PRIVREDNA BANKA SARAJEVO D.D. SARAJEVO

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

Contents

Responsibility for the financial statements

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

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

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

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

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

Signed on behalf of the Management Board

Hamid Pršeš
President of the Management Board

Privredna banka Sarajevo d.d. Sarajevo
Obala Kulina bana br. 18
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11 February 2019

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Independent Auditor's Report

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Estimate of impairment for loan losses and receivables from customers For the accounting policies refer to the Note "*Impairment of financial assets*" in Section 3, Basis for presentation and summary of significant accounting policies. For additional information on Key Audit Matters refer to Note *Impairment for loan losses and receivables* in Section 4. Critical accounting judgments and key sources of estimation uncertainty. As at 31 December 2018, Bank had impairment for loan and receivables losses in amount of BAM 47 million, determined in accordance with IFRS 9 Financial Instruments. IFRS 9 is a new and complex accounting standard which requires significant judgment to determine the impairment reserve. Key areas of judgment included: - The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model. - The identification of exposures with a significant deterioration in credit quality. — Assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward-looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices). - The process of recognizing impairment on an individual basis by estimating recoverable amount based on future estimated cash flows, including the cash flows from collaterals. We focused on this area during the audit due to the significance of the amounts involved for the financial statements and also because of the nature of the judgements and assumptions that management are required to make.	***Procedures undertaken*** Our Audit approach was the following: We verified the selection and adoption of new accounting policies or the Bank's methodology for estimating loan loss provisions was appropriate and was applied consistently; We assessed the modelling techniques and methodology against the requirements of IFRS 9 Financial Instruments. We assessed and tested the design, implementation and operational efficiency of controls related to input data used in determining impaired loans, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model. We assessed and tested expected credit loss model assumptions, including model build and approval, ongoing monitoring/validation, model governance, mathematical accuracy, sensitivity to changes in model assumptions and procedures of timely identification of deterioration in credit quality. We examined a sample of individually significant credit exposure in order to estimate loan loss provisions calculated on an individual basis, we evaluated monitoring processes over credit watch lists, a review of credit files, a process of updating collateral estimates and a modelling process for scenarios defined by a new methodology. We considered management's assumptions, including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. We tested the adequacy and accuracy of the disclosures in the financial statements. Our audit did not lead to any material adjustments to the impairment for loan losses at 31 December 2018.

Other matter

Financial statements for the year ended on 31 December 2017 has been audited by another auditor, who expressed an unmodified opinion on those financial statements in its independent auditor's report dated on 13 March 2018.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process, which was established by the Bank.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

RSM Audit BH d.o.o.

Lejla Kaknjo, Director and Certified Auditor

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

Berna Šljokić, Partner and Certified Auditor

Sarajevo, 11 February 2019

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

	Notes	2018	2017
Interest income	5	10,761	11,119
Interest expense	6	(3,227)	(3,605)
Net interest income		**7,534**	**7,514**
Fee and commission income	7	7,783	6,213
Fee and commission expense		(1,328)	(1,383)
Net fee and commission income		**6,455**	**4,830**
Other gains	8	766	89
Other operating income	9	805	2,501
Income from operating activities		**15,560**	**14,934**
Personnel expenses	10	(5,378)	(4,875)
Depreciation expenses	23	(1,187)	(1,317)
Other administrative expenses	11	(4,914)	(4,669)
Operating expenses		**(11,479)**	**(10,861)**
PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND TAXATION		**4,081**	**4,073**
Impairment losses and provisions, net	12	(1,118)	(4,268)
Collected written-off receivables		605	734
PROFIT BEFORE TAXATION		**3,568**	**539**
Income tax	13	(60)	(187)
PROFIT AFTER TAXATION		**3,508**	**352**
Earnings per share – basic and diluted (in KM)	14	**13,51**	**1,59**

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

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

	Notes	2018	2017
Net (loss) / profit		3,508	352
Other comprehensive profit:			
Change in fair value of financial assets available-for-sale	19	-	39
Net gains from debt investment securities at fair value through other comprehensive income	20	52	-
TOTAL COMPREHENSIVE INCOME		**3,560**	**391**

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

Balance sheet
as at 31 December 2018

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

	Notes	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	15	163,994	51,701
Obligatory reserve with Central bank B&H	16	32,928	24,213
Placements with other banks	17	20,333	37,011
Loans and receivables at amortized cost	18	228,392	214,361
Financial assets available-for-sale	19	-	490
Debt securities at fair value through other comprehensive income	20	545	-
Financial assets at amortized cost	21	4,542	3,562
Other assets and receivables, net	22	1,120	2,599
Tangible and intangible assets	23	30,489	29,680
TOTAL ASSETS		**482,343**	**363,617**
LIABILITIES			
Due to financial institutions	24	604	906
Due to the Government of FBiH	25	35,568	36,142
Due to customers	26	386,736	265,081
Provisions	27	2,764	2,269
Other liabilities	28	2,401	2,518
Total liabilities		**428,073**	**306,916**
EQUITY			
Share capital	29	37,041	37,041
Share premium		4,629	4,629
Regulatory reserves		1,476	1,476
Revaluation reserves for property		6,899	6,996
Revaluation reserves – financial assets at fair value through other comprehensive income		87	35
Retained earnings		4,138	6,524
Total equity		**54,270**	**56,701**
TOTAL LIABILITIES AND EQUITY		**482,343**	**363,617**

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

Signed on behalf of Bank on 11 February 2019

PRIVREDNA BANKA SARAJEVO DD SARAJEVO 1

Hamid Pršeš
President of the Management Board

Bedina Jusičić - Musa
Member of the Management Board

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

	2018	2017
Operating Activities		
Profit before taxation	3,568	539
Adjustments:		
First-time adoption of IFRS 9 - effects	(5,495)	-
Depreciation	1,187	1,317
Impairment losses and provisions, net	1,118	4,268
Gain on disposal of property and equipment, net	(683)	(198)
Foreign exchange losses/(gains), net	(74)	118
Interest income recognized in the income statement	(10,761)	(11,119)
Interest expense recognized in the income statement	3,227	3,605
Changes in assets and liabilities:		
(Increase)/decrease in receivables from Central bank BH	(8,715)	13,056
Net decrease/(increase) of placements with other banks	16,954	(3,569)
Net increase in loans to customers, before allowance	(14,429)	(14,125)
Net (decrease)/Increase in other assets, before allowance	1,380	(1,410)
Net increase in due to customers	121,655	28,840
Net decrease in other liabilities	(55)	(1,089)
Payments from litigation	(56)	-
	108,821	20,233
Interest paid	(3,227)	(3,605)
Interest received	10,835	8,563
Income tax paid	(60)	(187)
NET CASH FROM OPERATING ACTIVITIES	**116,369**	**25,004**
Investing activities		
Purchase of tangible and intangible assets	(2,215)	(200)
Increase in assets available for sale	-	(9)
Increase in financial assets at fair value through other comprehensive income	(9)	-
Proceeds from sale of property and equipment	902	228
Purchase of financial assets at amortized cost	(1,007)	(593)
NET CASH USED IN INVESTMENT ACTIVITIES	**(2,329)**	**(574)**
Financial activities		
Repayment of liabilities to financial institutions, net	(302)	(12,950)
(Decrease)/increase in liabilities to the Government of FBiH	(574)	659
NET CASH USED IN FINANCIAL ACTIVITIES	**(876)**	**(12,291)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**113,164**	**12,139**
CASH AND CASH EQUIVALENTS AT THE YEAR START	**51,701**	**39,562**
CASH AND CASH EQUIVALENTS AT THE YEAR END	**164,865**	**51,701**

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

Statement of changes in equity
for the year ended 31 December 2018
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Share capital	Share premium	Other reserves	Regulatory reserves	Revaluation reserves for properties	Valuation of financial assets through other comprehensive income / Revaluation reserves for investments	Retained earnings	Total
Balance as of 31 December 2016	**37,041**	**6,125**	**10**	**1,476**	**7,086**	**(4)**	**4,576**	**56,310**
Net profit	-	-	-	-	-	-	352	352
Other comprehensive income	-	-	-	-	-	39	-	39
Total comprehensive income	-	-	-	-	-	***39***	***352***	***391***
Transfer from/to	-	(1,496)	(10)	-	(90)	-	1,596	-
Balance as of 31 December 2017	**37,041**	**4,629**	-	**1,476**	**6,996**	**35**	**6,524**	**56,701**
First-time Adoption of IFRS 9 - effects	-	-	-	-	-	-	*(5,991)*	*(5,991)*
Balance as of 31 December 2017 – restated	**37,041**	**4,629**	-	**1,476**	**6,996**	**35**	**533**	**50,710**
Net profit	-	-	-	-	-	-	3,508	3,508
Other comprehensive income	-	-	-	-	-	52	-	52
Total comprehensive income	-	-	-	-	-	**52**	***3,508***	***3,560***
Transfer from/to	-	-	-	-	(97)	-	97	-
Balance as of 31 December 2018	**37,041**	**4,629**	-	**1,476**	**6,899**	**87**	**4,138**	**54,270**

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

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

1. GENERAL

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

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

Principal activities of the Bank are:

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

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

The registered address of the Bank is Obala Kulina Bana 18, 71000 Sarajevo. As at 31 December 2018, the Bank had 163 employees (31 December 2017: 158 employees).

Supervisory and Management Board

Supervisory Board

Aziz Šunje	President
Ademir Abdić	Member
Džejna Bajramović	Member
Mehmet Siner	Member
Alen Gradaščević	Member

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

1. GENERAL (CONTINUED)

Supervisory and Management Board (continued)

Management Board

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

Audit Committee

Muhamed Hubanić	President
Hasan Đozo	Member
Dragan Prusina	Member
Tayyar Ozerdem	Member
Senaid Zaimović	Member

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretation effective in the current period

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

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue not yet adopted

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

- IFRS 16: „Leases“ (effective for annual periods beginning on or after 1 January 2019);
- IFRS 17: „Insurance Contracts“ (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IAS 28: „Investments in Associates and Joint Ventures“ – Long term investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019)
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)“;
- IFRIC 23: „Uncertainty over Income Tax Treatments“ (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 19 „Employee benefits“.

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

2.2.1 International Financial Reporting Standard 16 - Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IAS 17 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, 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 will adopt this standard from 1 January 2019 and the impact of its adoption is presented below:

- assets in amount of KM 643 thousand;
- lease obligation in amount of KM 643 thousand.

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 Changes in accounting policies

IFRS 9 „Financial Instruments“

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

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

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

Classification and measurement of Financial instruments

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

	IFRS 9		IAS 39	
	Measurement category	Amount	Measurement category	Amount
Cash and cash equivalents	AC	51,701	AC	51,701
Obligatory reserve with Central bank B&H	AC	24,213	AC	24,213
Placements with other banks	AC	36,974	AC	37,011
Loans and receivables, net	AC	208,409	AC	214,361
Financial assets measured at fair value through profit and loss	FVPL	-	FVPL	-
Financial assets measured at fair value through other comprehensive income	FVOCI	490	FVOCI	-
Financial assets available-for-sale	FVOCI	-	FVOCI	490
Financial assets held to maturity	AC	3,560	AC	3,562

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

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

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

Financial assets can be classified in the first two categories and valued at amortised cost or fair value through other comprehensive income only if it is proved that it leads to cash flows that are solely principal and interest payments (so-called "solely payment of principal and interest" – "SPPI test").

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 Changes in accounting policies (continued)

Equity securities are always classified in the third category and are valued at fair value through profit or loss, unless the entity chooses (irrevocably, at the time of the initial entry) that shares which are not held for trading are classified at fair value through other comprehensive income. In that case, reserves recognized within other comprehensive income will never be transferred to the profit and loss account, even in the event of termination of a financial instrument (financial assets valued at fair value through other comprehensive income without "recycling").

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

More specifically, the introduction of new impairment provisions includes:

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

Methodology

Classification and Measurement

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

Impairment

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 Changes in accounting policies (continued)

Methodology (continued)

There are two bases of measurement of expected credit losses:

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

Calculation of impairment is based on:

- Portfolio segmentation (corporate loans, retail housing loans, other retail loans),
- DPD Bucket (days overdue divided into buckets from 0-7),
- Determined risk level (Stage 1, Stage 2, Stage 3),
- Assessment method (group/individual).

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

- total exposure over KM 25,000 for retail
- total exposure over KM 50,000 for corporate
- KM 0 for corporate for state institutions and banks.

The definition of default status remains unchanged (default exposures are classified as Level 3).

In addition to basic indicators of default, 90 and more days overdue, CDE FBA classification, the Bank assesses certain parameters from the financial statements that imply default when basic indicators are not met.

Counter of days overdue also retains its previous definition, including materiality thresholds of due receivables for the initiation of counting.

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

In assessing PD, the following are made: calculation of transitional matrices, derivation of lifetime cumulative PD, calculation of lifetime marginal PD and its forward-looking adjustment.

LCD is calculated for portfolio segment and DPD bucket for all exposures, without taking into account their potential coverage by collateral, and based on the transition of exposures through DPD buckets over the 5-year period.

EAD (exposure at default) depends on the characteristics of the financial instrument. Lifetime EAD curve is used, which represents a portion of net exposure less present value of cash flows from collateral, which is decreased over time depending on contractual payments.

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

Classification and valuation

Loans / guarantees - valuation at amortized cost. The Bank performed an SPPI testing on both the level of financial instruments and on the level of business model.

Securities held to maturity - valuation at amortized cost. Securities held for trading - FVOCI.

Other exposures - valuation at amortized cost.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 Changes in accounting policies (continued)

Methodology (continued)

Impact analysis

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

Description	Total exposure	IFRS 9	IAS 39	EFFECTS presented in thousands
Portfolio type				
Loan portfolio – corporate	*253,656*	*66,170*	*60,000*	*6,170*
Performing	157,701	7,477	5,027	2,450
non-performing	95,955	58,693	54,973	3,720
Loan portfolio – retail	*44,210*	*3,367*	*3,585*	*(218)*
performing	39,268	94	239	(145)
non-performing	4,942	3,273	3,346	(73)
Loan portfolio - total	**297,866**	**69,537**	**63,585**	**5,952**
performing	196,969	7,571	5,266	2,305
non-performing	100,897	61,966	58,319	3,647
Investments in securities - total	**3,674**	**23**	**21**	**2**
performing	3,671	22	20	2
non-performing	3	1	1	-
Cash and cash equivalents - total	**83,019**	**275**	**235**	**40**
performing	83,019	275	235	40
non-performing	-	-	-	-
Other financial assets	**3,869**	**2,458**	**2,461**	**(3)**
performing	1,424	17	20	(3)
non-performing	2,445	2,441	2,441	-
TOTAL	***388,428***	***72,293***	***66,302***	***5,991***
performing	285,083	7,885	5,541	2,344
non-performing	103,345	64,408	60,761	3,647

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 Changes in accounting policies (continued)

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

IAS 39	31 December 2017	Reclassification	Remeasurement	IFRS 9
ASSETS				
Cash and cash equivalents	51,701	-	-	51,701
Obligatory reserve with Central bank B&H	24,213	-	-	24,213
Placements with other banks	37,011	-	(37)	36,974
Loans and receivables at amortized cost	214,361	-	(5,456)	208,905
Financial assets available-for-sale	490	(490)	-	-
Financial assets measured at fair value through other comprehensive income	-	490	-	490
Financial assets held to maturity/ at amortized cost	3,562	-	(2)	3,560
Other assets and receivables, net	2,599	-	-	2,599
Tangible and intangible assets	29,680	-	-	29,680
TOTAL ASSETS	**363,617**	**-**	**(5,495)**	**358,122**
LIABILITIES				
Due to financial institutions	906	-	-	906
Due to the Government of FBiH	36,142	-	-	36,142
Due to customers	265,081	-	-	265,081
Provisions	2,269	-	496	2,765
Other liabilities	2,518	-	-	2,518
Total liabilities	**306,916**	**-**	**496**	**307,412**
EQUITY				
Share capital	37,041	-	-	37,041
Share premium	4,629	-	-	4,629
Other reserves	-	-	-	-
Regulatory reserves	1,476	-	-	1,476
Revaluation reserves for property	6,996	-	-	6,996
Revaluation reserves for investments	35	-	-	35
Retained earnings	6,524	-	(5,991)	533
Total equity	**56,701**	**-**	**(5,991)**	**50,710**
TOTAL LIABILITIES AND EQUITY	**363,617**	**-**	**(5,495)**	**358,122**

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Going concern

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

Basis of preparation

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

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

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

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

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

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

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

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

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

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

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

Interest income and expense

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

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

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

Fee and commission income and expense

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

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

Taxation

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

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

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

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

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

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

Cash and cash equivalents

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

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

Financial instruments

Initial recognition and measurement

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

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

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

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

a) Financial assets from 1 January 2018

Financial assets at amortised cost

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

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

The details of these conditions are outlined below.

Business model assessment

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

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

a) Financial assets from 1 January 2018 (continued)

Business model assessment (continued)

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

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

The SPPI test

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

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

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

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

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

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

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

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

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

a) Financial assets from 1 January 2018 (continued)

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

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

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

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

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

Impairment of financial assets

Recognition of expected credit losses

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

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

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

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

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

Derecognition of financial assets

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

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

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

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

a) Financial assets from 1 January 2018 (continued)

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

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

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

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

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

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

b) Financial assets to 1 January 2018

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

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

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

Method of effective interest rate.

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

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

Loans and receivables

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

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

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

b) Financial assets to 1 January 2018 (continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

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

Held-to-maturity investments

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

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

Certain shares and securities with the possibility of redemption, held by the Bank, are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in the Note 33. Gains and losses arising from changes in fair value are recognized directly in equity in the revaluation reserve for investments with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss.

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

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

Impairment of financial assets

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

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

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

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

b) Financial assets to 1 January 2018 (continued)

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

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

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

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

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

Derecognition of financial assets

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

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 proceeds received, net of direct issue costs.

Financial guarantee contract liabilities

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

- the amount of the obligation under the contract, as determined in accordance with IAS 37: "Provisions, Contingent Liabilities and Contingent Assets"; or

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

- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out at above.

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

Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL", or "other financial liabilities".

Other financial liabilities

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

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

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

Derecognition of financial liabilities

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

Property and equipment

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

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

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

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

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

	2018	2017
Buildings	1.3% - 1.74%	1.3% - 1.74%
Computers	33.3%	33.3%
Vehicles	15%	15%
Furniture and other office equipment	15%	15%

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

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

Impairment

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

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

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

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

Intangible assets

Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives using rate of 33%.

Employee benefits

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

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

Foreign currency translation

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

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

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

Foreign currency translation (continued).

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

31 December 2018	1 EUR = 1.95583 KM	1 USD = 1.707552 KM	1 CHF = 1.742077 KM
31 December 2017	1 EUR = 1.95583 KM	1 USD = 1.630810 KM	1 CHF = 1.671364 KM

Provisions

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

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

Borrowing costs

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

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

Equity and reserves

Share capital

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

Regulatory reserves for credit losses

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

Regulatory reserves for credit losses

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

Revaluation reserve for investments

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

Earnings per share

The Bank publishes basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. During 2017 and 2016 there were no dilution effects.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Useful lives of property and equipment

As described in Note 3 above, the Bank reviews the estimated useful lives of property and equipment at the end of each annual reporting period. In 2017, the Bank adopted a Decision on changing depreciation rates and in case that they remain the same, the Bank's profit would have been higher for 62 thousand KM.

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;

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

- methodology and assumptions used to estimate future cash flows are regularly revised, and updated as necessary.

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

Impairment losses on loans and receivables (continued)

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

As of 29th March 2018, Supervisory Board adopted Internal Methodology for impairment in accordance with IFRS 9, with effective implementation date starting from 1th January 2018.

Regulatory reserves calculated in accordance with FBA regulations

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

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

Fair value of financial instruments

As described in Note 33, the Management use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

5. INTEREST INCOME

	2018	2017
Interest on corporate loans	7,726	8,817
Interest on retail loans	2,896	2,157
Financial assets at amortised cost (Note 21)	114	108
Interest on placements with other banks	3	4
Other interest income	22	33
	10,761	**11,119**

6. INTEREST EXPENSES

	2018	2017
Interest on retail deposits	1,166	1,520
Interest on corporate deposits	1,128	1,075
Interest on the Government of FBiH funds	673	722

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

Interest on borrowings from financial institutions	-	63
Other interest expenses	260	225
	3,227	**3,605**

7. FEE AND COMMISSION INCOME

	2018	**2017**
Fees from payment transactions	4,694	4,515
Fees from managed funds (default interest of Malaysian fund)	1,431	-
Fees from conversion transactions	615	547
Fees from off-balance sheet transactions	317	446
Fees from managed funds	261	91
Other fee and commission income	465	614
	7,783	**6,213**

8. OTHER GAINS / (LOSSES), NET

	2018	**2017**
Gains on disposal of fixed assets	683	198
Foreign exchange gains/(losses), net	73	(118)
Other gains	10	9
	766	**89**

9. OTHER OPERATING INCOME

	2018	**2017**
Rent income	374	411
Deferred income	76	75
Income from collection of receivables from bankruptcy estate (Jugobanka a.d. Beograd)	-	1,125
Income from discount of liabilities (early repayment)	-	584
Other income	355	306
	805	**2,501**

10. PERSONNEL EXPENSES

	2018	**2017**
Net salaries	2,584	2,375
Taxes and contributions	2,058	1,856
Meal allowance and transport	391	349
Other	345	295
	5,378	**4,875**

The average number of personnel employed by the Bank during the year ended 31 December 2018 and 2017 was 160 and 149, respectively.

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

11. OTHER ADMINISTRATIVE EXPENSES

	2018	2017
Service costs	1,581	1,429
Memberships	566	507
Maintenance	421	401
Advertising and entertainment	409	414
Energy costs	354	393
Telecommunication	284	277
Taxes and contributions	271	214
Material costs	144	230
Fees to the members of Supervisory Board and Audit Committee	105	105
Insurance	73	85
Other costs	706	614
	4,914	**4,669**

12. IMPAIRMENT LOSSES AND PROVISIONS

	Note	2018				2017
		Stage 1	Stage 2	Stage 3	Total	
Cash and cash equivalents	15	871	-	-	871	-
Placements with other banks	17	(276)	-	-	(276)	112
Loans to customers	18	6	(1,531)	1,923	398	4,435
Financial assets at FVOCI	20	5	-	-	5	-
Financial assets at amortised cost	21	27	-	-	27	18
Other assets	22	38	-	-	38	(18)
Commitments and contingencies	27	(2)	(62)	119	55	(279)
		669	**(1,593)**	**2,042**	**1,118**	**4,268**

13. INCOME TAX

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

	2018	2017
Current income tax	60	187
Deferred income tax	-	-
	60	**187**

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

	2018	2017
Profit before income tax	**3,568**	**539**
Income tax expense, at the statutory rate of 10%	357	54

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

Effects of non-deductible expenses	612	133
Capital losses (first – time adoption of IFRS 9)	(365)	-
Current income tax	**60**	**187**
Effective income tax rate	**1.68%**	**34.69%**

14. EARNINGS PER SHARE

	2018	2017
Net profit	3,508	352
Weighted average number of shares for the purpose of basic earnings per share	259,802	221,784
Basic earnings per share (in KM)	**13,51**	**1,59**

15. CASH AND CASH EQUIVALENTS

	31 December 2018				31 December 2017
	Stage 1	Stage 2	Stage 3	Total	
Current account in domestic currency with the Central Bank of BH	157,464	-	-	157,464	45,258
Cash at hand in domestic currency	3,330	-	-	3,330	2,708
Cash at hand in foreign currencies	2,458	-	-	2,458	2,428
Cash at ATMs	1,613	-	-	1,613	1,307
Impairment based on group assessment	(871)	-	-	(871)	-
	163,994	-	-	**163,994**	**51,701**

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

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

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2018	-	-	-	-
New financial assets	871	-	-	871
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Foreign exchange	**871**	-	-	**871**

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

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

	31 December 2018	31 December 2017
Obligatory reserve with CBBH	32,928	24,213

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

	32,928	**24,213**

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

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

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

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

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

17. PLACEMENTS WITH OTHER BANKS

	31 December 2018	31 December 2017
A vista deposits in foreign currencies:		
Raiffeisen Zentral Bank International AG Vienna	6,313	13,264
UniCredit Bank Austria Vienna	5,366	7,686
Zagrebačka banka d.d. Croatia	5,208	3,779
Unicredit Spa Milano, Italy	2,696	3,719
Nordea Bank AB Stockholm Sweden	116	194
Vipa d.d. Ljubljana	-	7,986
Commonwealth Bank of Australia-Sydney	-	14
	19,699	**36,642**
A vista deposits in domestic currency:		
Bobar Banka a.d. Bijeljina	2,000	2,000
Sparkasse bank d.d. BH	210	176
	2,210	**2,176**
Term deposits in foreign currencies:		
Union bank of Switzerland	410	407
	410	**407**
Term deposits in domestic currency:	25	25
Sparkasse bank d.d. BH	**25**	**25**
Total placements before allowance for impairment losses	***22,344***	***39,250***
Less: Allowance for impairment losses		
Bobar banka a.d. Bijeljina	(2,000)	(2,000)
VIPA d.d. Ljubljana, Slovenia	-	(160)
Zagrebačka banka d.d. Croatia	(6)	(75)
Sparkasse bank dd BiH	(1)	(4)
UniCredit Bank Austria Vienna	(2)	-
Raiffeisen Zentral Bank International AG Vienna	(1)	-
UniCredit Spa Milano, Italy	(1)	-
	(2,011)	(2,239)

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

	20,333	**37,011**

17. PLACEMENTS WITH OTHER BANKS (CONTINUED)

	31 December 2018	31 December 2017
Maturity:		
no more than twelve months after the reporting period	21,934	38,843
more than twelve months after the reporting period	410	407
Less: Allowance for impairment losses	(2,011)	(2,239)
	20,333	***37,011***

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

	2018	2017
	% p.a.	% p.a.
Placements in EUR	(0.50) - (0.01)	(0.50) - (0.10)
Placements in USD	0 - (0.01)	-
Placements in KWD	-	-
Placements in SEK	-	(0.01) - (0.50)
Placements in CHF	(0.50) - (0.01)	(0.01) - (0.55)
Placements in NOK	(0.50)	-

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2018	***276***	-	***2,000***	***2,276***
Derecognition or proceeds from collection	(276)	-	-	(276)
Foreign exchange, net	11	-	-	11
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At 31 December 2018	**11**	-	**2,000**	**2,011**

18. LOANS AND RECEIVABLES

	31 December 2018	31 December 2017
Short-term loans:		
Corporate	56,056	63,943
Retail	3,176	1,477
Current portion of short-term loans	73,409	86,946
	132,641	*152,366*
Long-term loans:		
Corporate	154,230	171,586
Retail	63,391	41,632
Current portion of long -term loans	(73,409)	(86,946)
	144,212	*126,271*
Total loans before allowance for impairment	***276,853***	***278,638***

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

Less: Long-term accrued income	(1,101)	(1,177)
Less: Allowance for impairment losses based on individual assessment	(38,760)	(55,312)
Less: Allowance for impairment losses based on group assessment	(8,600)	(7,788)
	228,392	**214,361**

18. LOANS AND RECEIVABLES (CONTINUED)

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

Long-term accrued income

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

	31 December 2018	31 December 2017
Ministry of Finance of FBiH	907	962
Former Privredna banka Sarajevo d.d. Sarajevo (repurchased loans)	194	215
	1,101	**1,177**

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

	Stage 1	Stage 2	Stage 3		
	Collective assessment	Collective assessment	Individually assessed	Collective assessment	Total
Loans to individuals					
Housing loan	10,392	132	647	170	11,341
Other loans to individuals	50,456	1,279	1,417	2,074	55,226
	60,848	**1,411**	**2,064**	**2,244**	**66,567**
Loans to corporate					
Public companies	1,691	12	-	-	1,703
Private companies	115,080	25,032	67,543	928	208,583
	116,771	**25,044**	**67,543**	**928**	**210,286**
	177,619	**26,455**	**69,607**	**3,172**	**276,853**
Less: Impairment	(2,699)	(2,907)	(38,760)	(2,994)	(47,360)
Less: Long-term accrued income	(1,101)	-	-	-	(1,101)
	173,819	**23,548**	**30,847**	**178**	**228,392**

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

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	***142,114***	***37,388***	***99,136***	***278,638***
New financial assets	94,488	7,410	8,541	110,438
Derecognition or proceeds from collection (excluding write off)	(62,233)	(12,215)	(16,201)	(90,649)
Transfer to Stage 1	-	(3,869)	672	(3,197)
Transfer to Stage 2	3,869	-	2,205	6,074
Transfer to Stage 3	(672)	(2,205)	-	(2,877)

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

Write off	-	-	(21,575)	(21,575)
At 31 December 2018	**177,566**	**26,509**	**72,778**	**276,853**

18. LOANS AND RECEIVABLES (CONTINUED)

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2018	***2,693***	***4,437***	***61,404***	***68,534***
New financial assets	1,598	638	2,327	4,563
Derecognition or proceeds from collection (excluding write off)	(956)	(1,143)	(3,631)	(5,730)
Decrease in impairment due to changes in risk parameters	(2,568)	(372)	(2,390)	(5,330)
Increase in impairment due to changes in risk parameters	309	1,077	5,509	6,895
Transfer to Stage 1	-	(1,542)	(81)	(1,623)
Transfer to Stage 2	1,542	-	(189)	1,731
Transfer to Stage 3	81	(189)	-	(108)
Write off	-	-	(21,572)	(21,572)
At 31 December 2018	**2,699**	**2,906**	**41,755**	**47,360**

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

	2017
Balance at beginning of the year	**59,037**
Increase, net (Note 12)	4,435
Acquired assets	(8)
Forex differences	(364)
Balance at the end of the year	**63,100**

Weighted average interest rate can be presented as follows:

	31 December 2018	31 December 2017
Corporate	4.10% - 8.02%	2.10% - 12.00%
Retail	3.08% - 12.87%	2.85% - 13.99%

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

31 December 2018	Average PD%		Average LGD%	
	Stage 1	Stage 2	Stage 1	Stage 2
Corporate	0.140	0.137	0.588	0.588
Retail	0.007	0.004	0.540	0.540

Analysis of loans before allowance for impairment losses by industry:

	31 December 2018	31 December 2017
Agriculture, forestry, mining and industry	76,534	79,764
Citizens	66,524	43,092
Trade	48,710	66,556
Construction industry	47,421	20,700
Services, finance, sport and tourism	23,471	20,146
Transport and communications	3,081	4,803

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

	31 December 2018	31 December 2017
Administration and other public institutions	1,872	863
Other	8,075	40,744
Interest	1,165	1,970
	276,853	**278,638**

18. LOANS AND RECEIVABLES (CONTINUED)

Reprograms and restructuring

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

31 December 2018	Number of reprogramed loans	Gross credit exposure	Stage 1	Stage 2	Stage 3
Corporate	66	33,014	6,734	863	25,417
Retail	1	1	1	-	-
	67	**33,015**	**6,735**	**863**	**25,417**

Syndicated loan

During 2018, the Bank approved 3 syndicated loans to the clients together with ASA Bank dd. Sarajevo. On this basis, the participation of ASA Bank d.d. as at 31 December 2018, was in amount of KM 1,678 thousand. The Bank bears risks only for its portion of syndicated loans.

19. FINANCIAL ASSETS AVAILABLE FOR SALE

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

	31 December 2018	31 December 2017
Equity securities:		
JUBMES Banka a.d. Belgrade, Serbia	-	97
Securities' Register of FBiH d.d.	-	59
Bosna Reosiguranje d.d. Sarajevo	-	32
Bamcard d.d. Sarajevo	-	3
	-	***191***
Debt securities:		
Bonds of FBiH Government	-	302
	-	***302***
Less: Impairment, net:		(3)

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

	-	**490**

Movements in fair value of these assets were as follows:

	2018	2017
Balance at beginning of the year	490	438
Reclassification on financial assets at fair value through other comprehensive income	(490)	-
Unrealized gain on fair value adjustment	-	39
Bonds increase based on discount	-	9
Forex differences	-	4
Balance at end of the year	**-**	**490**

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2018	31 December 2017
Debt securities:		
Bonds of FBiH Government	306	-
	306	-
Equity securities:		
JUBMES Banka a.d. Beograd, Srbija	148	-
Securities' Register of FBiH d.d.	57	-
Bosna Reosiguranje d.d. Sarajevo	32	-
Bamcard d.d. Sarajevo	2	-
	239	-
	545	**-**

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

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

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

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2018	-	-	-	-
Changes in models / parameters for credit risk assessment	5	-	-	5
At 31 December 2018	**5**	**-**	**-**	**5**

21. FINANCIAL ASSETS AT AMORTISED COST

	31 December 2018	31 December 2017
Bonds:		
Ministry of Finance of FBiH	2,691	2,689
JP Autoceste FBIH	1,001	-
Sarajevo Canton	895	891
	4,587	***3,580***

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

Less: Impairment, net	(45)	(18)
	4,542	**3,562**

21. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

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

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	***3,580***	-	-	***3,580***
Effects of first - time adoption of IFRS 9	(2)	-	-	(2)
Acquired new financial instruments	1,001	-	-	1,001
Interest	106	-	-	106
Interest unwinding	8	-	-	8
Billed during the year	(106)	-	-	(106)
Balance at 31 December	**4,587**	-	-	**4,587**

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

22. OTHER ASSETS AND RECEIVABLES, NET

	31 December 2018	31 December 2017
Precious metals	470	462
Receivables from FBiH Government for paid guarantee	368	368
Prepaid expenses	193	182
Prepaid income tax	192	165
Fees receivables	162	184
Advances for fixed assets	40	333
Receivable from check sent for collection	-	1,119
Other	250	303
	1,675	***3,116***
Less: Impairment, net	(555)	(517)
	1,120	**2,599**

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

	2018	2017

Balance at 1 January	**517**	**669**
Increase of impairment (Note 12)	38	(18)
Write off	-	(134)
Balance at 31 December	**555**	**517**

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

23. TANGIBLE AND INTANGIBLE ASSETS

	Land	Buildings	Computer and other equipment	Intangible assets	Investments in progress	Total
COST						
At 31 December 2016	715	**44,683**	**6,110**	**3,472**	47	**55,027**
Additions	-	-	-	-	200	200
Transfer (from)/ to	-	4	89	140	(233)	-
Disposals	-	-	(356)	-	(13)	(369)
At 31 December 2017	715	**44,687**	**5,843**	**3,612**	**1**	**54,858**
Additions	-	-	27	-	2,188	2,215
Transfer (from)/ to	-	485	283	124	(892)	-
Disposals	-	(217)	(401)	-	(16)	(634)
At 31 December 2018	715	**44,955**	**5,752**	**3,736**	**1,281**	**56,439**
ACCUMULATED DEPRECIATION						
At 31 December 2016	-	**16,452**	**4,707**	**3,041**	-	**24,200**
Depreciation	-	633	389	295	-	1,317
Disposals	-	-	(339)	-	-	(339)
At 31 December 2017	-	**17,085**	**4,757**	**3,336**	-	**25,178**
Depreciation	-	636	358	193	-	1,187
Disposals	-	(49)	(366)	-	-	(415)
At 31 December 2018	-	**17,672**	**4,749**	**3,529**	-	**25,950**
NET BOOK VALUE						
At 31 December 2018	715	**27,283**	**1,003**	**207**	**1,281**	**30,489**
At 31 December 2017	715	**27,602**	**1,086**	**276**	**1**	**29,680**

The Bank's land and building are state at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The latest fair value measurements of the Bank's land and building was performed as at 31 December 2015. There was no fair value measurement of Bank's land and building during 2018 in accordance with the Bank's policy since the Management believes that there were no significant changes in fair value and that the carrying amounts of land and buildings recognized in the financial statements approximately correspond to their fair values. The fair value of the land was determined based on the income method and market comparable approach that reflects recent transaction prices for similar properties.

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

24. DUE TO FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
Landesversicherungsanstalt Niederbayern-Oberpfalz, Germany	604	906
	604	***604***
Maturity analysis:		
Within one year	302	302
In the second year	302	302
Third to fifth year	-	302
After five years	-	-
	604	**906**

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

25. LIABILITIES TOWARD GOVERNMENT OF FBIH

Based on agreement dated 1 March 2005, between Council of Ministry of Bosnia and Herzegovina and the Government of the Federation of Bosnia and Herzegovina, on 22 August 2005 the Bank signed "Agreement for Permanent Fund Management" (the "Agreement") with the Ministry of Finance of the Federation of Bosnia and Herzegovina. In accordance with the Agreement, Bank accepts credit risk for loans granted from this fund and charges interest payable of 2% p.a. No actual interest payments are made - the credit balance is increased on 28 February every year by the amount of annual interest accrued. The Agreement is valid as long as the Bank possesses the banking license from FBA and is performing its regular banking procedures. On 18 January 2012, the Government of the Federation of Bosnia and Herzegovina paid into the Fund the amount of KM 3 million (Japanese grant). On 11 March 2013 the Government of the Federation of Bosnia and Herzegovina made additional payment in the amount of KM 4 million (Japanese grant — 2 KR). In November 2016, the Bank signed Annex 2 to the Agreement for fund management of Japanese Grant for Federation of Bosnia and Herzegovina (PVF), dated 18 August 2005. The annex approved use of free monetary funds from Japanese grants, which were placed in three loans with counter value of KM 8,100 thousand. There were no changes in 2017 that would require new annexes to the Agreement for Fund Management of Japanese grant for Federation of Bosnia and Herzegovina (PVF). Annex 3 was signed on April 16, 2018 which anticipates that the interest rate on commission credits will amount to 4.75% p.a., of which the fund's income is 4% and 0.75% represents the Bank's income. Additional available assets were withdrawn from the countervalue fund, from which loans to clients were placed with the countervalue of KM 3.685 thousand (2017: KM 4.750 thousand).

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

26. DUE TO CUSTOMERS

	31 December 2018	31 December 2017
Demand deposits:		
Retail:		
In domestic currency	40,582	38,662
In foreign currencies	38,944	37,262
	79,526	**75,924**
Corporate:		
In domestic currency	196,507	73,945
In foreign currencies	6,163	6,991
	202,670	**80,936**
	282,196	**156,860**
Term deposits:		
Retail:		
In domestic currency	21,812	20,067
In foreign currencies	44,933	41,481
	66,745	**61,548**
Corporate:		
In domestic currency	31,725	40,530
In foreign currencies	6,070	6,143
	37,795	**46,673**
	104,540	**108,221**
	386,736	**265,081**

Interest rate during the year can be presented as follows:

	2018	2017
Demand deposits in KM and foreign currencies	0.00%-0.01%	0.00% - 0.12%
Short-term deposits	0.00%-1.80%	0.00% - 3.00%
Long-term deposits	0.00%-2.50%	0.00% - 3.84%

27. PROVISIONS

Changes in provisions can be presented as follows:

	Commitments and contingencies	Employee benefits	Court proceedings	Other provisions	Total
Balance as of 1 January 2017	**635**	**127**	**2,059**	**44**	**2,865**
Release of provisions (Note 12)	(210)	-	(25)	(44)	(279)
Decrease due to payment	-	-	(317)	-	(317)
Balance as of 31 December 2017	**425**	**127**	**1,717**	**-**	**2,269**
Effects of first-time adoption of IFRS 9	496	-	-	-	496
Release of provisions (Note 12)	(491)	179	209	158	55
Decrease due to payment	-	-	(56)	-	(56)
Balance as of 31 December 2018	**430**	**306**	**1,870**	**158**	**2,764**

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

27. PROVISIONS (CONTINUED)

Commitments and contingencies

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

	31 December 2018	31 December 2017
Performance guarantees	9,050	10,855
Unused approved loans	5,444	3,299
Payment guarantees	3,623	3,855
Bidding guarantees	168	176
	18,285	**18,185**

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

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	**14,909**	**1,604**	**1,673**	**18,186**
New financial instrument	13,828	1,241	63	15,132
Derecognition or proceeds from collection (excluding write off)	(11,855)	(1,563)	(1,615)	(15,033)
Transfer to Stage 1	-	252	-	252
Transfer to Stage 2	(252)	-	(52)	(304)
Transfer to Stage 3	-	52	-	52
Balance as of 31 December 2018	**16,630**	**1,586**	**69**	**18,285**

	Stage 1	Stage 2	Stage 3	Total
Impairments as at 1 January 2018	**191**	**235**	**495**	**921**
New financial instrument	149	158	62	369
Derecognition or proceeds from collection (excluding write off)	(146)	(232)	(482)	(860)
Transfer to Stage 1	-	5	-	5
Transfer to Stage 2	(5)	-	(7)	(12)
Transfer to Stage 3	-	7	-	7
Balance as of 31 December 2018	**189**	**173**	**68**	**430**

28. OTHER LIABILITIES

	31 December 2018	31 December 2017
Liabilities for paid funds for loans and cards	1,039	723
Liabilities toward suppliers	252	216
Liabilities for managed funds (Note 31)	179	394
Transfer accounts for enforced collection	172	99
Liabilities for unallocated proceeds	115	367
Liabilities for retirements earned abroad	63	223
Liabilities for client proceeds	1	69
Income tax liability	-	5
Other	580	422
	2,401	**2,518**

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

29. SHARE CAPITAL

Share capital as of 31 December 2018 consists of 259,802 ordinary shares and 76,936 preference shares at nominal value of 110 KM.

	31 December 2018			31 December 2017		
	000	Number of shares	%	000	Number of shares	%
Ordinary shares:						
Pobjeda - Rudet d.d. Goražde	3,692	33,565	12.92%	3,261	29,648	11.41%
BADECO ADRIA d.d. Sarajevo (Fabrika duhana Sarajevo d.d. Sarajevo)	3,383	30,753	11.84%	3,383	30,753	11.84%
Halil Oković	2,436	22,141	8.52%	1,798	16,341	6.29%
Hamid Pršeš	2,123	19,296	7.43%	2,123	19,296	7.43%
ZIF HERBOS FOND d.d. Mostar	1,650	15,001	5.77%	-	-	-
Zijad Deljo	1,610	14,637	5.63%	1,495	13,592	5.23%
Hasan Đozo	1,404	12,766	4.91%	1,290	11,728	4.51%
Recep Ali Keydal	882	8,020	3.09%	882	8,020	3.09%
AME d.o.o. Breza	849	7,721	2.97%	849	7,721	2.97%
Rijad Raščić	533	4,847	1,87%	-	-	-
Enisa Bekto	636	5,782	2.23%	636	5,782	2.23%
Unis Fagas d.o.o. Sarajevo	-	-	-	1,788	16,257	6.26%
Others shareholders	9,380	85,273	32.82%	11,073	100,664	38.74%
	28,578	**259,802**	**100.00%**	**28,578**	**259,802**	**100.00%**
Preference shares:						
ZIF CROBIH FOND d.d. Mostar	1,364	12,400	16.12%	1,364	12,400	16.12%
Hamid Pršeš	1,143	10,392	13.51%	1,041	9,462	12.30%
Enver Pršeš	1,133	10,299	13.39%	1,133	10,299	13.39%
Zijad Deljo	967	8,790	11.43%	967	8,790	11.43%
Hasan Đozo	789	7,175	9.33%	789	7,175	9.33%
Halil Oković	663	6,029	7.84%	663	6,029	7.84%
Others shareholders	2,404	21,851	28.38%	2,506	22,781	29.59%
	8,463	**76,936**	**100.00%**	**8,463**	**76,936**	**100.00%**
	37,041	**336,738**	**100.00%**	**37,041**	**336,738**	**100.00%**

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

On January 10, 2019, the Securities Exchange Commission of the Federation of Bosnia and Herzegovina issued a Decision approving the conversion of 76,936 preference non-cumulative shares with a nominal value of 110 KM in 76,936 ordinary shares with a nominal value of 110 KM. The Bank referred a request for registration of the conversion of shares into the court register of the Municipal Court in Sarajevo, as well as the Registry of Securities of the Federation BiH.

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

29. SHARE CAPITAL (CONTINUED)

Owners of preference shares do not have a guaranteed dividend right. In the case of dividend payments, owners of preference shares have priority is in the payment of dividends in respect of ordinary shareholders. Owners of preferred shares, also, in case of liquidation, have the right to repurchase capital in respect of ordinary shareholders.

30. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	2018		2017	
	Income	Expense	Income	Expense
Shareholders	174	171	284	224
Member of Management Board and their family members	26	16	9	-
Member of Supervisory Board and their family members	8	6	9	-
	208	**193**	**302**	**224**

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

30. RELATED PARTY TRANSACTIONS (CONTINUED)

	31 December 2018		31 December 2017	
	Receivables	Liabilities	Receivables	Liabilities
Shareholders	4,231	6,315	8,538	14,918
Member of Management Board and their family members	241	397	120	62
Member of Supervisory Board and their family members	84	230	132	179
	4,556	6,942	8,790	15,159

Management Board and Supervisory Board remuneration

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

	2018	2017
Gross salaries of the members of Management Board	577	529
Other benefits of the members of Management Board	11	11
Fees to the members of Supervisory Board	61	59
	649	599

31. MANAGED FUNDS

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

	31 December 2018	31 December 2017
LOANS		
Corporate	19,227	16,811
Individuals	889	921
	20,116	17,732
LIABILITIES		
Government of Federation of Bosnia and Herzegovina	18,325	16,160
Managed loans of merged PBS	1,398	1,387
Government of Bosnia and Herzegovina (Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina)	500	500
Construction Institute of Sarajevo Canton	72	79
	20,295	18,126
Current liabilities from managed funds activities (Note 28)	(179)	(394)

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

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

32. FINANCIAL INSTRUMENTS

a) Capital risk management

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

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

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

	31 December 2018	31 December 2017
Debt	422,908	302,129
Equity	52,794	55,225
Net debt to capital ratio	**8,01**	**5,47**

Debt is defined as due to financial institutions, due to the Government of the Federation of Bosnia and Herzegovina and due to customers as presented in detail in Notes 24, 25 and 26. Capital includes total share capital, share premium, other reserves, revaluation reserves and retained earnings.

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

FBA requires each bank to: (a) hold the minimum level of the share capital and the lowest level of net capital (regulatory capital) of KM 15 million, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum of 12%, and to maintain the capital conservation buffer at the minimum of 2.5%. After the acquisition of Privredna banka Sarajevo d.d. Sarajevo, the regulatory requirement for capital adequacy at the minimum of 14.5% is effective.

On 13 October 2017, FBA issued new Decision on minimum standards for capital management and capital hedge, effective for 2018. By this decision, the Bank's regulatory capital is divided into two tiers:

- Tier 1 capital or Core Capital; share capital, share premium and accumulated profit, reduced by negative revaluation reserves, intangible assets and deferred tax assets; and
- Tier 2 capital or Supplementary Capital: general regulatory reserves in accordance with FBA regulations (calculated for regulatory reporting only), preference non-cumulative shares.

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

In accordance with previous regulation, as of 31 December 2018 and 2017 the Bank complied with all of the externally imposed capital requirements to which it was subject. As of 31 December 2018, the adequacy of the Bank's capital amounts to 15.1% (2017.: 15.8%).

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.

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

Capital adjustment plan

ICAAP serves as an internal capital adequacy assessment tool in relation to the risk profile of the Bank and the implementation of the Bank's strategy appropriate to maintaining an adequate level of internal capital. On March 29, 2018, the Bank's Supervisory Board adopted the Procedures with the ICAAP assessment methodology. At 31 December 2018, the rates and levels of capital were as follows:

1.	The rate of core capital	13.44%
2.	The rate of regulatory capital	13.44%
3.	The rate of core capital including adjustments from Pillar 2	7.20%
4.	The rate of core capital including adjustments from Pillar 2	9.60%
5.	The rate of regulatory capital including adjustments from Pillar 21	2.79%

	31 December 2018	31 December 2017
Core capital – Tier 1		
Ordinary shares	37,041	37,041
Share premium	4,629	4,629
Retained earnings	630	6,172
Less: Intangible assets	(712)	(277)
Total core capital	**41,588**	**47,565**
Supplemental capital – Tier 2		
Preference shares	-	-
General regulatory reserves under FBA rules	3,108	2,920
Positive revaluation reserves based on effects of changes in fair value of assets	6,985	7,030
Total supplemental capital	**10,093**	**9,950**
Deductions from capital		
Investments that exceed 5% of basic capital	-	-
Adjustment for shortfall in regulatory reserves	(14,233)	(20,569)
Net capital	**37,448**	**36,946**
Risk Weighted Assets (unaudited)	230,036	213,601
Weighted Operational Risk (unaudited)	18,659	19,942
Total weighted risk	**248,695**	**233,543**
Capital adequacy (%)	**15.06%**	**15.82%**

FBA published a new set of regulatory decisions on credit risk concentrations in the fourth quarter of 2017. Bank's regulatory or recognized capital becomes a basis of measurement, which means additional constraints in Bank's case due to a significantly lower amount of recognized capital compared to the core capital under previous regulations.

As of 31 December 2018, the ratio "tangible assets / Core capital" amounted to 79,74% (31 December 2017: 61,82%) which is not in accordance with Article 94 of the Law on Banks, which stipulates that Bank's total investments in fixed assets cannot exceed 40% of recognized core capital.

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

Capital adjustment plan (continued)

The ratio increase resulted from acquisition of former Privredna banka Sarajevo d.d. Sarajevo. According to the control of implementation of FBA prescriptions (based on decisions no. 04-3-1937-6/16 of 7 June 2016 and 04-2-1937-9/16 of 3 August 2016), the Bank prepared the Plan for eliminating non-compliance of investments in fixed assets in December 2017. The Bank was given a deadline by the end of 2018 to reconcile the ratio of tangible assets and recognized core capital in accordance with current legislation.

Although the Bank did not meet the deadline, Management Board does not expect that this will have negative impact on Bank's business operations.

The ratio „core capital / „total risk asset" amounted to 13.44%, which means that the Bank does not have secured capital tiers. As of 31 December 2018, the financial leverage ratio amounted to 7,55%. The Bank is obliged to ensure and maintain the financial leverage ratio in amount of at least 6%, in accordance with the FBA decision - Calculating the Bank's capital.

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

	31 December 2018	31 December 2017
Categories of financial instruments		
Loans and receivables:	446,578	329,379
Cash and cash equivalents (including Obligatory reserves with the CBBH)	196,922	75,914
Placements with other banks	20,333	37,011
Loans and receivables, net	228,392	214,361
Other receivables	931	2,093
Financial assets at fair value through other comprehensive income	545	-
Financial assets available-for-sale	-	490
Financial assets at amortized cost (previously: held to maturity)	4,542	3,562
	451,665	**333,431**
Financial liabilities		
At amortized cost:		
Due to financial institutions	604	906
Due to the Government of FBiH	35,568	36,142
Due to customers	386,736	265,081
Other liabilities	2,223	1,549
	425,131	**303,678**

32. FINANCIAL INSTRUMENTS (CONTINUED)

d) Financial risk management objectives

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

e) Market risk

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

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

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

f) Foreign currency risk management

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

	KM	EUR	USD	CHF	Other	Total
As of 31 December 2018						
ASSETS						
Cash and cash equivalents	161,536	1,171	250	569	468	163,994
Obligatory reserve with Central bank B&H	32,928	-	-	-	-	32,928
Placements with other banks	234	12,720	3,138	3,659	582	20,333
Loans to customers, net	137,179	90,299	517		397	228,392
Financial assets at fair value through other comprehensive income	397	-	-	-	148	545
Financial assets at amortized cost (previously: held to maturity)	2,572	1,970	-	-	-	4,542
Other receivables	928	3	-	-	-	931
Total	**335,774**	**106,163**	**3,905**	**4,228**	**1,595**	**451,665**
LIABILITIES						
Due to financial institutions	-	604	-	-	-	604
Due to the Government of FBiH	35,568	-	-	-	-	35,568
Due to customers	277,050	100,602	3,887	4,221	976	386,736
Other financial liabilities	1,365	793	14	2	51	2,223
Total	**313,981**	**101,999**	**3,901**	**4,223**	**1,027**	**425,131**
As of 31 December 2017						
Total monetary assets	**222,387**	**100,552**	**4,509**	**4,137**	**1,846**	**333,431**
Total monetary liabilities	**195,504**	**98,901**	**4,406**	**4,030**	**837**	**303,678**

Foreign currency sensitivity analysis

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

The following table details the Bank's sensitivity to a 10% increase and decrease in KM against USD and CHF, 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in USD. A positive number below indicates an increase in profit where KM strengthens 10% against USD. For a 10% weakening of KM against USD and CHF, there would be an equal and opposite impact on the profit, and the balances below would be negative. As of 31 December 2018, the effects are minimal, considering that the Bank had adjusted receivables and liabilities.

	USD Effect		CHF Effect	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Profit/(loss)	-	10	-	11

32. FINANCIAL INSTRUMENTS (CONTINUED)

g) Interest rate risk management

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

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

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank' net result for the year ended 31 December 2018 would decrease / increase by KM 195 thousand (2017: KM 230 thousand).

h) Credit risk management

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

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

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

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

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Financial assets

	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Individual impairment allowance	Collective impairment allowance	Total net carrying amount
As of 31 December 2018						
Cash and cash equivalents	164,865	7,401	157,464	-	(871)	163,994
Obligatory reserve with Central bank B&H	32,928	32,928	-	-	-	32,928
Placements with other banks	22,344	-	22,344	(2,000)	(11)	20,333
Loans to customers, net	275,752	2,906	272,846	(38,760)	(8,600)	228,392
Financial assets at FVTOCI	545	545	-	-	-	545
Financial assets at amortized cost	4,587	-	4,587	(45)	-	4,542
Other receivables	1,482	666	816	(545)	(6)	931
	502,503	**44,446**	**458,057**	**(41,350)**	**(9,488)**	**451,665**
As of 31 December 2017						
Cash and cash equivalents	51,701	51,701	-	-	-	51,701
Obligatory reserve with Central bank B&H	24,213	24,213	-	-	-	24,213
Placements with other banks	39,250	25,284	13,966	(2,000)	(239)	37,011
Loans to customers, net	277,461	1,584	275,877	(55,312)	(7,788)	214,361
Financial assets available-for-sale	493	399	94	-	(3)	490
Financial assets held to maturity	3,580	2,689	891	-	(18)	3,562
Other receivables	2,600	1,746	854	441	(66)	2,093
	399,298	**107,616**	**291,682**	**(57,753)**	**(8,114)**	**333,431**

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Credit exposure and collateral

	Credit risk exposure: Net exposure	Credit risk exposure: Loan commitments / Guarantees	Fair value of collateral
As of 31 December 2018			
Cash and cash equivalents	163,994	-	-
Obligatory reserve with Central bank B&H	32,928	-	-
Placements with other banks	20,333	-	-
Loans to customers, net	228,392	18,285	484,048
Financial assets at FVTOCI	545	-	-
Financial assets held to maturity	4,542	-	-
Other receivables	931	-	-
	451,665	**18,285**	**484,048**
As of 31 December 2017			
Cash and cash equivalents	51,701	-	-
Obligatory reserve with Central bank B&H	24,213	-	-
Placements with other banks	37,011	-	-
Loans to customers, net	214,361	18,185	485,161
Financial assets available-for-sale	490	-	-
Financial assets held to maturity	3,562	-	-
Other receivables	2,093	-	-
	333,431	**18,185**	**485,161**

Fair value of the collaterals

	31 December 2018	31 December 2017
Real estate and movable properties	451,324	464,012
Deposits	3,606	2,991
Other	29,118	18,158
Total	**484,048**	**485,161**

Arrears

	Total gross loans to clients	Impairment	Not due	Up to 30 days	31 to 90 days	91 to 180 days	181 to 270 days	Over 270 days
31 December 2018								
Corporate	210,286	43,160	150,884	1,224	347	40	273	57,518
Retail	66,567	4,200	63,555	31	18	6	8	2,949
Total	**276,853**	**47,360**	**214,439**	**1,255**	**365**	**46**	**281**	**60,467**
31 December 2017								
Corporate	235,529	59,523	151,196	1,389	4,554	1,018	712	76,660
Retail	43,109	3,577	39,879	81	95	56	158	2,840
Total	**278,638**	**63,100**	**191,075**	**1,470**	**4,649**	**1,074**	**870**	**79,500**

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

i) Liquidity risk management

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

Liquidity and interest risk tables

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

Maturity for financial assets

	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	2 to 5 years	5+ years	Total
31 December 2018							
Non-interest bearing	-	217,877	1	3	239	25	218,145
Fixed interest rate instruments	10.49%	46,070	19,439	37,405	114,858	72,744	290,516
Variable interest rate instruments	8.04%	28,008	1,414	1,533	7,609	1,893	40,457
		291,955	**20,854**	**38,941**	**122,706**	**74,662**	**549,118**
31 December 2017							
Non-interest bearing	-	115,921	173	22	3,756	-	119,872
Fixed interest rate instruments	6.81%	36,108	30,850	31,047	91,471	52,033	241,509
Variable interest rate instruments	8.47%	53,013	3,849	3,263	16,128	3,275	79,528
		205,042	**34,872**	**34,332**	**111,355**	**55,308**	**440,909**

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

Maturity for financial liabilities

	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	2 to 5 years	5+ years	Total
31 December 2018							
Non-interest bearing	-	116,998	1,526	324	697	597	120,142
Fixed interest rate instruments	0.04%	163,573	30,499	28,896	32,613	36,680	292,261
Variable interest rate instruments	1.45%	1,395	4,617	2,662	5,127	64	13,865
		281,966	**36,642**	**31,882**	**38,437**	**37,341**	**426,268**
31 December 2017							
Non-interest bearing	-	115,017	452	236	728	342	116,775
Fixed interest rate instruments	0.07%	40,639	15,324	22,700	33,952	35,715	148,330
Variable interest rate instruments	1.35%	1,330	9,295	11,565	15,307	222	37,719
		156,986	**25,071**	**34,501**	**49,987**	**36,279**	**302,824**

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

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

33. FAIR VALUE MEASUREMENT

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

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

Financial assets / financial liabilities	**Fair value as at**		**Fair value hierarchy**	**Valuation techniques and key inputs**
	31 December 2018	**31 December 2017**		
1) Financial assets available for sale (see Note19)	-	Equity securities listed on a stock exchange in BIH: • Bosna Reosiguranje d.d., Sarajevo - KM 32 th Equity securities listed on stock exchange in other countries: • JUBMES BANKA A.D. Belgrade, Serbia - KM 97 th	Level 1	Quoted bid prices in an active market.
	-	Debt securities listed on the Stock exchange in Bosnia and Herzegovina; • FBiH Government - KM 302 thousand Equity securities listed on the Stock exchange in Bosnia and Herzegovina without trading: • Securities register FBiH d.d. Sarajevo - KM 59 thousand • BamCard d.d. Sarajevo - KM 3 thousand	Level 2	Discounted cash flow valuation technique, considering the last available rate on owned or similar equity securities as yield rate.
2) Financial assets at FVTOCI (available for sale – see Note 20.)	Equity securities listed on a stock exchange in Bosnia and Herzegovina: • Bamcard d.d. Sarajevo – KM 2 thousand • Bosna Reosiguranje d.d. Sarajevo – KM 32 thousand Equity securities listed on stock exchange in other countries: • JUBMES BANKA A.D. Belgrade, Serbia - KM 148 thousand • Debt securities listed on the Stock exchange in Bosnia and Herzegovina; • FBiH Government - KM 306 thousand	-	Level 1	Quoted bid prices in an active market.
	Equity securities listed on the Stock exchange in Bosnia and Herzegovina without trading: • Securities register FBiH d.d. Sarajevo - KM 59 thousand	-	Level 2	Prices derived from prices of other similar assets quoted on active market

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

33. FAIR VALUE MEASUREMENT (CONTINUED)

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

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

	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
- Loans to customers	228,392	292,524	214,361	281,630
- Financial assets at AC (held to maturity)	4,542	4,542	3,562	3,562
- Financial assets at FVTOCI	545	545	-	-
Financial liabilities				
At amortised cost:				
- Due to customers, other banks and financial institutions	389,018	422,152	265,987	297,644

	Fair value hierarchy as of 31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- Loans to customers	-	292,524	-	292,524
- Financial assets at AC	-	4,542	-	4,542
- Financial assets at FVTOCI	-	545	-	545
	-	**297,611**	**-**	**297,611**
Financial liabilities				
At amortised cost:				
- Due to customers, other banks and financial institutions	-	422,152	-	422,152
	-	**422,152**	**-**	**422,152**

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

34. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management as of 11 February 2019:

Hamid Pršeš	Bedina Jusičić - Musa
President of the Management Board	Member of the Management Board