |
| Derecognition or proceeds from collection (excluding write off) | (151,750)      | (4,418)       | (6,182)       | (162,350)      |
| Increase in impairment due to changes in risk parameters        | 503            | 2             | 12            | 517            |
| Transfer to Stage 1                                             | 976            | (780)         | (196)         | -              |
| Transfer to Stage 2                                             | (3,383)        | 3,413         | (30)          | -              |
| Transfer to Stage 3                                             | (2,983)        | (798)         | 3,781         | -              |
| Write off                                                       | -              | -             | (1,628)       | (1,628)        |
| <b>At 31 December 2019</b>                                      | <b>309,357</b> | <b>15,981</b> | <b>49,661</b> | <b>374,999</b> |

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18. LOANS AND RECEIVABLE (CONTINUED)

|                                                                 | Stage 1        | Stage 2       | Stage 3       | Total          |
|-----------------------------------------------------------------|----------------|---------------|---------------|----------------|
| <b>Gross carrying amount as at 1 January 2018</b>               | <b>247,980</b> | <b>20,377</b> | <b>54,121</b> | <b>322,478</b> |
| 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)      |
| Increase in impairment due to changes in risk parameters        | 1,767          | 3             | 911           | 2,681          |
| Transfer to Stage 1                                             | 2,942          | (2,901)       | (41)          | -              |
| Transfer to Stage 2                                             | (2,585)        | 2,668         | (83)          | -              |
| Transfer to Stage 3                                             | (549)          | (300)         | 849           | -              |
| Transfer of accrued interest receivables from off-balance sheet | -              | -             | 1,654         | 1,654          |
| Write off                                                       | -              | -             | (23)          | (23)           |
| <b>At 31 December 2018</b>                                      | <b>281,637</b> | <b>14,428</b> | <b>53,271</b> | <b>349,336</b> |

Changes in impairment for loans receivables are shown below:

|                                                                 | Stage 1      | Stage 2    | Stage 3       | Total         |
|-----------------------------------------------------------------|--------------|------------|---------------|---------------|
| <b>Impairments as at 1 January 2019</b>                         | <b>4,745</b> | <b>708</b> | <b>39,412</b> | <b>44,865</b> |
| Impairment (Note 13)                                            | (9)          | 17         | (1,079)       | (1,071)       |
| Transfer to Stage 1                                             | 16           | (15)       | (1)           | -             |
| Transfer to Stage 2                                             | (110)        | 111        | (1)           | -             |
| Transfer to Stage 3                                             | (843)        | (378)      | 1,221         | -             |
| Write off                                                       | -            | -          | (1,628)       | (1,628)       |
| <b>At 31 December 2019</b>                                      | <b>3,799</b> | <b>443</b> | <b>37,924</b> | <b>42,166</b> |
| <b>Impairments as at 1 January 2018</b>                         | <b>3,589</b> | <b>794</b> | <b>38,769</b> | <b>43,152</b> |
| Impairment (Note 13)                                            | 1,304        | (54)       | (1,169)       | 81            |
| Transfer to Stage 1                                             | 40           | (40)       | -             | -             |
| Transfer to Stage 2                                             | (109)        | 111        | (2)           | -             |
| Transfer to Stage 3                                             | (79)         | (103)      | 182           | -             |
| Transfer of accrued interest receivables from off-balance sheet | -            | -          | 1,654         | 1,654         |
| Write off                                                       | -            | -          | (22)          | (22)          |
| <b>At 31 December 2018</b>                                      | <b>4,745</b> | <b>708</b> | <b>39,412</b> | <b>44,865</b> |

Weighted average interest rate can be presented as follows:

|           | 31 December<br>2019 | 31 December<br>2018 |
|-----------|---------------------|---------------------|
| Corporate | 5.22%               | 5.57%               |
| Retail    | 5.19%               | 5.05%               |

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

|                         | Average PD | Average CR | Average LGD |
|-------------------------|------------|------------|-------------|
| <b>31 December 2019</b> |            |            |             |
| Corporate               | 0.030      | 0.050      | 0.705       |
| Retail                  | 0.008      | 0.056      | 0.934       |
| <b>31 December 2018</b> |            |            |             |
| Corporate               | 0.037      | 0.063      | 0.937       |
| Retail                  | 0.006      | 0.077      | 0.923       |



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**18. LOANS AND RECEIVABLES (CONTINUED)**

Analysis of loans before allowance for impairment losses by industry:

|                                            | <b>31 December<br/>2019</b> | <b>31 December<br/>2018</b> |
|--------------------------------------------|-----------------------------|-----------------------------|
| Trade                                      | 131,960                     | 128,047                     |
| Agriculture, forestry, mining and industry | 68,080                      | 66,375                      |
| Citizens                                   | 78,788                      | 64,787                      |
| Construction industry                      | 23,066                      | 51,924                      |
| Services, finance, sport and tourism       | 51,264                      | 21,400                      |
| Governmental institutions, NGO's and other | 14,187                      | 11,076                      |
| Transport and communications               | 7,654                       | 5,727                       |
|                                            | <b>374,999</b>              | <b>349,336</b>              |

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.

| <b>31 December 2019</b> | <b>Number of reprogramed<br/>loans</b> | <b>Gross credit<br/>exposure</b> | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> |
|-------------------------|----------------------------------------|----------------------------------|----------------|----------------|----------------|
| Corporate               | 39                                     | 12,136                           | 693            | -              | 11,443         |
| Retail                  | 15                                     | 670                              | 22             | -              | 648            |
|                         | <b>54</b>                              | <b>12,806</b>                    | <b>715</b>     | <b>-</b>       | <b>12,091</b>  |
| <b>31 December 2018</b> |                                        |                                  |                |                |                |
| Corporate               | 39                                     | 13,949                           | 1,000          | -              | 12,949         |
| Retail                  | 18                                     | 1,256                            | 103            | -              | 1,153          |
|                         | <b>57</b>                              | <b>15,205</b>                    | <b>1,103</b>   | <b>-</b>       | <b>14,102</b>  |

**Syndicated loan**

During 2019, the Bank approved 8 syndicated loans (2018: 11 syndicates loans) to the clients together with other banks. On this basis, the participation of other banks as at 31 December 2019, was in amount of KM 4,527 thousand. (2018: KM 3,902 thousand). The Bank bears risks only for its portion of syndicated loans.

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19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

|                                              | 31 December<br>2019 | 31 December<br>2018 |
|----------------------------------------------|---------------------|---------------------|
| <b>Shares:</b>                               |                     |                     |
| Shares of private companies                  | 170                 | 219                 |
| Shares of public companies                   | 48                  | 38                  |
| Shares of banks                              | 21                  | 21                  |
| Shares of non-banking financial institutions | 4                   | 5                   |
|                                              | <u>243</u>          | <u>283</u>          |
| <b>Bonds:</b>                                |                     |                     |
| Ministry of Finance FBiH                     | -                   | 2,438               |
|                                              | -                   | <u>2,438</u>        |
|                                              | <u>243</u>          | <u>2,721</u>        |

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

|                                                             | 2019         | 2018         |
|-------------------------------------------------------------|--------------|--------------|
| <b>Balance at beginning of the year</b>                     | <b>2,721</b> | <b>8,144</b> |
| Transfer to financial assets at FVTOCI (IFRS 9)             | -            | (6,092)      |
| Transfer to financial assets at FVTOCI                      | (2,469)      | -            |
| Purchase during the year                                    | -            | 640          |
| Gains / (losses) related to fair value adjustments (Note 9) | 32           | 29           |
| Paid during the year                                        | (41)         | -            |
| <b>Balance at the end of the year</b>                       | <b>243</b>   | <b>2,721</b> |

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

|                                               | 31 December<br>2019 | 31 December<br>2018 |
|-----------------------------------------------|---------------------|---------------------|
| <b>Debt instruments:</b>                      |                     |                     |
| Ministry of Finance FBiH                      | 27,776              | 26,482              |
| Ministry of Finance RS                        | 19,597              | 6,864               |
| JP Autoceste FBiH d.o.o. Mostar               | 1,003               | 1,000               |
| Accrued interest                              | 382                 | 286                 |
| <i>Sub-total</i>                              | <u>48,758</u>       | <u>34,632</u>       |
| <b>Equity instruments:</b>                    |                     |                     |
| Bamcard d.d. Sarajevo                         | 219                 | 219                 |
| Sarajevo Stock exchange d.d. Sarajevo         | 103                 | 103                 |
| Securities' Register of FBiH d.d.             | 15                  | 15                  |
| Vakufska banka d.d. Sarajevo                  | 21                  | 9                   |
| Bank Association                              | 9                   | 9                   |
| <i>Sub-total</i>                              | <u>367</u>          | <u>355</u>          |
| <b>Investment in funds:</b>                   |                     |                     |
| Open investment fund "Lilium Global" Sarajevo | 484                 | 504                 |
|                                               | <u>484</u>          | <u>504</u>          |
|                                               | <u>49,609</u>       | <u>35,491</u>       |

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20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

Changes in gross carrying amount are presented below:

|                                                                 | Stage 1       | Stage 2 | Stage 3 | Total         |
|-----------------------------------------------------------------|---------------|---------|---------|---------------|
| <b>Gross carrying amount as at 1 January 2019</b>               | <b>35,491</b> | -       | -       | <b>35,491</b> |
| New financial assets (purchased)                                | 18,247        | -       | -       | 18,247        |
| Transfer from financial assets at FVTPL                         | 2,469         | -       | -       | 2,469         |
| Derecognition or proceeds from collection (excluding write off) | (7,935)       | -       | -       | (7,935)       |
| Interest (Note 5)                                               | 1,167         | -       | -       | 1,167         |
| Unrealised gain from fair value adjustment, net                 | 170           | -       | -       | 170           |
| <b>At 31 December 2019</b>                                      | <b>49,609</b> | -       | -       | <b>49,609</b> |
|                                                                 | Stage 1       | Stage 2 | Stage 3 | Total         |
| <b>Gross carrying amount as at 1 January 2018</b>               | <b>33,296</b> | -       | -       | <b>33,296</b> |
| 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)          |
| <b>At 31 December 2018</b>                                      | <b>35,491</b> | -       | -       | <b>35,491</b> |

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

|                                                           | Stage 1    | Stage 2 | Stage 3 | Total      |
|-----------------------------------------------------------|------------|---------|---------|------------|
| <b>Impairment as at 1 January 2019</b>                    | <b>261</b> | -       | -       | <b>220</b> |
| Changes in models / parameters for credit risk assessment | 162        | -       | -       | 162        |
| <b>At 31 December 2019</b>                                | <b>423</b> | -       | -       | <b>423</b> |
|                                                           | Stage 1    | Stage 2 | Stage 3 | Total      |
| <b>Impairment as at 1 January 2018</b>                    | <b>220</b> | -       | -       | <b>220</b> |
| Changes in models / parameters for credit risk assessment | 41         | -       | -       | 41         |
| <b>At 31 December 2018</b>                                | <b>261</b> | -       | -       | <b>261</b> |

21. DEBT INSTRUMENTS AT AMORTISED COST

|                             | 31 December<br>2019 | 31 December<br>2018 |
|-----------------------------|---------------------|---------------------|
| <b>Bonds:</b>               |                     |                     |
| Ministry of Finance of FBiH | 1,551               | 1,987               |
| Less: Impairment, net       | (10)                | (14)                |
|                             | <b>1,541</b>        | <b>1,973</b>        |

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**21. DEBT INSTRUMENTS AT AMORTISED COST (CONTINUED)**

Changes in debt instruments at amortised cost are presented below:

|                                  | <u>2019</u>  | <u>2018</u>  |
|----------------------------------|--------------|--------------|
| Balance at beginning of the year | 1,973        | 1,867        |
| Interest (Note 5)                | 151          | 186          |
| Decrease, net                    | <u>(583)</u> | <u>(80)</u>  |
| Balance at end of the year       | <u>1,541</u> | <u>1,973</u> |

Changes in gross carrying amount are presented below:

|                                                                 | <u>Stage 1</u> | <u>Stage 2</u> | <u>Stage 3</u> | <u>Total</u> |
|-----------------------------------------------------------------|----------------|----------------|----------------|--------------|
| <b>Gross carrying amount as at 1 January 2019</b>               | <b>1,987</b>   | -              | -              | <b>1,987</b> |
| New financial assets (purchased)                                | -              | -              | -              | -            |
| Derecognition or proceeds from collection (excluding write off) | (587)          | -              | -              | (587)        |
| Interest (Note 5)                                               | 151            | -              | -              | 151          |
| <b>At 31 December 2019</b>                                      | <b>1,551</b>   | -              | -              | <b>1,551</b> |

|                                                                 | <u>Stage 1</u> | <u>Stage 2</u> | <u>Stage 3</u> | <u>Total</u> |
|-----------------------------------------------------------------|----------------|----------------|----------------|--------------|
| <b>Gross carrying amount as at 1 January 2018</b>               | <b>1,867</b>   | -              | -              | <b>1,867</b> |
| Derecognition or proceeds from collection (excluding write off) | (66)           | -              | -              | (66)         |
| Interest (Note 5)                                               | 186            | -              | -              | 186          |
| <b>At 31 December 2018</b>                                      | <b>1,987</b>   | -              | -              | <b>1,987</b> |

Changes in impairment are presented below:

|                                                          | <u>Stage 1</u> | <u>Stage 2</u> | <u>Stage 3</u> | <u>Total</u> |
|----------------------------------------------------------|----------------|----------------|----------------|--------------|
| <b>Impairment as at 1 January 2019</b>                   | <b>14</b>      | -              | -              | <b>14</b>    |
| Decrease in impairment due to changes in risk parameters | (4)            | -              | -              | (4)          |
| <b>At 31 December 2019</b>                               | <b>10</b>      | -              | -              | <b>10</b>    |

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

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**22. OTHER ASSETS AND RECEIVABLES, NET**

|                                                                  | <b>31 December<br/>2019</b> | <b>31 December<br/>2018</b> |
|------------------------------------------------------------------|-----------------------------|-----------------------------|
| Receivables from BH Pošta based on the foreign exchange Contract | 2,969                       | 2,919                       |
| Acquired tangible assets*                                        | 2,729                       | 2,161                       |
| Deposits placed in other banks                                   | 2,591                       | 147                         |
| Receivables from banks                                           | 1,058                       | 1,010                       |
| Advances paid                                                    | 653                         | 611                         |
| Prepaid income tax                                               | 126                         | 219                         |
| Receivables from government institutions                         | 93                          | 107                         |
| Inventories and other office material                            | 76                          | 45                          |
| Other                                                            | 1,970                       | 1,766                       |
|                                                                  | <b>12,265</b>               | <b>8,985</b>                |
| Less: Impairment                                                 | (1,263)                     | (1,167)                     |
|                                                                  | <b>11,002</b>               | <b>7,818</b>                |

Changes in acquired assets are presented below:

|                                                       | <b>2019</b>       |                        |
|-------------------------------------------------------|-------------------|------------------------|
|                                                       | <b>Book value</b> | <b>Gains from sale</b> |
| <b>Balance at 1 January</b>                           | <b>2,161</b>      | -                      |
| Sale of acquired assets                               | (699)             | 260                    |
| Payment of loans receivables by acquisition of assets | 1,267             | -                      |
| <b>Balance at 31 December</b>                         | <b>2,729</b>      | <b>1,167</b>           |

Changes in impairment are presented below:

|                                                                    | <b>2019</b>  | <b>2018</b>  |
|--------------------------------------------------------------------|--------------|--------------|
| <b>Balance at 1 January</b>                                        | <b>1,167</b> | <b>1,191</b> |
| Increase of impairment (Note 13)                                   | 246          | -            |
| Decrease in impairment due to changes in risk parameters (Note 13) | (77)         | -            |
| Write off                                                          | (73)         | (24)         |
| <b>Balance at 31 December</b>                                      | <b>1,263</b> | <b>1,167</b> |

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23. TANGIBLE AND INTANGIBLE ASSETS

|                                 | Buildings and<br>land | Assets<br>under lease<br>(IFRS 16) | Vehicles | Computer<br>and other<br>equipment | Intangible<br>assets | Leasehold<br>improvements | Investment in<br>progress | Total   |
|---------------------------------|-----------------------|------------------------------------|----------|------------------------------------|----------------------|---------------------------|---------------------------|---------|
| <b>COST</b>                     |                       |                                    |          |                                    |                      |                           |                           |         |
| 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                | 1905                      | 352                       | 23,522  |
| Additions                       | -                     | 3,734                              | -        | -                                  | -                    | -                         | 1,291                     | 5,025   |
| Transfer (from) / to            | -                     | -                                  | 134      | 353                                | 139                  | 141                       | (767)                     | -       |
| Disposals                       | (1,547)               | -                                  | (67)     | (1,241)                            | (7)                  | (843)                     | (53)                      | (3,758) |
| At 31 December 2019             | 3,603                 | 3,734                              | 701      | 9,328                              | 5,397                | 1,203                     | 823                       | 24,789  |
| <b>ACCUMULATED DEPRECIATION</b> |                       |                                    |          |                                    |                      |                           |                           |         |
| 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  |
| Depreciation                    | 58                    | 1,048                              | 85       | 427                                | 312                  | 106                       | -                         | 2,036   |
| Disposals                       | (339)                 | -                                  | (62)     | (1,239)                            | (5)                  | (833)                     | -                         | (2,478) |
| At 31 December 2019             | 1,298                 | 1,048                              | 390      | 8,118                              | 4,293                | 520                       | -                         | 15,667  |
| <b>NET BOOK VALUE</b>           |                       |                                    |          |                                    |                      |                           |                           |         |
| At 31 December 2019             | 2,305                 | 2,686                              | 311      | 1,210                              | 1,104                | 683                       | 823                       | 9,122   |
| At 31 December 2018             | 3,571                 | -                                  | 267      | 1,286                              | 1,279                | 658                       | 352                       | 7,413   |

Cost of fully depreciated tangible and intangible assets in use at 31 December 2019 is KM 10,339 thousand (2018: KM 11,408 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 KM 2,276 thousand (Note 9)

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**23. TANGIBLE AND INTANGIBLE ASSETS (CONTINUED)**

Assets under lease in accordance with IFRS 16 „Leases“ are presented below:

|                                                          | <u>Property</u>   |
|----------------------------------------------------------|-------------------|
| Net book value at 31 December 2019 (KM 000)              | 2,686             |
| Addition investment in assets with right of use (KM 000) | -                 |
| Depreciation rate                                        | 20% - 50%         |
| Number of lease agreement                                | 15                |
| Period of right of use                                   | from 2 to 5 years |

**24. DUE TO BANKS**

|                     | <u>31 December<br/>2019</u> | <u>31 December<br/>2018</u> |
|---------------------|-----------------------------|-----------------------------|
| <b>Deposits:</b>    |                             |                             |
| Demand deposits     | 360                         | 2,109                       |
| Fixed-term deposits | 5,000                       | 5,500                       |
|                     | <u>5,360</u>                | <u>7,609</u>                |

**25. DUE TO CUSTOMERS**

|                                                                                          | <u>31 December<br/>2019</u> | <u>31 December<br/>2018</u> |
|------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| <b><i>Demand deposits</i></b>                                                            |                             |                             |
| <i>Retail:</i>                                                                           |                             |                             |
| In domestic currency                                                                     | 57,960                      | 55,792                      |
| In foreign currencies                                                                    | 17,113                      | 17,711                      |
|                                                                                          | <u>75,073</u>               | <u>73,503</u>               |
| <i>Corporate:</i>                                                                        |                             |                             |
| In domestic currency                                                                     | 43,155                      | 38,664                      |
| In foreign currencies                                                                    | 4,628                       | 3,523                       |
|                                                                                          | <u>47,783</u>               | <u>42,187</u>               |
| <i>Deposits from non-profit organisations, cantonal government, municipalities etc.:</i> |                             |                             |
| In domestic currency                                                                     | 99,786                      | 69,352                      |
| In foreign currencies                                                                    | 11,807                      | 10,626                      |
|                                                                                          | <u>111,593</u>              | <u>79,978</u>               |
|                                                                                          | <u>234,449</u>              | <u>195,668</u>              |
| <b><i>Fixed-term deposits:</i></b>                                                       |                             |                             |
| <i>Retail:</i>                                                                           |                             |                             |
| In domestic currency                                                                     | 60,214                      | 52,692                      |
| In foreign currencies                                                                    | 79,620                      | 70,033                      |
|                                                                                          | <u>139,834</u>              | <u>122,725</u>              |
| <i>Corporate:</i>                                                                        |                             |                             |
| In domestic currency                                                                     | 16,368                      | 13,114                      |
| In foreign currencies                                                                    | 978                         | 1,188                       |
|                                                                                          | <u>17,346</u>               | <u>14,302</u>               |
| <i>Deposits from non-profit organisations, cantonal government, municipalities etc.:</i> |                             |                             |
| In domestic currency                                                                     | 38,103                      | 59,556                      |
| In foreign currencies                                                                    | 43,501                      | 26,221                      |
|                                                                                          | <u>81,604</u>               | <u>85,777</u>               |
|                                                                                          | <u>238,784</u>              | <u>222,804</u>              |
|                                                                                          | <u>473,233</u>              | <u>418,472</u>              |

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**25. DUE TO CUSTOMERS (CONTINUED)**

Interest rate during the year is presented below:

|                                              | <u>2019</u>   | <u>2018</u>   |
|----------------------------------------------|---------------|---------------|
| Demand deposits in KM and foreign currencies | 0.05% - 0.60% | 0.05% - 0.60% |
| Fixed-term deposits of legal entities        | 0.05% - 4.50% | 0.10% - 4.50% |
| Fixed-term deposits of private individuals   | 0.05% - 6.40% | 0.09% - 6.40% |

**26. SUBORDINATED DEBT**

|                                                                                                   | <u>31 December<br/>2019</u> | <u>31 December<br/>2018</u> |
|---------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| ASA Finance d.d. Sarajevo (3,000,000 BAM, interest rate 5% p.a., maturity 11 August 2020 - bonds) | 3,000                       | 3,000                       |
| Accrued interest                                                                                  | 59                          | 59                          |
|                                                                                                   | <u>3,059</u>                | <u>3,059</u>                |

**27. LIABILITIES FOR LEASE**

|                                  | <u>31 December<br/>2019</u> | <u>31 December<br/>2018</u> |
|----------------------------------|-----------------------------|-----------------------------|
| Long term liabilities            | 1,715                       | -                           |
| Short term liabilities           | 1,034                       | -                           |
|                                  | <u>2,749</u>                | <u>-</u>                    |
| <b><i>Maturity analysis:</i></b> |                             |                             |
| Within one year                  | 1,034                       | -                           |
| In the second year               | 874                         | -                           |
| In the third year                | 493                         | -                           |
| In the fourth year               | 337                         | -                           |
| In the fifth year                | 11                          | -                           |
|                                  | <u>2,749</u>                | <u>-</u>                    |

Lease agreement are signed from 2 to 5 years. The Bank used incremental borrowing rate from 1.90% to 3.50% p.a.

**28. OTHER LIABILITIES**

|                                                     | <u>31 December<br/>2019</u> | <u>31 December<br/>2018</u> |
|-----------------------------------------------------|-----------------------------|-----------------------------|
| Liabilities for inactive accounts                   | 655                         | 794                         |
| Liabilities for undistributed inflows               | 560                         | 319                         |
| Card operations                                     | 478                         | 383                         |
| Liabilities for suppliers                           | 296                         | 336                         |
| Liabilities for managed funds commissions (Note 31) | 23                          | 35                          |
| Liabilities for dividends                           | -                           | 127                         |
| Liabilities to employees by Court decisions         | -                           | 24                          |
| Other                                               | 388                         | 308                         |
|                                                     | <u>2,400</u>                | <u>2,326</u>                |



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29. PROVISIONS

|                                              | 31 December<br>2019 | 31 December<br>2018 |
|----------------------------------------------|---------------------|---------------------|
| Provisions for commitments and contingencies | 485                 | 492                 |
| Provisions for legal proceedings             | 147                 | 240                 |
| Provisions for employee benefits             | 344                 | 43                  |
|                                              | <u>976</u>          | <u>775</u>          |

*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<br>2019 | 31 December<br>2018 |
|------------------------|---------------------|---------------------|
| Unused approved loans  | 20,535              | 13,552              |
| Performance guarantees | 13,473              | 10,508              |
| Payment guarantees     | 2,461               | 4,204               |
| Letters of credit      | -                   | 71                  |
|                        | <u>36,469</u>       | <u>28,335</u>       |

Changes in gross carrying amount are presented below

|                                                               | Stage 1       | Stage 2    | Stage 3  | Total         |
|---------------------------------------------------------------|---------------|------------|----------|---------------|
| <b>Gross carrying amount as at 1 January 2019</b>             | <b>28,060</b> | <b>274</b> | <b>1</b> | <b>28,335</b> |
| New financial liabilities                                     | 29,011        | 112        | -        | 29,123        |
| Derecognition or payment of liabilities (excluding write off) | (20,295)      | (200)      | -        | (20,495)      |
| Decrease in exposure by existing contracts                    | (490)         | (2)        | (1)      | (493)         |
| Transfer to Stage 1                                           | 1             | (1)        | -        | -             |
| Transfer to Stage 2                                           | (11)          | 11         | -        | -             |
| Transfer to Stage 3                                           | (3)           | -          | 3        | -             |
| <b>At 31 December 2019</b>                                    | <b>36,273</b> | <b>194</b> | <b>3</b> | <b>36,470</b> |
|                                                               | <u>36,273</u> | <u>194</u> | <u>3</u> | <u>36,470</u> |
|                                                               | Stage 1       | Stage 2    | Stage 3  | Total         |
| <b>Gross carrying amount as at 1 January 2018</b>             | <b>30,004</b> | <b>320</b> | <b>3</b> | <b>30,327</b> |
| 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                    | 125           | (124)      | (1)      | -             |
| Transfer to Stage 1                                           | (220)         | 220        | -        | -             |
| Transfer to Stage 2                                           | (1)           | -          | 1        | -             |
| Transfer to Stage 3                                           | 125           | (124)      | (1)      | -             |
| <b>At 31 December 2018</b>                                    | <b>28,060</b> | <b>274</b> | <b>1</b> | <b>28,335</b> |
|                                                               | <u>28,060</u> | <u>274</u> | <u>1</u> | <u>28,335</u> |

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29. PROVISIONS (CONTINUED)

Changes in impairment are presented below:

|                                                               | Stage 1    | Stage 2  | Stage 3  | Total      |
|---------------------------------------------------------------|------------|----------|----------|------------|
| <b>Impairments as at 1 January 2019</b>                       | <b>488</b> | <b>3</b> | <b>1</b> | <b>492</b> |
| Impairment (Note 13)                                          | (5)        | (1)      | (1)      | (7)        |
| Transfer to Stage 1                                           | -          | -        | -        | -          |
| Transfer to Stage 2                                           | -          | -        | -        | -          |
| Transfer to Stage 3                                           | (2)        | -        | 2        | -          |
| <b>At 31 December 2019</b>                                    | <b>481</b> | <b>2</b> | <b>2</b> | <b>485</b> |
|                                                               | Stage 1    | Stage 2  | Stage 3  | Total      |
| <b>Impairments as at 1 January 2018</b>                       | <b>463</b> | <b>7</b> | <b>3</b> | <b>473</b> |
| New financial liabilities                                     | 409        | -        | -        | 409        |
| Derecognition or payment of liabilities (excluding write off) | (403)      | (6)      | (3)      | (412)      |
| Increase in impairment due to changes in risk parameters      | 22         | -        | -        | 22         |
| Transfer to Stage 1                                           | 1          | (1)      | -        | -          |
| Transfer to Stage 2                                           | (3)        | 3        | -        | -          |
| Transfer to Stage 3                                           | (1)        | -        | 1        | -          |
| <b>At 31 December 2018</b>                                    | <b>488</b> | <b>3</b> | <b>1</b> | <b>492</b> |

Changes in provisions are presented below:

|                                          | Court proceeding | Commitments and contingencies | Employee benefits | Total      |
|------------------------------------------|------------------|-------------------------------|-------------------|------------|
| <b>Balance as of 1 January 2018</b>      | -                | 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 provision (Note 13)           | -                | (413)                         | -                 | (413)      |
| Decrease due to payment                  | (146)            | -                             | (23)              | (169)      |
| <b>Balance as of 31 December 2018</b>    | <b>240</b>       | <b>492</b>                    | <b>43</b>         | <b>775</b> |
| Increase of provision (Note 13)          | 159              | 1,237                         | 363               | 1,759      |
| Release of provision (Note 13)           | (236)            | (1,244)                       | (5)               | (1,485)    |
| Decrease due to payment                  | (16)             | -                             | (57)              | (73)       |
| <b>Balance as of 31 December 2019</b>    | <b>147</b>       | <b>485</b>                    | <b>344</b>        | <b>976</b> |

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 audit, there were no significant changes in a complaint status filed to the Tax Authorities.

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**30. SHARE CAPITAL**

Share capital as of 31 December 2019 consists of 658,695 ordinary shares at nominal value of 100 KM.

|                                        | 31 December 2019 |                | 31 December 2018 |                |
|----------------------------------------|------------------|----------------|------------------|----------------|
|                                        | '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               | 4,810            | 7.30%          | 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               | 1,314            | 2.00%          | 1,337            | 2.03%          |
| Nermina Čago                           | 1,057            | 1.60%          | -                | -              |
| ZIF "PROF-PLUS" d.d. Sarajevo          | 1,010            | 1.53%          | 1,010            | 1.53%          |
| Other shareholders                     | 15,984           | 24.27%         | 17,813           | 27.04%         |
|                                        | <b>65,870</b>    | <b>100.00%</b> | <b>65,870</b>    | <b>100.00%</b> |

On meeting held 29<sup>th</sup> November 2019, Supervisory board adopted Decision on approving commencement of activities on merger process of Vakufska bank d.d. Sarajevo to ASA bank d.d. Sarajevo in order to prepare formal legal basis for completing of all legal requirements in process of merger, but before issuing prescribed formal decisions about merger, which have to be issued at relevant managing bodies. Management's of Banks as at 30<sup>th</sup> December 2019, signed document "Memorandum on understanding", which defines procedures necessary for preparing merger, and with the purpose of completing all requirements prescribed by Law on Banks in FBiH and other local regulation. Memorandum also defines conditions about sharing data and process dynamics. Organisation of initial activities, is responsibility of Coordination committee, which will be appointed on relevant managing bodies.

**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:

|                                                           | 31 December 2019 | 31 December 2018 |
|-----------------------------------------------------------|------------------|------------------|
| <b>PLACEMENTS</b>                                         |                  |                  |
| Corporate                                                 | 9,950            | 9,794            |
| Retail                                                    | 2,297            | 2,513            |
|                                                           | <b>12,247</b>    | <b>12,307</b>    |
| <b>SOURCES:</b>                                           |                  |                  |
| Zenica – Doboj Canton                                     | 9,808            | 9,907            |
| Sarajevo Canton                                           | 1,957            | 1,962            |
| Others                                                    | 505              | 473              |
|                                                           | <b>12,270</b>    | <b>12,342</b>    |
| <b>Current obligations due to Managed funds (Note 28)</b> | <b>23</b>        | <b>35</b>        |

In accordance with agreement signed between government of Zenica – Doboj Canton and Sarajevo Canton with the Bank, the Bank has places 9,950 thousand KM as landing funds to legal entities i 2,297 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.

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**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).

(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 2019 and 2018 balance outstanding with related parties comprised:

All transaction that are presented below are done by commercial and banking conditions:

|              | 31 December 2019 |                            |               | 31 December 2018 |                            |              |
|--------------|------------------|----------------------------|---------------|------------------|----------------------------|--------------|
|              | Loans            | Off-balance sheet exposure | Total         | Loans            | Off-balance sheet exposure | Total        |
| Employees    | 2,688            | 338                        | 3,026         | 2,154            | 272                        | 2,426        |
| Shareholders | 7,999            | 310                        | 8,309         | 4,167            | 251                        | 4,418        |
|              | <b>10,687</b>    | <b>648</b>                 | <b>11,335</b> | <b>6,321</b>     | <b>523</b>                 | <b>6,844</b> |

**Directors' remuneration**

The remuneration of directors and other key management personnel during the year ended 31 December 2019 may be presented as follows

|                                                    | 2019       | 2018       |
|----------------------------------------------------|------------|------------|
| Compensation for Chairman and members of the Board | 427        | 577        |
| Taxes and contributions and other compensations    | 243        | 244        |
|                                                    | <b>670</b> | <b>821</b> |

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**33. RISK MANAGEMENT**

**a) Capital risk managements**

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:

|                                  | <u>31 December<br/>2019</u> | <u>31 December<br/>2018</u> |
|----------------------------------|-----------------------------|-----------------------------|
| Debt                             | 484,401                     | 429,140                     |
| Capital                          | <u>68,170</u>               | <u>62,298</u>               |
| <b>Net debt to capital ratio</b> | <u><b>7.11</b></u>          | <u><b>6.89</b></u>          |

Debt is defined as liabilities toward clients, other banks and financial institutions presented in detail in Notes 24, 25, 26 and 27. Capital includes share capital and accumulated losses.

Regulatory capital of the Bank includes core and supplementary capital.

Core capital of bank (totally equal to ordinary share capital) includes paid shares, premium on share, accumulated retained earnings and other reserves formed from earn after tax based on decision of Bank Assembly, net revaluation reserves by change of fair value of assets (accumulated comprehensive income), impaired by amount of treasury stocks, intangible assets and deferred tax assets.

Supplementary capital includes general impairment for credit risk, calculated as 1.25% from amount of risk-weighted exposure, impaired by missing reserves for credit loss by regulatory request. Missing reserves for credit loss are calculated in accordance with FBA regulations. Bank calculate impairment for credit loss in accordance with FBA methodology for every contract. Positive difference is shown as missing reserve for credit loss.

The prescribed minimum capital rates are as follows:

- rate of regular core capital 6.75%
- rate of core capital 9%
- rate of regulatory capital 12%

In addition to the regulatory minimum rates of adequacy, Bank also has to provide capital conservation buffer that needs to be in form of regular basis capital in amount of 2.5% of the total amount of risk exposure.

The total weighted risk used to calculate capital adequacy includes:

- risk-weighted assets and credit equivalents,
- positional, currency, commodity risk, and
- operational risk.

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**33. RISK MANAGEMENT (CONTINUED)**

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 2019, the rates and levels of capital were as follows:

|                                                                    |        |
|--------------------------------------------------------------------|--------|
| The rate of core capital                                           | 15.84% |
| The rate of regulatory capital                                     | 15.84% |
| The rate of core capital including adjustments from Pillar 2       | 7.42%  |
| The rate of core capital including adjustments from Pillar 2       | 9.90%  |
| The rate of regulatory capital including adjustments from Pillar 2 | 13.20% |

Table that is presented below shows structure of capital and capital indicators at 31 December 2019 and 2018:

|                                                          | 31 December<br>2019 | 31 December<br>2018 |
|----------------------------------------------------------|---------------------|---------------------|
| <b>Regulatory capital</b>                                | <b>54,735</b>       | <b>47,080</b>       |
| Core capital                                             | 54,735              | 47,080              |
| Regular core capital                                     | 54,735              | 47,080              |
| Paid-up equity instruments                               | 65,870              | 65,870              |
| Retained earnings                                        | (10,154)            | (15,620)            |
| Other comprehensive income – revaluation reserves        | 713                 | 591                 |
| Other reserves                                           | 5,992               | 5,992               |
| Deductions from regular core capital                     |                     |                     |
| intangible assets                                        | (1,234)             | (1,314)             |
| deferred tax assets                                      | (108)               | (113)               |
| Deductions from regular core capital – missing reserves  | (6,344)             | (8,326)             |
| <b>Total regular core capital</b>                        | <b>54,735</b>       | <b>47,080</b>       |
| Supplementary core capital                               | -                   | -                   |
| <b>Core capital</b>                                      | <b>54,735</b>       | <b>47,080</b>       |
| <b>Supplementary capital</b>                             | <b>-</b>            | <b>-</b>            |
| Subordinated debt                                        | -                   | 967                 |
| General value adjustment for credit risk                 | 3,870               | 3,486               |
| Deductions from supplementary capital – missing reserves | (3,870)             | (4,453)             |
| <b>Total regulatory capital</b>                          | <b>54,735</b>       | <b>47,080</b>       |
| Total risk-weighted assets (unaudited)                   | 345,616             | 315,284             |
| <b>Rate of regular core capital</b>                      | <b>15.84%</b>       | <b>14.93%</b>       |

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**33. RISK MANAGEMENT (CONTINUED)**

**a) Capital adjustment plan**

As of 31 December 2019, the ratio "tangible assets/core capital" amounted to 14,35% (31 December 2018: 13,59%). According to the Law on Banks, total bank's investments into tangible assets may not exceed 40% of the core capital.

Bank is obliged to ensure and maintain financial leverage rate, as additional security and simple capital protection, in minimum of 6%.

The bank's financial leverage rate is ratio of core capital and amount of total bank exposure on reporting date, expressed as a percentage. Financial leverage ratio at 31 December 2019 amounts to 9.51% (31 December 2018: 10,2%).

**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.

**c) Categories of financial instruments**

|                                                                                | <u>31 December<br/>2019</u> | <u>31 December<br/>2018</u> |
|--------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| <b>Financial assets</b>                                                        |                             |                             |
| Loans and receivables:                                                         | 484,322                     | 439,010                     |
| <i>Cash and cash equivalents (including Obligatory reserves with the CBBH)</i> | 151,489                     | 134,539                     |
| <i>Loans to clients and receivables, net</i>                                   | 332,833                     | 304,471                     |
| Financial assets at FVTPL                                                      | 243                         | 2,721                       |
| Financial assets at FVTOCI                                                     | 49,609                      | 35,491                      |
| Financial assets at amortised cost                                             | 1,541                       | 1,973                       |
|                                                                                | <u>535,715</u>              | <u>479,195</u>              |
| <b>Financial liabilities</b>                                                   |                             |                             |
| At amortised cost:                                                             |                             |                             |
| <i>Borrowings and liabilities to banks</i>                                     | 5,360                       | 7,609                       |
| <i>Subordinated debt</i>                                                       | 3,059                       | 3,059                       |
| <i>Due to customers</i>                                                        | 473,233                     | 418,472                     |
|                                                                                | <u>481,652</u>              | <u>429,140</u>              |

**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.

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33. RISK MANAGEMENT (CONTINUED)

f) Foreign currency risk management

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

|                                               | BAM            | EUR            | USD          | CHF          | Other        | Total          |
|-----------------------------------------------|----------------|----------------|--------------|--------------|--------------|----------------|
| <b>As at 31 December 2019</b>                 |                |                |              |              |              |                |
| <b>ASSETS</b>                                 |                |                |              |              |              |                |
| Cash and balances with other banks            | 74,873         | 21,701         | 4,485        | 1,258        | 1,341        | 103,658        |
| Obligatory reserves with the CBBH             | 47,831         | -              | -            | -            | -            | 47,831         |
| Loans to customers, net                       | 152,111        | 180,722        | -            | -            | -            | 332,833        |
| Financial assets at FVTPL                     | 243            | -              | -            | -            | -            | 243            |
| Financial asset at FVTOCI                     | 31,998         | 17,611         | -            | -            | -            | 49,609         |
| Debt instruments at amortised cost            | 1,541          | -              | -            | -            | -            | 1,541          |
| Other receivables                             | 8,046          | 2,951          | 5            | -            | -            | 11,002         |
| <b>Total</b>                                  | <b>316,643</b> | <b>222,985</b> | <b>4,490</b> | <b>1,258</b> | <b>1,341</b> | <b>546,717</b> |
| <b>LIABILITIES</b>                            |                |                |              |              |              |                |
| Due to other banks and financial institutions | 360            | 5,000          | -            | -            | -            | 5,360          |
| Amounts due to customers                      | 247,796        | 218,685        | 4,499        | 1,258        | 995          | 473,233        |
| Other financial liabilities                   | 2,398          | 2              | -            | -            | -            | 2,400          |
|                                               | 2,749          | -              | -            | -            | -            | 2,749          |
| Subordinated debt                             | 3,059          | -              | -            | -            | -            | 3,059          |
| <b>Total</b>                                  | <b>256,362</b> | <b>223,687</b> | <b>4,499</b> | <b>1,258</b> | <b>995</b>   | <b>486,801</b> |
| <b>As at 31 December 2018</b>                 |                |                |              |              |              |                |
| <b>Total monetary assets</b>                  | <b>290,712</b> | <b>191,140</b> | <b>2,501</b> | <b>1,390</b> | <b>1,270</b> | <b>487,013</b> |
| <b>Total monetary liabilities</b>             | <b>225,130</b> | <b>201,587</b> | <b>2,482</b> | <b>1,350</b> | <b>917</b>   | <b>431,466</b> |

*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<br>2019 | 31 December<br>2018 | 31 December<br>2019 | 31 December<br>2018 |
| Profit/(loss) | 1                   | 2                   | -                   | 4                   |



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for the year ended on 31 December 2019

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

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**33. RISK MANAGEMENT (CONTINUED)**

**g) Interest rate risk management**

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

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

***Interest rate sensitivity analysis***

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank' net result for the year ended 31 December 2019 would decrease / increase by BAM 643 thousand (2018: BAM 778 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.

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33. RISK MANAGEMENT (CONTINUED)

h) Credit risk management (continued)

*Financial assets*

|                                                      | Total gross carrying amount | Unimpaired assets | Individually impaired assets | Individual impairment allowance | Collective impairment allowance | Total net carrying amount |
|------------------------------------------------------|-----------------------------|-------------------|------------------------------|---------------------------------|---------------------------------|---------------------------|
| <b>As of 31 December, 2019</b>                       |                             |                   |                              |                                 |                                 |                           |
| Cash and balances with other banks                   | 103,675                     | 43,018            | 60,657                       | -                               | (17)                            | 103,658                   |
| Obligatory reserves with the CBBH                    | 47,831                      | 47,831            | -                            | -                               | -                               | 47,831                    |
| Loans to customers and receivables at amortised cost | 374,999                     | 760               | 374,239                      | (8,036)                         | (34,130)                        | 332,833                   |
| Financial assets at FVTPL                            | 243                         | 243               | -                            | -                               | -                               | 243                       |
| Debt instruments at amortised cost                   | 1,551                       | -                 | 1,551                        | -                               | (10)                            | 1,541                     |
| Financial assets at FVTOCI                           | 49,609                      | 851               | 48,758                       | -                               | -                               | 49,609                    |
|                                                      | <b>577,908</b>              | <b>92,703</b>     | <b>485,205</b>               | <b>(8,036)</b>                  | <b>(34,157)</b>                 | <b>535,715</b>            |
| <b>As of 31 December, 2018</b>                       |                             |                   |                              |                                 |                                 |                           |
| 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                    |
|                                                      | <b>524,095</b>              | <b>67,938</b>     | <b>456,157</b>               | <b>(35,478)</b>                 | <b>(9,422)</b>                  | <b>479,195</b>            |

Notes to the financial statements  
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(all amounts are expressed in thousands of BAM, unless otherwise stated)

33. RISK MANAGEMENT (CONTINUED)

h) Credit risk management (continued)

*Credit exposure and collateral*

|                                                      | Credit risk exposure |                               | Fair value of collateral |
|------------------------------------------------------|----------------------|-------------------------------|--------------------------|
|                                                      | Net exposure         | Loan commitments / Guarantees |                          |
| <b>As at 31 December 2019</b>                        |                      |                               |                          |
| Cash and balances with other banks                   | 103,658              | -                             | -                        |
| Obligatory reserves with the CBBH                    | 47,831               | -                             | -                        |
| Loans to customers and receivables at amortised cost | 332,833              | 36,469                        | 380,263                  |
| Financial assets at FVTPL                            | 243                  | -                             | -                        |
| Financial assets at FVTOCI                           | 49,609               | -                             | -                        |
| Debt instruments at amortised cost                   | 1,541                | -                             | -                        |
|                                                      | <b>535,715</b>       | <b>36,469</b>                 | <b>380,263</b>           |
| <b>As at 31 December 2018</b>                        |                      |                               |                          |
| 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                | -                             | -                        |
|                                                      | <b>479,195</b>       | <b>28,335</b>                 | <b>404,387</b>           |

*Fair value of the collaterals*

|                    | 31 December 2019 | 31 December 2018 |
|--------------------|------------------|------------------|
| Real estate        | 363,386          | 380,145          |
| Movable properties | 9,842            | 16,983           |
| Deposits           | 7,035            | 7,259            |
| <b>Total</b>       | <b>380,263</b>   | <b>404,387</b>   |

*Arrears*

|                         | Total gross loans to citizens | Not due        | Up to 30 days | 31 to 90 days | 91 to 180 days | 181 to 270 days | Over 270 days |
|-------------------------|-------------------------------|----------------|---------------|---------------|----------------|-----------------|---------------|
| <b>31 December 2019</b> |                               |                |               |               |                |                 |               |
| Corporate               | 296,176                       | 250,818        | 4,270         | 757           | 2,675          | 136             | 37,520        |
| Retail                  | 78,823                        | 66,055         | 4,663         | 257           | 134            | 213             | 7,501         |
| <b>Total</b>            | <b>374,999</b>                | <b>316,873</b> | <b>8,933</b>  | <b>1,014</b>  | <b>2,809</b>   | <b>349</b>      | <b>45,021</b> |
| <b>31 December 2018</b> |                               |                |               |               |                |                 |               |
| Corporate               | 284,549                       | 240,154        | 1,359         | 342           | 1              | 27              | 42,666        |
| Retail                  | 64,787                        | 56,863         | 284           | 6             | 21             | 61              | 7,552         |
| <b>Total</b>            | <b>349,336</b>                | <b>297,017</b> | <b>1,643</b>  | <b>348</b>    | <b>22</b>      | <b>88</b>       | <b>50,218</b> |

Notes to the financial statements  
for the year ended on 31 December 2019

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**33. RISK MANAGEMENT (CONTINUED)**

**i) Liquidity risk management**

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

**Liquidity and interest risk tables**

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

*Maturity for financial assets*

|                                    | Weighted average effective interest rate | Less than 1 month | 1 to 3 months | From 3 months to 1 year | 1 to 5 years   | 5+ years      | Total          |
|------------------------------------|------------------------------------------|-------------------|---------------|-------------------------|----------------|---------------|----------------|
| <b>31 December 2019</b>            |                                          |                   |               |                         |                |               |                |
| Non- interest bearing              | -                                        | 112,884           | -             | 146                     | -              | 9             | 113,039        |
| Variable interest rate instruments | 4.13%                                    | 45,051            | 15,147        | 88,117                  | 138,794        | 47,901        | 335,010        |
| Fixed interest rate instruments    | 3.05%                                    | 9,949             | 2,233         | 56,520                  | 46,731         | 3,412         | 118,845        |
|                                    |                                          | <b>167,884</b>    | <b>17,380</b> | <b>144,783</b>          | <b>185,525</b> | <b>51,322</b> | <b>566,894</b> |
| <b>31 December 2018</b>            |                                          |                   |               |                         |                |               |                |
| 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        |
|                                    |                                          | <b>153,272</b>    | <b>18,764</b> | <b>101,978</b>          | <b>184,142</b> | <b>47,208</b> | <b>505,364</b> |

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 | 1 to 3 months | From 3 months to 1 year | 1 to 5 years   | 5+ years     | Total          |
|------------------------------------|------------------------------------------|-------------------|---------------|-------------------------|----------------|--------------|----------------|
| <b>31 December 2019</b>            |                                          |                   |               |                         |                |              |                |
| Non-interest bearing               |                                          | 10,004            | 230           | 1,314                   | 2,388          | 1,081        | 15,017         |
| Variable interest rate instruments | 0.10%                                    | 195,257           | 827           | 4,366                   | 5,790          | 60           | 206,300        |
| Fixed interest rate instruments    | 1.48%                                    | 38,582            | 9,790         | 81,768                  | 145,549        | 1,532        | 277,221        |
|                                    |                                          | <b>243,843</b>    | <b>10,847</b> | <b>87,448</b>           | <b>153,727</b> | <b>2,673</b> | <b>498,538</b> |
| <b>31 December 2018</b>            |                                          |                   |               |                         |                |              |                |
| 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        |
|                                    |                                          | <b>207,349</b>    | <b>11,765</b> | <b>88,627</b>           | <b>129,722</b> | <b>2,666</b> | <b>440,129</b> |

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

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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                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 31 December 2019                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 31 December 2018                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Fair value hierarchy | Valuation techniques and key inputs                                        |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------------------------------------------------------------|
| 1) Financial assets as at FVTPL (see Note 19) | Equity securities listed on a stock exchange in Bosnia and Herzegovina:<br>Shares of private and public companies, banks and non-banking financial institutions – 243 thousand KM.                                                                                                                                                                                                                                                                                | 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.                                                                                                                                                                                                                                                                               | 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.                                                                                                                                                                                                                                                                                                                               | Level 1              | Quoted bid prices in an active market.                                     |
| 2) Financial assets as at FVTOCI              | Debt securities listed on a stock exchange in Bosnia and Herzegovina:<br>• FBiH Government bonds – 27,776 thousand KM<br>• RS bonds – 19,597 thousand KM<br>• JP Autoceste FBiH – 1,003 thousand KM<br>Equity securities listed on a stock exchange in Bosnia and Herzegovina:<br>Shares of private and public companies, banks and non-banking financial institutions – 367 thousand KM<br>Share in investment funds:<br>Open investment funds – 484 thousand KM | 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<br>Equity securities listed on a stock exchange in Bosnia and Herzegovina:<br>Shares of private and public companies, banks and non-banking financial institutions – 355 thousand KM<br>Share in investment funds:<br>Open investment funds – 504 thousand KM | Debt securities listed on a stock exchange in Bosnia and Herzegovina:<br>• FBiH Government bonds – KM 2,438 thousand.<br>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<br>Equity securities listed on a stock exchange in Bosnia and Herzegovina:<br>Shares of private and public companies, banks and non-banking financial institutions – 355 thousand KM | Level 1              | Quoted bid prices in an active market.                                     |
|                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Level 2              | Prices derived from prices of other similar assets quoted on active market |

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(all amounts are expressed in thousands of BAM, 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 2019 |            | 31 December 2018 |            |
|------------------------------------------------------------|------------------|------------|------------------|------------|
|                                                            | Carrying amount  | Fair value | Carrying amount  | Fair value |
| <b>Financial assets</b>                                    |                  |            |                  |            |
| <i>Loans and receivables:</i>                              |                  |            |                  |            |
| - Loans to customers and receivables at amortised cost     | 332,833          | 350,174    | 304,471          | 320,638    |
| - Debt instruments at amortised cost                       | 1,541            | 1,987      | 1,987            | 2,210      |
| <b>Financial liabilities</b>                               |                  |            |                  |            |
| <i>At amortised cost:</i>                                  |                  |            |                  |            |
| - Due to customers, other banks and financial institutions | 478,593          | 469,485    | 426,081          | 417,890    |
| - Subordinated debt                                        | 3,059            | 2,913      | 3,059            | 2,913      |

Fair value hierarchy as of 31 December 2019

|                                                           | Fair value hierarchy as of 31 December 2019 |                |         |                |
|-----------------------------------------------------------|---------------------------------------------|----------------|---------|----------------|
|                                                           | Level 1                                     | Level 2        | Level 3 | Total          |
| <b>Financial assets</b>                                   |                                             |                |         |                |
| <i>Loans and receivables</i>                              |                                             |                |         |                |
| - Loans to customers and receivables at amortised cost    | -                                           | 350,174        | -       | 350,174        |
| - Debt instruments at amortised cost                      | -                                           | 1,987          | -       | 1,987          |
|                                                           | -                                           | <b>352,161</b> | -       | <b>352,161</b> |
| <b>Financial liabilities</b>                              |                                             |                |         |                |
| <i>At amortised cost:</i>                                 |                                             |                |         |                |
| - Due to customers, other banks and financial liabilities | -                                           | 469,485        | -       | 469,485        |
| - Subordinated debt                                       | -                                           | 2,913          | -       | 2,913          |
|                                                           | -                                           | <b>472,398</b> | -       | <b>472,398</b> |

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.

**Notes to the financial statements  
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*(all amounts are expressed in thousands of BAM, unless otherwise stated)*

**35. EVENTS AFTER THE BALANCE SHEET DATE**


As explained in Note 30 to the financial statements, on meeting held 29<sup>th</sup> November 2019, Supervisory board adopted Decision on approving commencement of activities on merger process of Vakufska bank d.d. Sarajevo to ASA bank d.d. Sarajevo in order to prepare formal legal basis for completing of all legal requirements in process of merger, but before issuing prescribed formal decisions about merger, which have to be issued at relevant managing bodies. As of date of this report, initial activities are ongoing.

**36. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements were approved by the Board on 20 February 2020.

  
\_\_\_\_\_  
Samir Mustafić  
Chairman of the Board

  
\_\_\_\_\_  
Arnela Alagić  
Acting Member of the Board

  
\_\_\_\_\_  
Davor Tomić  
Member of the Board

