SPARKASSE BANK DD BIH

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

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

Contents

Responsibility for the financial statements

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

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

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

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

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

Signed on behalf of the Management Board

Sanel Kusturica, President of the Management Board

SPARKASSE Bank 100

Sparkasse bank d.d. BiH
Zmaja od Bosne 7
71000 Sarajevo
Bosnia and Herzegovina

15 April 2020

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Sparkasse Bank dd BiH

Opinion

We have audited the financial statements of Sparkasse Bank dd BiH (the Bank), which comprise of the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, including a summary of significant accounting policies and other explanatory notes.

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

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

Key audit matters

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

Key audit matters (continued)

Impairment of carrying amount of loans and receivables

Key Audit matter	How the Matter Was Addressed in Our Audit
Measurement of impairment allowances for expected credit losses on loans and receivables from clients is deemed a key audit matter since high level of significant judgements is applied by Management as well as the use of complex models. Management exercise significant judgements in the following areas: • Use of historic data in the process of determining risk parameters; • Estimation of the credit risk related to the exposure; • Assessment of stage allocation; • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses; • Expected future cash flows from operations; • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans and receivables from clients in Note 3 – Financial instruments, Note 18 – Loans and receivables from clients at amortized cost, Note 11 – Impairment losses on financial instruments.	We performed following audit procedures with respect to area of loans and receivables from clients: • Reviewing the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9; • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses; • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses; • Testing identified relevant controls for operating effectiveness; • Disaggregating loans account balance based on stage allocation for the purposes of sample selection; • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation, ii. assumptions used by the Management in the expected credit loss measurement models, iii. criteria used for determination of significant increase in credit risk, iv. assumptions applied to calculate lifetime probability of default, v. methods applied to calculate loss given default, vi. methods applied to incorporate forward-looking information,

Key audit matters (continued)

Impairment of carrying amount of loans and receivables (continued)

Key Audit matter	How the Matter Was Addressed in Our Audit
	• Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans and receivables from clients allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information, ii. Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance, iii. Reviewing and critically assessing estimated value of collateral and estimated realisation period, iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral, v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Bank.

Responsibilities of the Management and Supervisory Boards for the Financial Statements

The Management Board is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with the International Financial Reporting Standards, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Supervisory Board is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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 control 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

Deloitte d.o.o.

Sead Bahtanović, director and licensed auditor

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Zmaja od Bosne 12c
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ID: 4200047380000

Sabina Softić, partner and licensed auditor

Zmaja od Bosne 12c
Sarajevo, Bosnia and Herzegovina
15 April 2020

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

(all amount are expressed in thousand KM, unless otherwise stated)

	Notes	2018	2019
Net interest income	5	46,272	45,236
Interest income		*55,966*	*55,656*
Interest expense		*-9,330*	*-9,527*
Other similar expense		-364	-893
Net fee and commission income	6	18,706	20,283
Fee and commission income		*24,368*	*26,272*
Fee and commission expense		*-5,662*	*-5,989*
Dividend income	7	321	373
Net trading result	8	3,971	4,110
Gains from financial instruments measured at fair value through profit or loss		119	-
Rental income from investment properties & other operating leases	9	460	430
Personnel expenses	10	-20,543	-20,774
Other administrative expenses	10	-17,669	-16,227
Depreciation and amortisation	10	-3,952	-5,189
Impairment loss on financial instruments	11	-4,112	-2,681
Other operating result	12	-1,312	238
Pre-tax result		**22,263**	**25,799**
Taxes on income	13	-2,759	-2,312
Net result for the period		**19,503**	**23,487**
Other comprehensive income			
Net change in fair value of financial assets at FVOCI		1,056	2,423
Total comprehensive income		**20,559**	**25,910**
Earnings per share		22.55	27.16
Basic earnings	14	22.55	27.16
Operating income		69,850	70,432
Operating expenses		-42,164	-42,190
Operating result		27,687	28,242
Cost to income ratio		**60.4%**	**59.9%**

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

Statement of financial position
for the year ending 31 December 2019

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

	Notes	31 December 2018	31 December 2019
Asset			
Cash and cash balances	15	287,121	248,957
Financial assets held for trading		1	-
Derivatives		*1*	-
Financial assets at fair value through profit or loss	16	111	111
Equity instruments	*16*	*111*	*111*
Financial assets at fair value through other comprehensive income	17	123,547	159,179
Debt securities	*17*	*123,547*	*159,179*
Financial assets at amortised cost	18	1,004,447	1,121,611
Loans and advances to banks		*35,727*	*73,895*
Loans and advances to customers		*968,720*	*1,047,716*
Property and equipment	19	32,545	33,959
Investment property	19	3,582	3,497
Intangible assets	19	3,745	3,582
Investments in joint ventures and associates	20	595	595
Current tax assets	13	-	1,226
Deferred tax assets	13	1,087	629
Other assets	21	6,006	6,928
Total assets		**1,462,787**	**1,580,274**

Liabilities and equity			
Financial liabilities held for trading		1	-
Derivatives		*1*	-
Financial liabilities measured at amortised cost		1,246,986	1,336,813
Deposits from banks	*22*	*136,805*	*136,903*
Borrowings	*23*	*57,313*	*51,044*
Deposits from customers	*24*	*1,052,868*	*1,148,866*
Finance lease liabilities		-	2,325
Provisions	25	6,105	5,820
Current tax liabilities	13	793	-
Other liabilities	26	11,472	11,974
Total liabilities		**1,265,357**	**1,356,934**
Share capital	27	86,473	86,473
Share premium		3,000	3,000
Accumulated earnings		87,035	106,539
Fair value reserves		1,418	3,841
Profit for the year		19,503	23,487
Total equity		**197,430**	**223,340**
Total liabilities and equity		**1,462,787**	**1,580,274**

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

Signed for the and in the name of Sparkasse Bank dd BiH on 15 April 2020

Sanel Kusturica
President of the Management Board

Sparkasse Bank dd Bosna i Hercegovina
SPARKASSE Bank
100

Amir Softić
Member of the Management Board

Statement of cash flows
for the year ending 31 December 2019

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

	2018	2019
Operating activities		
Profit before taxation	**22,263**	**25,799**
Adjustments:		
Depreciation and amortization (Note 10)	3,952	5,189
Impairment losses and provisions	6,561	6,829
Gain on sale of tangible and intangible assets, net	-67	-143
Interest income on financial insturments recognized at FVOCI	-2,183	-2,022
Dividend income recognized in statement of profit and loss (Note 7)	-321	-373
Cash flow before changes in operating assets and liabilities:	*30,205*	*35,280*
Increase in placements with other banks, before allowance, net	-4,133	-38,238
Increase in loans and advances to customers, before allowance, net	-80,942	-76,520
Increase in other assets, before allowance, net	-7,747	-11,445
Increase in due to customers, net	111,457	95,998
Decrease in due to other banks, net	-12,023	-6,171
Decrease in provisions, net	-2,378	-285
(Decrease) / increase in other liabilities, net	-1,546	502
Cash generated in operating activities	*32,893*	*-879*
Income tax paid	-2,869	-2,647
NET CASH GENERATED / (USED) IN OPERATING ACTIVITIES	**30,024**	**-3,528**
Investing activities		
Purchase of financial assets available-for-sale	-18,877	-31,123
Purchase of tangible and intangible assets	-5,107	-5,437
Proceeds from disposal of tangible and intangible assets	681	1,550
Dividend received	321	373
NET CASH USED IN INVESTING ACTIVITIES	**-22,981**	**-34,638**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**7,042**	**-38,164**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**280,079**	**287,121**
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**287,121**	**248,957**

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

Statement of changes in equity
for the year ending 31 December 2019

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

	Share capital	Capital reserves and capital earnings	Retained earning	Fair value reserves	Available to parent	Total
1 January 2019	**86,473**	**3,000**	**106,539**	**1,418**	**197,430**	**197,430**
Total comprehensive income	-	-	23,487	2,423	25,910	25,910
Net profit for the year	-	-	*23,487*	-	*23,487*	*23,487*
Change in revaluation reserve	-	-	-	*2,423*	*2,423*	*2,423*
31 December 2019	**86,473**	**3,000**	**130,026**	**3,841**	**223,340**	**223,340**

	Share capital	Capital reserves and capital earnings	Retained earning	Fair value reserves	Available to parent	Total
1 January 2018	**86,473**	**3,000**	**87,036**	**362**	**176,871**	**176,871**
Total comprehensive income	-	-	19,503	1,056	20,559	20,559
Net profit for the year	-	-	*19,503*	-	*19,503*	*19,503*
Change in revaluation reserve	-	-	-	*1,056*	*1,056*	*1,056*
31 December 2018	**86,473**	**3,000**	**106,539**	**1,418**	**197,430**	**197,430**

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

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

1. GENERAL

History and incorporation

SPARKASSE Bank dd BiH („Bank") has been registered on 9 July 1999 with the relevant court in Sarajevo, under the number U/I-1291/99. On 28 July 1999, the Bank obtained the permit to conduct its business from Federal Banking Agency ("FBA"), number 01-376/99. Banks headquarter is in Sarajevo, at Zmaja od Bosne 7.

The majority shareholder of the Bank is Steiermarkische Bank und Sparkassen AG, Graz Austria its share amounting 100%. The ultimate owner is Erste Group Austria. The consolidated financial statements can be found on the following address: Am Belvedere 1, Vienna, Austria.

Principal activities of the Bank

The Bank offers banking services through a developed branch network in Bosnia and Herzegovina:

1. accepting all types of cash deposits and other monetary assets;
2. receiving and taking loans and finance lease;
3. giving all types of financial guarantees;
4. participation, purchase and sale of instruments on cash and capital market for own purposes and on behalf of other parties;
5. payment transactions and money transfer services;
6. purchase and sale of foreign currencies;
7. issuance and management of payment instruments (including credit cards, travel and bank checks);
8. storing and managing securities and other valuables;
9. financial management services;
10. purchase and sale of securities;
11. factoring and forfeiting services;
12. insurance intermediation services in accordance with relevant legislation;
13. other operations arising from points 1-12 of this paragraph and other operations as a joint stock company.

Managing bodies of the Bank

Supervisory Board:

Gerhard Maier	President
Renate Ferlitz	Member
Maximilian Clary und Aldringen	Member
Ismeta Čardaković	Independent member
Željko Šain	Independent member

Management Board:

Sanel Kusturica	President of the Management Board
Nedim Alihodžić	Member of the Management Board
Amir Softić	Member of the Management Board

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

1. 1. GENERAL (CONTINUED)

Audit Board:

Zlatan Jašarević	President from 20 May 2019
Sandra Petrcizek – Mahr	Member, President until 20 May 2019
Aida Sivro – Rahimić	Member
Damir Soković	Member
Andrea Rainer	Member from 20 May 2019
Aleksandar Klemenčić	Member until 20 May 2019
Slaviša Kojić	Member until 20 May 2019

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in 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:

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

The adoption of these standards, amendments and interpretations has not led to any material changes in the Bank's accounting policies, except for IFRS 16.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.1 Standards and Interpretations effective in current period (continued)

Impact of initial application of IFRS 16 Leases

In the current year, the Bank has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 19. The impact of the adoption of IFRS 16 on the Bank financial statements is described below.

The date of initial application of IFRS 16 for the Bank is 1 January 2019 The Group's recommendation for the first time adoption was:

- Amounts of liabilities and RoU's assets to be equal as of 1 January 2020
- Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

(a) Impact of the new definition of a lease

The Bank has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Bank applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Bank has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Bank.

(b) Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 changes how the Bank accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Bank:

a) Recognizes right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii)
b) Recognizes depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.1 Standards and Interpretations effective in current period (continued)

Impact of initial application of IFRS 16 Leases (continued)

(b) Impact on Lessee Accounting (continued)

(i) Former operating leases (continued)

Lease incentives (e.g. rent free period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortized as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the Bank has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within ‘other expenses’ in profit or loss.

The Bank has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- The Bank has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Bank has elected not to recognize right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Bank has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Bank has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(ii) Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Bank has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019

(c) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.1 Standards and Interpretations effective in current period (continued)

Impact of initial application of IFRS 16 Leases (continued)

(c) Impact on Lessor Accounting (continued)

Because of this change, the Bank has reclassified certain of its operating sublease agreements as finance leases and accounted for them as new finance leases entered into at the date of initial application. As required by IFRS 9, an allowance for expected credit losses has been recognized on the finance lease receivables.

(d) Financial impact of initial application of IFRS 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognized in the statement of financial position on 1 January 2019 is 11.65%.

Total estimated effect of right-of-use assets amounts to KM 2,698 thousand or 0.18% of total Bank's assets and results in increase in total assets and liabilities of the Bank for the stated amount.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue not yet adopted

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

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 3 "Business Combinations" – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IAS 1 "Presentation of Financial Statements" – Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2022),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020),

The Bank has elected not to adopt these standards, revisions 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 in the period of initial application, with the exception of IFRS 9 related to the new Decision on credit risk management, presented in Note 2.3.

2.3 IFRS 9: "Financial Instruments" – "Decision on Credit Risk Management"

The Banking Agency of the Federation of Bosnia and Herzegovina issued a new decision on credit risk management that has led to changes that have an immediate financial impact (balance sheet/statement of profit or loss) on the Bank.

This decision introduced minimum regulatory rates for expected credit losses (stage) where the Bank may apply more stringent or favorable rates, depending on the alignment of the calculation process and the validation of the Bank's risk parameters with regulatory guidelines. As of 1 January 2020, the Bank applied stricter minimum rates, which, compared to 31 December 2019, produced additional reserves/costs of KM 13.9 million, most of which Stage 3 – KM 8.01 million, Stage 1 – 5.02 million KM.

Estimates show that the transition to the new standard has significant effects on the Bank's capital (the estimated negative amount is KM 13.9 million).

The execution of the accounting write-down prescribed by the Decision, relating to the transfer of exposures from the balance sheet to the Bank's off-balance sheet two years after the expected credit losses of 100% were recorded, had a negative effect and caused a decrease in the Bank's total credit portfolio by KM 15.6 million.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements consist of financial statements of the Bank, prepared in accordance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee of the IASB (IFRIC).

Basis of preparation

These financial statements have been prepared on a 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 to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing 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 leasing transactions that are within the scope of IAS 17 and measurement that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- Level 2 inputs are 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 unobservable inputs for the asset or liability.

The financial statements are presented in Convertible Marks since that is the functional currency of the Group and the Bank. The Convertible Mark (KM) 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 amounts of assets and liabilities, of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing 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 revision and future periods if the revision affects both current and future periods.

Information on amounts where significant uncertainty exists in their estimate and critical judgments in applying accounting policies that have the most impact on the amounts disclosed in these financial statements are disclosed in Note 4.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

Reclassification

The Bank has, with aim of better presentation and compliance with International Financial Reporting Standards (IFRS), prepared a new format of reports and in accordance with that made reclassification of positions in the statement of profit or loss and other comprehensive income and the Statement of Financial position for 2018

Reclassified 2018 position	2018 Reclassified	Reclassification	2018 Published	Published 2018 position
Net interest income	46,272	650	45,622	Net interest income
Interest income	*55,966*	*605*	*55,361*	*Interest and similar income*
Interest expense	*-9,330*	*409*	*-9,739*	*Interest and similar expenses*
Other similar income	-364	-364	-	-
Net fee and commission income	18,706	-2,242	20,948	Net fee and commission income
Fee and commission income	*24,368*	*-1,929*	*26,297*	*Fee and commission income*
Fee and commission expense	*-5,662*	*-313*	*-5,349*	*Fee and commission expense*
Dividend income	321	321	-	-
Net trading result	3,971	1,660	2,311	Foreign exchange gains, net
-	-	-2,178	2,178	Other operating income
Gains from financial instruments measured at fair value through profit or loss	119	119	-	-
Rental income from investment properties & other operating leases	460	460	-	-
Personnel expenses	-20,543	-1,544	-18,999	Personnel expenses
Other administrative expenses	-17,669	2,345	-20,014	Other administrative expenses
Depreciation and amortisation	-3,952	-	-3,952	Depreciation and amortization
Net impairment loss on financial instruments	-4,112	-221	-3,891	Impairment losses and provisions
-	-	2,670	-2,670	Other provisions
Other operating result	-1,312	-2,042	730	Collected written off receivables
Pre-tax result from continuing operations	**22,263**	**-**	**22,263**	**PROFIT BEFORE TAXATION**
Taxes on income	-2,759	1	-2,760	Income tax
Net result for the period	**19,503**	**-**	**19,503**	**NET PROFIT FOR THE YEAR**
Net change of financial assets at fair value through other comprehensive income	1,056	-	1,056	Net change in fair value of financial assets at FVOCI
TOTAL COMPREHENSIVE INCOME	**20,559**	**-**	**20,559**	**TOTAL COMPREHENSIVE INCOME**

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

Reclassification (continued)

Reclassified 2018. position	2018. Reclassified	Reclassification	2018. Published	Published 2018. position
Assets				
Cash and cash balances	*287,121*	*83,398*	*203,723*	*Cash and accounts with other banks*
-	-	*-119,125*	*119,125*	*Obligatory reserve with the Central Bank*
Financial assets held for trading	1	1	-	-
Derivatives	*1*	*1*	-	-
Non-trading financial assets at fair value through profit or loss	111	-	111	Financial assets at FVTPL
Equity instruments	*111*	-	*111*	*Financial assets at FVTPL*
Financial assets at fair value through other comprehensive income	123,547	12	123,535	Financial assets at FVOCI
Debt securities	*123,547*	*12*	*123,535*	*Financial assets at FVOCI*
Financial assets at amortised cost	1,004,447	35,946	968,501	Financial assets at amortized cost
Loans and advances to banks	*35,727*	*35,727*	-	*Placements with other banks*
Loans and advances to customers	*968,720*	*219*	*968,501*	*Loans and advances to customers*
Property and equipment	32,545	-3,788	36,333	Tangible and intangible assets
Investment property	3,582	-	3,582	Investment property
Intangible assets	3,745	3,745	-	Tangible and intangible assets
Investments in joint ventures and associates	595	-12	607	Investment property
Deferred tax assets	1,087	-157	1,244	Deferred tax assets
-	-	-696	696	Prepaid expenses
Other assets	6,006	460	5,546	Other assets
Total assets	**1,462,786**	**-217**	**1,463,003**	**Total assets**

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

Reclassification (continued)

Reclassified 2018 position	2018 Reclassified	Reclassification	2018 Published	Published 2018 position
Liabilities and equity				
Financial liabilities held for trading	1	1	-	-
Derivatives	*1*	*1*	-	-
Financial liabilities measured at amortised cost	1,246,986	1,246,986	-	-
Deposits from banks	*136,805*	*72*	*136,733*	*Due to other banks*
Borrowings	*57,313*	-	*57,313*	*Due to customers*
Deposits from customers	*1,052,868*	*-81*	*1,052,949*	*Borrowings*
Provisions	6,105	-5,486	11,591	Provisions
Current tax liabilities	793	-5	798	Income tax liabilities
Other liabilities	11,472	5,347	6,125	Other liabilities
Total liabilities	**1,265,356**	**-216**	**1,265,572**	**Total liabilities**
Share capital	86,473	-	86,473	Share capital
Share premium	3,000	-	3,000	Share premium
-	-	-45,205	45,205	Regulatory and other reserves
Accumulated earnings	87,035	45,203	41,832	Accumulated earnings
Fair value reserves	1,418	-	1,418	Revaluation reserves
Profit for the year	19,503	-	19,503	Profit for the year
Total equity	**197,430**	**-1**	**197,431**	**Total equity**
Total Liabilities and equity	**1,462,786**	**-217**	**1,463,003**	**Total Liabilities and equity**
Total Assets - Total Liabilities and equity	-	-	-	**Total Assets - Total Liabilities and equity**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting from the date that significant influences commences until the date the significant influences ceases.

Measurement and recognition of investments in the financial statements

Investment in associate in the financial statements are stated at cost less any impairment in the value of individual investments if needed.

Going concern

The financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Interest income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Loan origination fees, after approval and drawdown of loans, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan over its life.

Interest charged on deposits is added to the principal where this is foreseen by the agreement, Interest income is suspended when it is considered that recovery of the income is unlikely. Suspended interest is recognized as income when collected.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fee and commission income and expense

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

Fees for payment transactions are recognised in the period when services are rendered

Taxation

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

Current income tax

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the statement of profit or loss and other comprehensive income because it 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 income tax

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

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 realised. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income, 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. The Bank is subject to various indirect taxes which are included in administrative expenses.

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 (the "CBBH") and current accounts with other banks.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Recognition

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value, 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.

Classification and measurement

Under IFRS 9, all financial assets and liabilities should be recognized in the statement of financial position and measured in accordance with the assigned measurement categories.

The classification of a financial asset at initial recognition depends on:

i. the business model of the Bank for financial asset management – is determined on the basis of the business purpose of financial asset management, i.e. the assessment of whether financial assets are held for the purpose of collecting contractual cash flows, collecting contractual cash flows and selling financial assets or for sale only

ii. the contractual cash flow characteristics of financial assets – is determined on the basis of an assessment of whether the contractual cash flows of a financial asset only pay principal and interest ("SPPI") on the remaining amount of principal

The application of these criteria leads to the classification of financial assets in three measurement categories.

Financial assets measured at amortized cost

Financial assets are measured at amortized cost if they are held in a business model whose purpose is to collect contractual cash flows and their contractual cash flows are SPPI.

In the balance sheet, these assets are stated at amortized cost, i.e. gross book value less any impairment loss. They are presented under “Loans and advances to customers”, “Other assets”, “Placements with other banks”, “Obligatory reserve with the Central Bank” and “Cash and accounts at banks”, Cash and balances with other banks include only receivables (deposits) from central banks and credit institutions that are paid on demand. Payable on demand means that they can be withdrawn at any time or with a one work-day term or 24-hour term.

Interest income on these assets is calculated using the effective interest method and is included in the item “Interest and similar income” under “Net interest income” in the statement of profit or loss. Gains or losses on impairment are included under “Impairment losses and provisions”. Gains and losses arising from derecognition (such as sale) of assets are stated under Other operating income.

In the Bank, financial assets at amortized cost represent the largest category of measurement, which includes a large majority of loans to clients, interbank credit operations, deposits with central banks, amounts settled, trade and other receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets at fair value through other comprehensive income (FVOCI)

Financial assets of a debt instrument are measured at fair value through other comprehensive income (FVOCI) if the contractual cash flows are in accordance with the SPPI and are held within a business model whose objective is achieved by collecting contractual cash flows and selling assets. In the balance sheet, they are included as “financial assets at FVOCI”.

Interest income on these assets is calculated using the effective interest rate method and is included in the item “Interest income” under “Net interest income” in the statement of profit or loss. Gains and losses on impairment are recognized in the statement of profit or loss as “Impairment losses and provisions” while in the balance sheet are presented through equity (OCI), As a result, the impact on the statement of profit or loss is the same as for financial assets measured at amortized cost.

The difference between the fair value at which the asset is stated in the balance sheet and the component of the amortized cost is recognized as accumulated other comprehensive income, especially within the revaluation reserve in the statement of changes in equity. The change for the period is reported as an OCI in the statement of comprehensive income as “Revaluation reserve”. When a financial asset is derecognised, the amount previously accumulated in the OCI is reclassified to profit or loss and is recognized as “Other operating income”.

The Bank classifies investments in debt securities measured at FVOCI. They are part of the “holding up to collection and selling” business model. They relate to different business objectives, such as meeting internal / external liquidity risk conditions and effectively placing excess structural liquidity, strategic positions decided by the management board, initiating and encouraging customer relationships, replacing credit operations or other yield improvement activities. The common feature of investing in debt instruments at FVOCI is that the active optimization of yield through sales is integral to achieving the goals. Sales are made to optimize the liquidity position or generate gains / losses at fair value. As a result, business goals are also achieved by collecting contractual cash flows and selling securities.

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

There are various reasons for the allocation of fair value through financial assets (FVTPL):

Financial assets whose contractual cash flows are not considered SPPI are automatically measured at FVTPL. In the Bank's business this does not apply to loans to clients and debt securities. The main reason for the failure to estimate SPPI is that they have critical interest clauses that do not pass the quantitative testing required by IFRS 9.

Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as amortized cost unless measured at fair value through profit or loss.

Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are presented in the statement of financial position under 'Financial liabilities measured at amortized cost'. Under this position are included 'Deposits of banks', 'Deposits of clients', 'Loans' and 'Other financial liabilities'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities measured at amortized cost (continued)

For subsequent measurement of financial liabilities at amortized cost, interest expense is recognized in the statement of profit or loss using the effective interest rate method and is presented in the 'Interest expense' item under 'Net interest income' in the statement of profit or loss. Gains or losses arising from the derecognition of a financial liability are recognized in the statement of profit or loss and are presented in the 'Other gains or losses from derecognition of financial instruments that are not measured at fair value through profit or loss'.

Impairment of financial assets

IFRS 9 expected credit loss model includes three stages, i.e. three levels of credit risk, whereby the financial asset moves through stages as it changes its credit quality,.

	Stage 1 Healthy portfolio	Stage 2 Significant increase of credit risk	Stage 3 Problematic portfolio
Expected loss	12-month period	Lifetime period	Lifetime period
Criterion for grouping and determining risk levels	Delay ≤30 days by IFRS counter FBA classification ≤B5% Client is not in default on any basis	Delay ≥31 days ≤90 days by IFRS counter FBA classification >B5% Deterioration of client's position Client is not in default on any basis	Delay >90 days by IFRS counter i.e. Client is in default on any basis

Derecognition of financial assets

Financial assets are derecognised if the following criteria are met:

i. Contractual rights to cash flows of financial assets expire, or

ii. The Bank transfers financial assets under conditions that meet the criteria for derecognition.

When transferring a financial asset, it is necessary to estimate the extent to which the risks and repossession of ownership of that financial asset are maintained, In that case:

iii. If substantially all the risks and rewards of ownership of the financial asset are transferred, financial assets are derecognised.

iv. If all the risks and rewards of ownership of the financial asset are not transferred or retained substantially, the financial asset is derecognised if the control over such financial asset is also transferred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Termination of recognition of financial assets due to significant changes in contractual terms

Bank's credit operations may change the contractual terms of a financial asset either as a result of negotiations to adapt to changed market conditions or to prevent financial difficulties of a client, i.e. to maximize the ability to pay if the client is already in financial difficulties.

As a result of the change in the terms or modification of the contractual cash flows of a financial asset, the derecognition of that financial asset and recognition of new, changed financial assets may occur. The Bank has defined a number of derecognition criteria that qualitatively or quantitatively determine whether a change in contractual terms of financial assets is sufficient to meet the conditions for derecognition.

Significant modifications result in derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument. They include the following events:

a) Change of contractual conditions leading to change of the other party to the contract

b) Change of the currency of the contract (unless the change is a result of using the embedded option in the original contract with the pre-agreed terms of the change, or if the new currency is linked to the original currency);

c) the introduction of contracts that do not meet non-SPPI; and eliminating contractual characteristics other than SPPI.

Some criteria for derecognition differ depending on whether contract modifiers are applied to debtors facing financial difficulties. The application of certain modifications to debtors in financial difficulties is not considered significant because it is aimed at improving the bank's prospect of recovering claims by adjusting the repayment schedule under certain financial conditions of those debtors. On the other hand, such contractual modifications that apply to executive debtors may be considered sufficiently important to justify derecognition, as explained in more detail below.

From this perspective, the following criteria lead to derecognition, unless considered to be forbearance measures, they are applied to clients in default or trigger for default:

- the repayment plan has been revised in such a way that the weighted residual maturity of assets is changed by more than 100% and not less than two years in relation to the original asset;

- change in the time / amount of contractual cash flows resulting in the present value of modified cash flows (discounted at the effective interest rate before modification) of more than 2% of the gross book value of the asset immediately before the change (cumulative assessment taking into account all modifications happened in the last twelve months); or

- commercial bargaining initiated by debtors seeking better terms as an alternative to refinancing, while there is an option for early repayment / early termination and a sufficiently competitive refinancing market. Furthermore, the costs the borrower would have had in case of early repayment / early termination of the contract should be considered as low enough to refuse it. This cancellation period is rarely applied for credits at Stage 2 and never in Stage 3.

If contractual modifications deemed to be forbearance measures apply to clients in the default status or the triggers for the default status so significant that they qualitatively estimate as abolishing original contractual rights, result in derecognition. Examples of such changes are:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Termination of recognition of financial assets due to significant changes in contractual terms (continued)

- a new contract with substantially different terms was signed as part of the restructuring;

- consolidation of multiple original loans into one with substantially different conditions; or transforming revolving loans in non-revolving.

Amendments to contracts that result in the termination of recognition of original funds result in initial recognition of new financial resources. If the borrower is late or if significant modification leads to default, then the new asset will be treated as POCI.

If the borrower is not in delay or if a significant modification does not result in default, the new asset recognized after the derecognition of the original asset will be in Stage 1, For loans measured at amortized cost, the non-amortized amount of fees / rates are shown as 'Net interest income' on the date of derecognition.

For financial assets measured at FVTPL, regardless of whether they are in delay, gains and losses from derecognition are included in the same items of statement of profit or loss as their measurement result.

For debt instrument assets that are not measured at FVTPL and which are the subject of contractual modifications that do not result in derecognition, the gross carrying amount of the asset is reconciled with the recognition of profit or loss from a change in profit or loss. Gain or loss of change is equal to the difference between the gross book value before the change and the present value of cash flows based on the modified terms discounted at the original effective interest rate, In the statement of profit or loss, gain or loss on the modification is presented as "Interest income" if the change relates to financial assets at Stage 1. For financial assets at Stage 2 and 3 and POCI financial assets, gains or losses are presented as "Impairment losses provisions".

Derecogniton of financial liabilities

The Bank derecognizes a financial liability when, and only when, the Bank's obligations have been released, canceled or terminated.

Tangible and intangible assets

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

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

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

3, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tangible and intangible assets (continued)

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

Estimated useful lives were as follows:

	2018	2017
Buildings	33 – 50 years	33 – 50 years
Computers	5 years	5 years
Vehicles	6 years	6 years
Furniture and other office equipment	5 – 10 years	5 – 10 years
Intangible assets	5 years	5 years

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

Impairment

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

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings 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 recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Retirement severance payments

The Bank makes provision for retirement severance payments in the amount of either 6 average salaries of the employee disbursed by the Bank or 6 average salaries of the Federation of Bosnia and Herzegovina as in the most recent published report by the Federal Statistics Bureau, depending on what is more favourable to the employee.

The cost of retirement severance payments are recognized when earned.

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 statement of profit or loss and other comprehensive income for the period.

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

31 December 2019	1 EUR = KM 1,95583	1 USD = KM 1,747994
31 December 2018	1 EUR = KM 1,95583	1 USD = KM 1,707552

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

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

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

Equity and reserves

Share capital

Share capital represents the nominal value of paid-in ordinary and preferred shares and is denominated in KM, in nominal value.

Regulatory reserves for credit losses

Regulatory reserves for credit losses are recognized in accordance with regulations of the Banking Agency of Federation of Bosnia and Herzegovina ("FBA"), Regulatory reserves for credit losses are non-distributable.

Fair value reserve

Investments revaluation reserve comprises changes in fair value of financial assets at fair value through other comprehensive income.

Retained earnings

Profit for the period after appropriations to owners and allocations to other reserves are transferred to retained earnings.

Dividends

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

Earnings per share

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

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

There were no dilution effects during 2018 and 2019

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 judgments, estimates and make 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 ongoing 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.

SPPI assessment

The assessment of whether the contractual cash flows of financial assets lead to cash flows that are solely payments of principal and interest (SPPI) are subject to the application of significant judgments based on IFRS 9 guidance. These judgments are crucial to the IFRS 9 classification and measurement process as they determine whether the asset must be measured at FVTPL or, depending on the business model estimate, at amortized cost or at FVOCI. When taking into account the specificities of loans in the Bank's business, significant areas of judgement are early repayment fees, project financing loans, and benchmark credit tests with critical interest rate clauses.

The most critical area of estimation of SPPI in the Bank's operations are loans with critical interest rate clauses. Interest rate measurement refers to floating rate financial instruments where:

- the reference rate (such as Euribor) differs from the rate of conversion rates
- the interest rate is fixed before the start of the interest period
- time lags arise from average rates in previous periods
- or a combination of the above

To this end, the Bank has developed what is called benchmark test to assess whether a critical interest rate clause could result in contractual (undiscounted) cash flows that are significantly different from the initial contract. In addition to the characteristics of critical interest clauses, the conditions of this benchmark test correspond to the assets in the test.

For funds with critical interest rate clauses that arise only from previous and average rates (i.e. no discrepancy stemming from a period that differs from the frequency of conversion), the SPPI compliance is considered to be fulfilled on the basis of a qualitative estimate if the time gap between fixing the rate and beginning of the interest rate period does not exceed one month.

A quantitative benchmark test is performed on the initial recognition of the contract. The threshold of importance for the cumulative cash flow ratio, the quantitative threshold of materiality is set at 5%. If the materiality thresholds are exceeded, the benchmark test is not passed and the financial asset must be measured at fair value through profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty (continued)

SPPI assessment (continued)

Following transition to IFRS 9 for loans and debt securities, a benchmark test was carried out in relation to the interest rates at their initial recognition. All loans with the characteristics of the critical interest rate clauses have passed the test and therefore there was no need to measure the loan at FVTPL. No significant margin is expected for new contracts with critical interest rate clauses that failed to meet the benchmark test as a result of the preventive activities undertaken during the project implementation of IFRS 9 with the aim of reducing the amount of loans to be measured by FVTPL.

Business model assessment

For each financial asset that is matched with SPPI at initial recognition, the Bank must assess whether it is part of the business model in which the asset is held for the purpose of collecting contractual cash flows, collecting contractual cash flows and sales, or being held in other business models. As a consequence, the critical aspect in differentiating business models is the frequency and importance of selling property in the appropriate business model. Since asset allocation to business models is based on an initial estimate, cash flows may occur differently than originally expected in subsequent periods, and it may seem that a different measurement method is applicable. In accordance with IFRS 9, such subsequent changes generally do not lead to reclassification or correction of previous period errors in relation to existing financial assets. New information on how to make cash flows can, however, point to the fact that the business model, and thus the measurement method, are changing for new property.

In the Bank, sales due to increased credit risk, short-term assets, short-term sales caused by a non-performing event (such as changes in regulatory or tax environment, large internal reorganization or business combinations, severe liquidity crises, etc,) contrary to the business model of contractual cash flows. Other types of sales conducted in the business model that are held for collection are evaluated retroactively, and if they exceed certain quantitative thresholds or, when deemed necessary due to new expectations, the Bank conducts a prospective test. If the result was that the book value of assets expected to be sold in the expected term of the current business model portfolio, for reasons other than those above, exceeds 10% of the book value of the portfolio, any new acquisitions would have been classified into another business model.

Impairment of financial instruments

The expected credit loss impairment model is inherently based on the estimate, as it requires an assessment of significant credit risk increases and measurement of expected credit losses without providing detailed guidance. With regard to a significant increase in credit risk, the Bank has established special valuation rules that consist of qualitative information and quantitative thresholds. Another area of complexity relates to the establishment of groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at the level of an individual instrument. Measuring expected credit losses involves complex models relying on historical statistics of probability of default and loss rate in case of default, extrapolation in case of lack of data, individual cash flow estimates and probabilities of different scenarios including future information.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty (continued)

Impairment of financial instruments (continued)

Detailed explanations on the identification of significant increases in credit risk, including collective estimation, estimation techniques used to measure 12-month and expected credit losses and expectations, as well as the definition of default, are disclosed in Note 36 Risk Management, section h, Credit risk.

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.

Regulatory provisions calculated in accordance with the regulations of the FBA

For the purposes of capital adequacy assessment and recognition of provisions for credit losses from profit in equity and reserve, in accordance with local regulations and the relevant regulations of the FBA, the Bank also calculates provisions in accordance with these regulations. Relevant investments are classified in the appropriate groups for FBA in accordance with these regulations depending on days of delay, the financial position of the debtor and collateral, and are reserved in accordance with the provisions laid down in percentages.

Litigations

Bank's Legal Department makes individual assessment of all court cases and makes provisions on a portfolio basis.

As stated in Note 25, the Bank has reserved KM 1,283 thousand (2018: KM 1,189 thousand), which Management estimates as sufficient. It is not practical to estimate the financial impact of changes in the assumptions on which management assesses the need for provisions.

Provisions for employee benefits

As described in Note 3, in the paragraph named Employee benefits, provision for employee benefits are calculated on the basis of an independent actuarial report on the implementation of IAS 19 – Employee benefits.

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, other than loans and receivables, are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

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

5. NET INTEREST INCOME

	2018	2019
Interest expenses and similar expenses		
Financial assets at amortised cost	53,447	53,302
Credit institutions	217	369
Other financial corporations	213	1,954
Non-financial corporations	21,250	20,550
Households	31,767	32,189
Financial assets measured at fair value through other comprehensive income	2,519	2,354
Interest income	55,966	55,656
Total interest and other similar income	55,966	55,656
Interest expenses and similar expenses		
Financial liabilities - held for trading	-9,330	-9,527
Interest expenses	-9,330	-9,527
Other similar expenses	-364	-893
Other liabilities	-	-265
Negative Interest from financial assets	-364	-628
Interest expenses and similar expenses	-9,694	-10,420
Interest expenses and similar expenses	**46,272**	**45,236**
Thereof: interest-income on credit impaired financial assets	2,179	1,832
Thereof: Modification gains/losses	27	62

6. NET FEE AND COMMISSION INCOME

	2018		2019	
	Income	Expense	Income	Expense
Payment services	**21,014**	**-4,837**	**22,291**	**-5,350**
Card business	5,278	-3,441	6,000	-3,999
Other	15,736	-1,396	16,291	-1,351
Customer resources distributed but not managed	**741**	**-294**	**929**	**-222**
Collective investment	741	-	929	-
Other	-	-294	-	-222
Lending business	**2,324**	**-507**	**2,738**	**-384**
Guarantees given, guarantees received	1,787	-102	2,140	-46
Loan commitments given, loan commitments received	537	-405	598	-338
Other	**289**	**-24**	**314**	**-33**
Total fee and commission income and expenses	**24,368**	**-5,662**	**26,272**	**-5,989**
Net fee and commission income	**18,706**	**-**	**20,283**	**-**

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

7. DIVIDEND INCOME

	2018	2019
Financial assets at cost	321	373
Prihod od dividende	**321**	**373**

8. NET TRADING RESULT

	2018	2019
Securities and derivatives trading	-1	-
Foreign exchange transactions	3,972	4,110
Net Trading Result	**3,971**	**4,110**

9. RENTAL INCOME FROM INVESTMENT PROPERTIES & OTHER OPERATING LEASES

	2018	2019
Investment properties	460	427
Other operating leases	-	3
Rental income from investment properties & other operating leases	**460**	**430**

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

10. PERSONNEL EXPENSES, OTHER ADMINISTRATIVE EXPENSES AND DEPRECIATION

The average employee number of the Bank during the year ending 31 December 2019 was 524 (2018: 530).

	2018	2019
Personnel expenses	-20,543	-20,774
Wages and salaries	-18,729	-19,052
Compulsory social security	-1,638	-1,674
Long-term employee provisions (Note 25)	-176	-48
Other administrative expenses	-17,669	-16,227
Deposit insurance contribution	-2,286	-2,563
IT expenses	-4,604	-3,760
Expenses for office space	-4,260	-3,243
Office operating expenses	-2,779	-2,617
Advertising/marketing	-982	-1,041
Legal and consulting costs	-1,611	-1,905
Sundry administrative expenses	-1,147	-1,098
Depreciation and amortisation	-3,952	-5,189
Software and other intangible assets	-1,274	-1,420
Investment properties	-783	-1,805
Customer relationships	-89	-85
Office furniture and equipment and sundry property and equipment	-1,806	-1,878
General administrative expenses	**-42,164**	**-42,190**

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

11. IMPAIRMENT LOSS ON FINANCIAL INSTRUMENTS

	2018	2019
Financial assets at fair value through other comprehensive income (Note 17,)	-222	-107
Cash and cash balances (Note 15,)	-1,491	367
Financial assets at amortised cost (Note 18)	-2,006	-3,725
Net increase of credit loss allowances	-2,044	-3,747
Recoveries recorded directly to the income statement	33	21
Modification gains or losses	5	1
Net allocation of provisions for commitments and guarantees given (Note 26,)	-393	784
Net impairment loss on financial instruments	**-4,112**	**-2,681**

12. OTHER OPERATING RESULT

	2018	2019
Other operating expenses	-172	-598
Allocation to other provisions	*-172*	*-598*
Other operating income	10	123
Release of other provisions (Note 25,)	*10*	*123*
Result from properties/movables/other intangible assets other than goodwill	-74	-181
Result from other operating expenses/income	-1,076	894
Other operating result	**-1,312**	**238**
Operating expenses (including repair and maintenance) for investment properties held for rental income	-56	-3

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

13. TAXES ON INCOME

Bank's tax liability is calculated based on accounting income taking into the account non-deductible expenses. Income tax rate for the years ended 31 December 2019 and 31 December 2018 was 10%, In 2017, new Corporate Income Tax Act ("Official Gazette of FBiH", no, 15/16) came into effect, which introduced new provisions related to recognition of tax credit for tax paid in Republika Srpska and Brčko District, but it also introduced new tax reliefs for decrease of tax liability, Income tax paid in Republika Srpska and Brčko District is deductible in FBiH up to the amount that would be paid by applying the Corporate Income Tax of FBiH, New tax reliefs introduced are related to salary expense, paid to new employees, under conditions stipulated by the Corporate Income Tax Act.

Total tax recognized in the statement of profit or loss and other comprehensive income may be presented as follows:

	2018	2019
Current tax expense/income	-2,956	-2,124
Deferred tax expense/income	197	-188
Taxes on income	**-2,759**	**-2,312**

Impact of components of financial assets measured at fair value through other comprehensive income related to tax

	Pre-tax amount	Tax amount	After tax amount	Pre-tax amount	Tax amount	After tax amount
		2018			2019	
Fair value loll allowance	1,173	-117	1,055	2,693	-269	2,423
Other comprehensine income	**1,173**	**-117**	**1,055**	**2,693**	**-269**	**2,423**

	2018	2019
Profit before tax	**22,263**	**25,799**
Income tax at the legal rate of 10%	2,226	2,579
Capital gain (IFRS 9 effect)	732	-
Non-taxable income	-482	-790
The effect of tax deductible expenses	391	303
Other	-90	-487
Current income tax	3	2
Temporary differences	-197	188
Effects of unrecognized portion of tax paid for other RS and BD	90	32
Income tax	**2,759**	**2,312**
Effective tax rate for the year	**12,39%**	**8,96%**

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

13. TAXES ON INCOME (CONTINUED)

Movement in deferred tax assets can be presented as follows:

	2018	2019
31, december previous year	**706**	**1,298**
Increase/decrease in deferred tax assets – Impairment Stage 1; Stage 2	553	-150
Increase/decrease in deferred tax assets – FVOCI	1	-17
Increase/decrease in deferred tax assets – Other	38	-39
Balance at December 31	**1,298**	**1,092**

Movement in deferred tax liabilities can be presented as follows:

	2018	2019
31, december previous year	**-233**	**-211**
Increase/decrease in deferred tax liabilities – Impairment Stage 1; Stage 2	203	-
Increase/decrease in deferred tax liabilities – Fair value reserves FVOCI	-96	-241
Increase/decrease in deferred tax liabilities – Impairment FVOCI	-85	-11
Balance at December 31	**-211**	**-463**

Net deferred tax assets as of December 31	**1,087**	**629**

14. EARNINGS PER SHARE

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

	2018	2019
Profit attributable to shareholders, net	19,503	23,487
Average number of ordinary shares during the year	864,733	864,733
Basic earnings per share (KM)	**22,55**	**27,16**

There were no dilution effects during 2019 and 2018

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

15. CASH AND CASH BALANCES

	2018	2019
Cash on hand	78,677	76,667
Cash balances at central banks	172,178	151,697
Of which obligatory reserve with the CBBH	120,227	131,876
Impairement (Note 11,)	-1,579	-1,217
Cash balances at central banks after impairment	170,600	150,480
Other demand deposits to credit institutions	37,887	21,847
Impairement (Note 11,)	-43	-37
Other demand deposits to credit institutions after impairement	37,843	21,810
Cash and cash balances	**287,121**	**248,957**

Interest rate on funds kept up to minimum obligatory reserve amounted to 0%.

The Governing Council of the Central Bank of Bosnia and Herzegovina held a meeting on March 27, 2019 to decide on the equalization of the amount of money to an amount above the statutory reserve requirement applying the ECB to the Commercial Bank Deposit (Deposit Payment Rate) from -0, 20% to -0,40%. The new deposit rate has been in effect since May 1, 2019.

The Governing Council of the European Central Bank of Bosnia and Herzegovina met at its meeting on 12 September 2019 adopted a new decision to reduce the ECB's Deposit Facility Rate from -0,40% to -0,50%. The new deposit rate is in effect from September 18, 2019. The new surplus compensation rate above the CBBH reserve requirement is calculated as of September 21, 2019.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018		2019	
	Fer value	Mandatory fair value	Fer value	Mandatory fair value
Equity instruments	-	111	-	111

Investments in equity securities, except for investments in associates, are classified at fair value through profit or loss (FVTPL). The Bank has investments in SWIFT in form of stakes, Fair value is clculated at the level of the Erste Group and for there were no changes in fair value in 2019.

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

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Gross carrying amount				Impairment allowance					
2019	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Accumulated other fair value changes	Carrying amount
Debt securities	155,873	-	-	155,873	-962	-	-	-962	3,306	159,179
Total	**155,873**	**-**	**-**	**155,873**	**-962**	**-**	**-**	**-962**	**3,306**	**159,179**

	Gross carrying amount				Impairment allowance					
2018	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Accumulated other fair value changes	Carrying amount
Debt securities	122,826	-	-	122,826	-855	-	-	-855	721	123,547
Total	**122,826**	**-**	**-**	**122,826**	**-855**	**-**	**-**	**-855**	**721**	**123,547**

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

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

Impairment of financial assets measured at fair value through other comprehensive income

	From	Purchased	Derecognition	Transfer between stages	Other changes in credit risk (net)	Other	To
	january 2019						december 2019
Stage 1	-855	-237	23	-	107	-	-962
Total	**-855**	**-237**	**23**	**-**	**107**	**-**	**-962**

	From	Purchased	Derecognition	Transfer between stages	Other changes in credit risk (net)	Other	To
	january 2018						december 2018
Stage 1	-633	-620	12	-	386	-	-855
Total	**-633**	**-620**	**12**	**-**	**386**	**-**	**-855**

	2018	2019
Governments bonds - Federation Bosnia and Herzegovina and Republika Srpska	71,474	82,245
Government of Republic of Austria – bonds	23,228	23,498
Republic of France - bonds	9,702	10,021
Republic of Slovenia - bonds	-	18,376
Kingdom of Belgium - bonds	9,621	15,062
Government of Republic of Croatia – bonds	9,522	9,977
Total debt securities	**123,547**	**159,179**

The Bank did not invest in treasury notes in 2019, Interest rate (yield to maturity) on bonds ranged from 0,05% to 5,50% p.a. during 2019.

Expected Maturity:

	2018	2019
- no more than 12 months after the reporting period	9,907	22,633
- more than 12 months after the reporting period	113,640	136,546
Total debt securities	**123,547**	**159,179**

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

18. FINANCIAL ASSETS AT AMORTISED COST

2019	Gross carrying amount					Impairment					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	31.12.2019
Loans and receivables from credit institutions	**73.992**	-	-	-	**73.992**	**-97**	-	-	-	**-97**	**73.895**
Credit institutions	73.992	-	-	-	73.992	-97	-	-	-	-97	73.895
Loans and receivables from clients	**999.035**	**51.067**	**75.571**	**1.277**	**1.126.950**	**-8.570**	**-8.765**	**-61.875**	**-24**	**-79.234**	**1.047.716**
Credit institutions	9	-	-	-	9	-	-	-	-	-	9
General governments	1.552	-	-	-	1.552	-1	-	-	-	-1	1.551
Other financial institutions	3.431	-	280	-	3.711	-68	-	-280	-	-348	3.363
Non-financial institutions	499.976	24.173	36.478	889	561.516	-5.275	-1.830	-33.597	-24	-40.726	520.790
Households	494.067	26.894	38.813	388	560.162	-3.226	-6.935	-27.998	0	-38.159	522.003
Total	**1.073.027**	**51.067**	**75.571**	**1.277**	**1.200.942**	**-8.667**	**-8.765**	**-61.875**	**-24**	**-79.331**	**1.121.611**

2018	Gross carrying amount					Impairment					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	31.12.2018
Loans and receivables from credit institutions	**35.754**	-	-	-	**35.754**	**-27**	-	-	-	**-27**	**35.727**
Credit institutions	35.754	-	-	-	35.754	-27	-	-	-	-27	35.727
Loans and receivables from clients	**919.225**	**52.518**	**72.642**	**9.801**	**1.054.186**	**-10.631**	**-6.732**	**-59.130**	**-8.973**	**-85.466**	**968.720**
General governments	584	-	-	-	584	-19	-	-	-	-19	565
Other financial institutions	5.227	-	316	-	5.543	-168	-	-316	-	-484	5.059
Non-financial institutions	443.998	38.543	36.142	9.158	527.841	-7.792	-3.270	-33.478	-8.488	-53.028	474.813
Households	469.416	13.975	36.184	643	520.218	-2.652	-3.462	-25.336	-485	-31.935	488.283
Total	**954.979**	**52.518**	**72.642**	**9.801**	**1.089.940**	**-10.658**	**-6.732**	**-59.130**	**-8.973**	**-85.493**	**1.004.447**

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

18. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

Impairment changes:
Impairment of financial assets at amortized cost

	1.1.2019	Alocation	Derecognition	Transfer betwean stages	Other changes in credit risk (net)	Minor changes (net)	Write-offs	Other	31.12.2019
Loans and receivables from credit institutions									
Stage 1	**-27**	**-1,034**	**964**	-	-	-	-	-	**-97**
Credit institutions	-27	-1,034	964	-	-	-	-	-	-97
Total impairment for loans and receivables from credit institutions	**-27**	**-1,034**	**964**	-	-	-	-	-	**-97**
Loans and receivables from clients									
Stage 1	**-10,631**	**-7,395**	**3,232**	**990**	**5,214**	**-1**	-	**20**	**-8,570**
General governments	-19	-1	-	-	19	-	-	-	-1
Other financial institutions	-168	-50	11	-	212	-	-	-73	-68
Non-financial institutions	-7,792	-6,216	2,807	495	5,397	-1	-	34	-5,275
Households	-2,652	-1,128	414	495	-414	-	-	59	-3,226
Stage 2	**-6,732**	-	**1,719**	**-1,814**	**-1,964**	**1**	-	**24**	**-8,765**
Non-financial institutions	-3,270	-	1,238	-907	1,437	-	-	-329	-1,830
Households	-3,462	-	481	-907	-3,401	1	-	353	-6,935
Stage 3	**-59,130**	-	**5,004**	**-317**	**-7,236**	-	**505**	**-71**	**-61,875**
Other financial institutions	-316	-	-	-	36	-	-	-	-280
Non-financial institutions	-33,478	-	3,844	-317	-3,629	-	129	-147	-33,597
Households	-25,336	-	1,160	-	-3,643	-	376	76	-27,998
POCI	**-8,973**	-	**1,827**	-	**5,890**	-	**1,217**	**15**	**-24**
Non-financial institutions	-8,488	-	1,822	-	5,837	-	1,217	-412	-24
Households	-485	-	5	-	53	-	-	427	-
Total impairment for loans and receivable	**-85,466**	**-7,395**	**11,782**	**-1,141**	**1,904**	-	**1,722**	**-12**	**-79,234**

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

18. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

Impairement changes

Impairment of financial assets at amortized cost

	1.1.2018	Alocation	Derecognition	Transfer between stages	Other changes in credit risk (net)	Write-offs	Other	31.12.2018
Loans and receivables from credit institutions								
Stage 1	**-130**	**-723**	**772**	**-**	**-1,567**	**-**	**1,621**	**-27**
Credit institutions	-130	-723	772	-	-1,567	-	1,621	-27
Total impairment for loans and receivables from credit institutions	**-130**	**-723**	**772**	**-**	**-1,567**	**-**	**1,621**	**-27**
Loans and receivables from clients	**-10,792**	**-8,882**	**4,226**	**1,551**	**1,683**	**-**	**1,582**	**-10,631**
Stage 1	-37	-1	-	-	18	-	-	-19
General governments	-174	-329	6	-	329	-	-	-168
Other financial institutions	-8,230	-7,342	3,757	1,386	1,055	-	1,582	-7,792
Non-financial institutions	-2,351	-1,210	463	165	281	-	-	-2,652
Households	**-6,731**	**-2**	**1,908**	**-6,539**	**11,196**	**-**	**-6,563**	**-6,732**
Stage 2	-82	-	-	-	82	-	-	-
Non-financial institutions	-3,102	-2	1,434	-3,438	4,930	-	-3,091	-3,270
Households	-3,547	-	474	-3,101	6,184	-	-3,472	-3,462
Stage 3	**-60,294**	**-38**	**1,623**	**-537**	**-5,434**	**5,043**	**506**	**-59,130**
Other financial institutions	-1,086	-	-	-	770	-	-	-316
Non-financial institutions	-38,640	-38	865	-51	-1,693	4,557	1,522	-33,478
Households	-20,568	-	758	-486	-4,511	486	-1,016	-25,336
POCI	**-11,440**	**-**	**278**	**-**	**-912**	**3,058**	**43**	**-8,973**
Non-financial institutions	-11,272	-	176	-	-920	3,054	474	-8,488
Households	-168	-	102	-	8	4	-431	-485
Total impairment for loans	**-89,257**	**-8,922**	**8,035**	**-5,525**	**6,533**	**8,101**	**-4,432**	**-85,466**

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

19. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS

Tangible assets

a) Purchase value

Property and equipment - Acquisition costs					
	Land and buildings	Office equipment and installations / other fixed assets	IT assets (hardware)	Property and equipment	Real estate investments
January 1, 2018	**30,784**	**12,625**	**3,512**	**46,921**	**4,933**
Additions (+)	228	2,767	1,111	4,106	-
Sales and expenses (-)	-53	-706	-948	-1,707	-
Reclassification (+/-)	665	-	-	665	-665
Balance at December 31, 2018	**31,624**	**14,686**	**3,675**	**49,985**	**4,268**
Additions (+)	173	721	1,190	2,084	-
Sales and expenses (-)	-597	-1,271	-	-1,867	-
Reclassification (+/-)	60	-137	-	-77	-
Balance at December 31, 2019	**31,260**	**14,000**	**4,865**	**50,125**	**4,268**

b) Impairment loss

Property and equipment - Acquisition costs					
	Land and buildings	Office equipment and installations / other fixed assets	IT assets (hardware)	Property and equipment	Real estate investments
January 1, 2018	**-5,150**	**-7,951**	**-2,176**	**-15,277**	**-881**
Depreciation (-)	-784	-1,233	-573	-2,590	-89
Sales and expenses (+)	-	673	18	691	94
Reclassification (+/-)	-162	-28	-	-190	190
Impairments (-)	-74	-	-	-74	-
Balance at December 31, 2018	**-6,170**	**-8,539**	**-2,731**	**-17,440**	**-686**
Depreciation (-)	-798	-1,363	-515	-2,676	-85
Sales and expenses (+)	613	1,191	-	1,804	-
Reclassification (+/-)	-	-	-	-	-
Impairments (-)	-181	-	-	-181	-
Balance at December 31, 2019	**-6,536**	**-8,711**	**-3,246**	**-18,493**	**-771**

c) Book values

Property and equipment – Book values					
	Land and buildings	Office equipment and installations / other fixed assets	IT assets (hardware)	Property and equipment	Real estate investments
Balance at December 31, 2018	**25,454**	**6,147**	**944**	**32,545**	**3,582**
Balance at December 31, 2019	**24,724**	**5,289**	**1,619**	**31,632**	**3,497**

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

19. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS (CONTINUED)

Investment property relates to business premises (floors) in the Central office building in Sarajevo rented and not used by the Bank. Investment property with net book value amounting KM 4,268 thousand (2017: KM 4,268 thousand) is in use since 2010. On the basis of an investment property, in 2019 the Bank generated a total income from rents in the amount of KM 427 thousand – Note 9 (2018 – KM 460 thousand), while the direct costs for the year amounted to KM 3 thousand (2017 – KM 56 thousand). According to Management Board opinion fair value of investment properties as at 31 December 2019 and 2018 does not significantly differ from the carrying value of the building during 2019 and 2018 .

Intangible assets

a) Purchase value

	Acquisition and production costs		
	Acquired software	Other (licenses, patents, etc,)	Total
January 1, 2018	**7,683**	**3,815**	**11,497**
Additions (+)	397	1,596	1,993
Sales and expenses (-)	-548	-61	-609
Reclassification (+/-)	-	-	-
Balance at December 31, 2018	**7,532**	**5,350**	**12,881**
Additions (+)	515	665	1,181
Sales and expenses (-)	-	-	-
Reclassification (+/-)	77	-	77
Balance at December 31, 2019	**8,124**	**6,015**	**14,139**

b) Impairment loss

	Impairment loss		
	Acquired software	Other (licenses, patents, etc,)	Total
January 1, 2018	**-5,216**	**-2,648**	**-7,863**
Depreciation (-)	-645	-629	-1,274
Sales and expenses (+)	-	-	-
Reclassification (+/-)	-61	61	-
Balance at December 31, 2018	**-5,922**	**-3,216**	**-9,137**
Depreciation (-)	-658	-762	-1,420
Sales and expenses (+)	-	-	-
Balance at December 31, 2019	**-6,580**	**-3,978**	**-10,557**

c) Book values

	Book values		
	Acquired software	Other (licenses, patents, etc,)	Total
Balance at December 31, 2018	**1,610**	**2,134**	**3,744**
Balance at December 31, 2019	**1,545**	**2,037**	**3,582**

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

19. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS (CONTINUED)

Right of use assets

a) Purchase value

Property and equipment - Acquisition costs	Land and buildings	Office equipment and installations / other fixed assets	IT assets (hardware)	Property and equipment	Real estate investments
January 1, 2018	-	-	-	-	-
Additions (+)	-	-	-	-	-
Sales and expenses (+)	-	-	-	-	-
Reclassification (+/-)	-	-	-	-	-
Balance at December 31, 2018	-	-	-	-	-
January 1, 2019	**2,698**	-	-	**2,698**	-
Additions (+)	636	-	-	636	-
Sales and expenses (+)	-	-	-	-	-
Balance at December 31, 2019	**3,334**	-	-	**3,334**	-

b) Impairment loss — Property and equipment – Impairment loss	Land and buildings	Office equipment and installations / other fixed assets	IT assets (hardware)	Property and equipment	Real estate investments
January 1, 2018	-	-	-	-	-
Depreciation (-)	-	-	-	-	-
Sales and expenses (+)	-	-	-	-	-
Balance at December 31, 2018	-	-	-	-	-
January 1, 2019	-	-	-	-	-
Depreciation (-)	-1,007	-	-	-1,007	-
Sales and expenses (+)	-	-	-	-	-
Balance at December 31, 2019	**-1,007**	-	-	**-1,007**	-

c) Book values

Property and equipment – Book values	Land and buildings	Office equipment and installations / other fixed assets	IT assets (hardware)	Property and equipment	Real estate investments
Balance at December 31, 2018	-	-	-	-	-
Balance at December 31, 2019	**2,327**	-	-	**2,327**	-

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

20. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The Bank's investments in associates are as follows:

Name of the company	2018	2019
Sparkasse Leasing d,o,o, Sarajevo (49%)	595	595
Total	**595**	**595**

For all associates the reporting date is 31 December. The summary of financial information on joint companies is presented below:

	2018	2019
Total assets	65,296	72,747
Total liabilities	-58,205	-65,354
Net asset	**7,091**	**7,393**

The changes in investments in associates can be presented as follows:

	Cost method	
	2018	2019
Balance at 1 January	**644**	**595**
Decrease in share	-49	-
Balance at 31 December	**595**	**595**

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

21. OTHER ASSETS

	2018	2019
Acquired tangible assets	4,199	4,614
Authorized exchange office receivables	2,078	2,484
Domestic transactions receivables	978	1,196
Fees and commission receivables	3,096	3,609
Consumables	286	303
Western union receivables	106	92
Paid in advance expenses	644	676
Receivables from employees	187	198
Inventories	189	245
VAT receivables	1	1
Other assets	1,133	1,071
Total other assets before impairment losses	12,897	14,489
Less: Impairment losses	-6,891	-7,561
Net other asssets	6,006	6,928

22. DEPOSITS FROM BANKS

	2018	2019
Overnight deposits	2,292	2,288
Term deposits	134,513	134,615
Deposits from banks	**136,805**	**136,903**

23. BORROWINGS

	2018	2019
European Investment Bank (EIB) – average weighted interest rate per drawn instalment is 1,522%	29,562	20,297
European Bank for Reconstruction and Development (EBRD) – weighted average interest rate 1,344% p.a.	17,872	20,868
Liabilities for long-term loans – subordinated debt Steiermarkiche bank und Sparkassen AG, maturity on 29 March 2027 at the rate of 3,9%	9,879	9,879
Total	**57,313**	**51,044**

Expected Maturity:

	2018	2019
- no more than 12 months after the reporting period	11,805	7,004
- more than 12 months after the reporting period	45,508	44,040
Total	**57,313**	**51,044**

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

24. DEPOSITS FROM CUSTOMERS

	2018	2019
Overnight deposits	**564,814**	**602,025**
Transaction accounts	**564,814**	**602,025**
General governments	47,075	41,273
Other financial corporations	13,007	12,509
Non-financial corporations	230,695	205,516
Households	274,037	342,727
Term deposits	**488,054**	**546,841**
Deposits with agreed maturity	**488,054**	**546,841**
Savings deposits	**475,850**	**536,109**
Other financial corporations	56,462	54,254
Non-financial corporations	108,644	134,947
Households	310,744	346,908
Transaction accounts	**12,204**	**10,732**
General governments	12,204	10,732
Deposits from customers	**1,052,868**	**1,148,866**
General governments	59,279	52,005
Other financial corporations	69,469	66,763
Non-financial corporations	339,339	340,464
Households	584,781	689,634

Weighted interest rates on deposits remained on the same level as previous year, and at the end of 2019 they amounted to 0,03% p.a., while interest rates on short-term deposits had a decreasing trend from 1,32% (2018) to 1,27% (2019). Most significant decrease of of interest rated compared to previous years have been recorded in deposits from Governments from 0,54% in 2018 to 0,43% in 2019, and from other non-financial companies from 1,03% in 2018 to 0,91% in 2019.

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

25. PROVISIONS

	2018	2019
Long-term employee provisions	**981**	**1,006**
Pending legal issues and tax litigation	**1,189**	**1,283**
Commitments and guarantees given	**3,935**	**1,070**
Allowance for credit losses for commitments and financial guarantees in Stage 1	3,498	813
Allowance for credit losses for commitments and financial guarantees in Stage 2	401	234
Allowance for credit losses for commitments and financial guarantees in Stage 3	36	23
Other provisions	-	2,461
Provisions	**6,105**	**5,820**

Long-term provisions for employees

	2018	2019
Present value of long-term provisions for employee benefits, 01 January	**797**	**981**
Cost of services (Note 10)	176	48
Payments	8	-23
Present value of long-term provisions for employee benefits, December 31	**981**	**1,006**
Provisions covered by provisions	981	1,006
Provisions on December 31st	**981**	**1,006**

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

25. PROVISIONS (CONTINUED)

Provisions for irrevocable credit commitments and financial guarantees

	From	Increase	Derecognition	Transfer between stages	Other changes in credit risk (net)	Others	To
	1.1.2019						**31.12.2019**
Stage 1	3,498	3,110	-2,128	-154	-2,065	-1,448	813
Stage 2	401	-	-413	401	-38	-117	234
Default status	36	-	-209	118	974	-896	23
Total	**3,935**	**3,110**	**-2,750**	**365**	**-1,129**	**-2,461**	**1,070**

	From	Increase	Derecognition	Transfer between stages	Other changes in credit risk (net)	Others	To
	1.1.2018						**31.12.2018**
Stage 1	3,124	4,213	-2,363	122	-1,483	-116	3,497
Stage 2	397	-	-384	-205	389	206	403
Default status	21	-	-10	3	24	-3	35
Total	**3,542**	**4,213**	**-2,757**	**-80**	**-1,070**	**87**	**3,935**

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

25. PROVISIONS (CONTINUED)

Other provisions (except long-term provisions for employees)

	From	Increase	Derecognition	Transfer between stages	Other changes in credit risk (net)	Others	To
	1.1.2019						**31.12.2019**
Pending Legal proceedings	1,189	217	-	-123	-	-	1,283
Commitments and guarantees given outside IFRS 9	-	380	-	-	-	2,081	2,461
Total	**1,189**	**598**	-	**-123**	-	**2,081**	**3,745**

	From	Increase	Derecognition	Transfer between stages	Other changes in credit risk (net)	Others	To
	1.1.2018						**31.12.2018**
Pending Legal proceedings	1,040	172	-13	-10	-	-	1,189
Commitments and guarantees given outside IFRS 9	434	-	-	-	-	-434	-
Total	**1,474**	**172**	**-13**	**-10**	-	**-434**	**1,189**

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

25. PROVISIONS (CONTINUED)

Contingencies and commitments

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, letters of credit and undrawn loan commitments.

	2018	2019
Granted but undrawn loans	152,186	172,533
Performance guarantees	67,186	89,178
Payment guarantees	41,817	41,318
Acreditives	1,012	2,031
Total	**262,201**	**305,060**

As of 31 December 2019, the provisions for employee benefits represent unused vacation days and severance and retirement severance payments, and were determined using the projected credit unit. In order to make actuarial estimates, following assumptions were used:

- Demographic assumptions on future characteristics of employees (mortality, employee fluctuation rate):
  - Average mortality rate 0,96% (2018: 0,96%)
  - Average fluctuation rate 1,45% (2018: 1,07%)
- Financial assumptions (discount rate, wage levels, expected wage growth):
  - Discount rate 4,0% (2018: 5,0%)
  - Expected wage growth rate of 1,0% (wage growth rate is determined compared to the movements of average salaries in FBiH and RS, movement of salaries in the Bank and Bank's expectations about salaries in the future period. There were no changes in this assumption compared to the previous year).

26. OTHER LIABILITIES

	2018	2019
Liabilities towards suppliers	3,478	3,253
Liabilities towards employees	1,829	1,814
Liabilities for taxes	117	168
Liabilities for unallocated payments	382	207
Deferred income and accrued expenses	510	603
Card business obligations	277	699
Operational risk commitments	648	610
Liabilities to banks	507	803
Other liabilities	3,724	3,817
Total	**11,472**	**11,974**

27. SHARE CAPITAL

Shareholding structure as at 31 December 2019 and 2018 was as follows:

	No, of shares	**Amount in KM '000**	**%**	**No, of shares**	**Amount in KM '000**	**%**
Steiermarkische Bank und Sparkassen AG, Graz, Austrija	864,733	86,473	100	864,733	86,473	100
Total paid capital	**864,733**	**86,473**	**100**	**864,733**	**86,473**	**100**

Share capital is made up of 864,733 ordinary shares at nominal value of KM 100.

Share premium represents accumulated positive difference between nominal value and amount received for issued shares.

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

28. RELATED PARTY TRANSACTIONS

In the normal course of business a number of banking transactions are entered into with related parties, These transactions were carried out on commercial terms and conditions and at market rates,

Transactions with the Owner

	2018		2019	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Steiermarkische Bank und Sparkassen AG, Graz, Austrija	7,539	164,182	2,940	157,782
Total	**7,539**	**164,182**	**2,940**	**157,782**

	2018		2019	
	Income	**Expense**	**Income**	**Expense**
Steiermarkische Bank und Sparkassen AG, Graz, Austrija	-	3,416	1	3,097
Total	**-**	**3,416**	**1**	**3,097**

Transactions with other related parties

	2018		2019	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Erste Bank der Oesterreichischen Sparkassen AG Beč, Austrija	18,732	5,397	15,012	828
Erste and Steiermarkische bank d,d, Zagreb, Hrvatska	6,711	71	2,873	75
Sparkasse Bank a,d, Skoplje, Makedonija	163	-	4,109	-
Sparkasse Leasing d,o,o, Sarajevo, BiH	3	1,125	-	1,628
Total	**25,609**	**6,593**	**21,994**	**2,531**

	2018		2019	
	Income	**Expense**	**Income**	**Expense**
Sparkasse Leasing d,o,o, Sarajevo, BiH	57	-	460	-
Erste and Steiermarkische bank d,d, Zagreb, Hrvatska	25	18	26	9
Erste Bank der Oesterreichischen Sparkassen AG Beč, Austrija	56	176	86	176
Sparkasse Bank a,d, Skoplje, Makedonija	1	-	-	-
Erste Group Card Processor d,o,o, (vm,MBU)	-	831	-	891
S IT Solutions AT Spardat GmBH Beč, Austrija	-	792	-	761
S IT Solutions HR d,o,o, Bjelovar, Hrvatska	-	68	-	68
Total	**139**	**1,885**	**572**	**1,905**

Management remunerations

The remunerations of Management Board and other members of key management were as follows:

	2018	2019
Gross salaries	985	985
Other benefits	81	109
Fees to Supervisory Board members	29	37
Total	**1,095**	**1,131**

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

29. MANAGED FUNDS

The funds managed by the Bank, where the Bank acts as a commissioner on behalf of individuals, trusts and other institutions, are not Banks funds, and therefore are not included in its balance sheet.

It the table below are shown the funds managed by the Bank in and for the name of its clients:

	2018	2019
Loans		
Corporate	15,547	14,304
Individuals	2,621	2,490
	18,168	**16,794**
Financing sources		
Employment agency of Federation of Bosnia and Herzegovina	16,230	14,957
Ministry of war military invalids of Zenica–Doboj Canton	514	433
Bosnian-Podrinje Canton Government	799	799
International guarantee agency – IGA	326	326
Zenica-Doboj Canton Government	62	46
Employment agency of Zenica-doboj Canton	118	114
Lutheran World Federation	73	73
Housing fund of Unsko-Sanski Canton	25	25
Employment agency of Bosnian-Podrinje Canton	21	21
	18,168	**16,794**
Liability, net	-	-

The Bank does not bear any risk in regard to this placement, and for its services charges a fee. Liabilities from commissioner business are invested in loans to companies and individuals on behalf of third parties.

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

30. REGULATORY CAPITAL AND CAPITAL REQUIREMENTS

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:

	2018	2019
Debt	1,265,357	1,356,933
Equity	197,430	223,340
Debt to capital ratio	6,41	6,08

Capital adequacy and the use of net capital are monitored 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.

The Bank, through its reporting, conducts regular monitoring of capital, achieved rate of adequacy as well as the impact of all methodological changes that have an impact on capital.

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

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

Supplementary capital consists of general impairment allowances for credit risk, calculated as 1,25% of the risk-weighted exposure amount, less any missing credit loss allowances based on the regulatory requirement. Missing credit loss allowances are calculated in accordance with FBA regulations. Bank calculates credit loss allowances by FBA methodology for each contract. A positive difference is shown as missing credit loss allowances.

The minimum required capital rates are as follows:

- regular basic capital rate 6,75%
- basic capital rate 9%
- regulatory capital rate 12%

In addition to the statutory minimum adequacy rate, the Bank is also required to provide a hedging layer for capital preservation that must be maintained in the form of regular basic capital in the amount of 2,5% of the total amount of risk exposure.

The total weighted risk used to calculate capital adequacy includes:

- the risk of weighted assets and credit equivalents,
- position, currency, commodity risk, and
- operating risk.

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

30. REGULATORY CAPITAL AND CAPITAL REQUIREMENTS (CONTINUED)

As of 31 December 2019 and 2018 the Bank complied with all of the externally imposed capital requirements to which it was subject. As of 31 December 2019 the adequacy of the Bank's capital amounts to 17,0% (2018: 16,5%).

	2018	2019
Tier 1 capital		
Paid up capital instruments	86,473	86,473
Share premium	3,000	3,000
Other reserves	45,205	45,205
Retained earnings	40,356	61,271
Accumulated other comprehensive income	1,364	3,904
(-) Other intangible assets	-3,745	-3,582
(-) Deductible deferred tax assets that rely on future profitability and arise from temporary differences	-1,244	-1,056
(-) CET1 instruments of financial sector entities where the institution has a significant investment	-607	-595
CET1 capital elements or deductions - other	-1,076	-5,406
Total Tier 1 capital	**169,726**	**189,214**
Tier 2 capital		
SA General credit risk adjustments	11,111	12,162
Paid up capital instruments and subordinated loans	9,779	9,779
T2 capital elements or deductions - other	-20,890	-21,941
Tier 2 capital	-	-
Regulatory capital	**169,726**	**189,214**
Risk weighted exposure amounts for credit risks (unaudited)	888,870	972,993
Risk exposure amount for position, foreign exchange and commodities risks (unaudited)	25,686	20,730
Risk exposure amount for operational risk (unaudited)	115,575	119,463
Total Risk Weighted asset	**1,030,131**	**1,113,186**
Total capital ratio (%)*	**16,5**	**17,0**

*Amounts of capital and other balance sheet positions in the table above are calculated in accordance with regulations of the Banking Agency of FBiH

New regulatory decision on credit risk management implemented as of January 1, 2020

On June 2019, the Banking Agency of the Federation of Bosnia and Herzegovina made a new decision on credit risk management, which, starting from January 1, 2020, will lead to changes that have an immediate financial impact (balance sheet / income statement) on the Bank.

The requirements of the new regulatory decision represent a significant change from IFRS 9 because this decision introduces minimum regulatory rates for expected credit losses where the Bank may apply more stringent or favorable rates, depending on the compliance of the Bank's calculation and validation process with the regulatory guidelines. Starting from January 1, 2020, the Bank applied stricter minimum rates, which compared to December 31, 2019, resulted in an additional impairment loss for expected credit losses of KM 13,9 million, most of which Stage 3 - 8,01 million KM, Stage 1 - 5,02 million KM.

Estimates show that the transition to the new standard has significant effects on the Bank's total assets and capital (a decrease of KM 13,9 million).

30. REGULATORY CAPITAL AND CAPITAL REQUIREMENTS (CONTINUED)

New regulatory decision on credit risk management implemented as of January 1, 2020 (continued)

The carrying out of the accounting write-down / bookkeeping prescribed by the same decision, relating to the transfer in exposures where 100% impairment was recorded after the expiry of 2 years, had a negative effect on the Bank's off-balance sheet and caused a decrease in the Bank's total gross loan portfolio by 15,6 million KM.

31. RISK MANAGEMENT

a) Risk management policies and strategies

A key function of each bank is to consciously and selectively take risks and professionally manage such risks. Proactive risk management policy and strategy The Bank aims to establish a balanced ratio of assumed risks and returns in order to achieve sustainable and adequate returns on equity.

The Bank uses risk management and control functions that are proactive and tailored to their business profile and risk profile, based on a clear risk-taking strategy that is consistent with the Group's business strategy and focused on the early identification and management of risks and trends. In addition to meeting the internal objectives of effective and efficient risk management, risk management structures and control functions of the Bank have been developed to meet external and regulatory requirements.

In accordance with the Bank's business strategy, the key risks are credit, market, operational and liquidity risk. The Bank also focuses on managing macroeconomic risk as well as concentrations within and between different types of risk.

b) Credit risk management

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

The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Board, provided by reports from Risk management department.

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 the value of any collateral obtained.

Credit risk classification (internal rating)

The purpose of the internal rating is to ensure a correct presentation of credit risk in the Bank's portfolio and to ensure fulfilment of Basel II criteria, Internal rating plays a key role in the process of managing credit risk and making decisions. Rating is an important input for risk provisions, risk price, capital management and credit decision, Internal rating is a prerequisite for any credit request and / or approval.

All rating relevant clients and client groups (i.e. all debtors with debt or debt ratio in relation to relevant exposure to risks and losses) must be assessed.

31. RISK MANAGEMENT

b) Credit risk management (Continued)

The calculation of impairment on credit losses is carried out on a monthly basis, at the exposure level / asset level, in the exposure currency. To calculate the loss reserve, an expected credit loss (ECL) model is based on a three-stage approach that leads to a 12-month ECL or lifetime ECL.

A step-by-step approach means that if financial assets are not recognized as purchased or generated credit impaired financial assets (POCIs), i.e. financial assets impaired on initial recognition, then depending on the status of impairment and the estimate of credit risk increases, financial assets are allocated to one of the following stages:

1) Stage 1 includes:

a) Financial assets at initial recognition, except:

i) POCI assets

(ii) Assets whose initial recognition was initially induced by the obligatory credit obligations given to the other counterparty for which there was a significant deterioration in the credit status since initial recognition of that credit obligation, but which is not in default at the time of such first use

b) Financial assets that meet the requirements of low credit risk

c) Financial assets without significant credit risk increases from initial recognition regardless of its credit quality.

At Stage 1 credit risk loss allowances are calculated as a 12-month expected credit loss.

2) Stage 2 includes financial assets with a significant increase in credit risk but not impaired at the reporting date, including initial recognition of assets under 1) a) and ii) above.

At Stage 2 credit risk loss allowances are calculated as lifetime credit loss.

3) Stage 3 includes financial assets that are credit impaired on the reporting date, In the third stage of the credit loss reserve, they are calculated as the lifetime credit loss. Impairment is defined as the occurrence of one or more events that have a detrimental effect on the estimated future cash flows of a financial asset. All events included in the definition of credit impaired are considered in the definition of default used in the Bank.

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Definition of default and recovery status

The following default definition is applied in the Bank: Default is when one or both of the following events occur:

- The client is late for more than 90 days with any material loan liability, or
- It is considered unrealistic that the client will pay his credit liabilities in full without collateral realization.

When a client defaults, this means that his financial instrument has been credit impaired, i.e. in the status of default, and assigned the internal rating "R" on that occasion. This further means that all default client's financial instruments are credit impaired. If the client is upgraded to a non-default rating, then all of their financial assets will no longer be credit impaired.

The materiality of the due loan liability is assessed according to the threshold, which is defined by the relevant regulatory bodies. This threshold reflects the level of risk the competent authority considers reasonable.

PD assessment process

The process of PD assessment is done depending on the available data and the adequacy of data for a particular portfolio. Accordingly, the assessment of lifetime PDs is applied on the basis of the methodological concept of the parent group.

For the portfolio of legal entities, the method of analysing the average default rate is used. This method is based on counting all migrations from each default rating to default / non-default over a given period. The estimate of PDs for individuals is based on the calibration of the external marginal PD curve on a one-year PD of the given portfolio.

EAD

EAD, Exposure at Default, is the total exposure (amount) that is subject to credit risk provisions in accordance with IFRS 9. The Bank's EAD calculation differs in the balance sheet and off-balance sheet. Generally, gross amortized cost (GCA) and potential future exposure are taken into account, which is the best estimate of the expenditure required in relation to the unconditional commitment of future borrowing or other off-balance items such as guarantees / letters of credit. Potential future exposure is estimated using a credit conversion factor (CCF), which can be defined as an indicator of utilization for off-balance sheet items such as guarantees, letters of credit and credit line instrument features (eg current debit or credit card), which is the uncertainty of the amount which is recognized as off-balance sheet reserve, which deals with various assets in accordance with the circumstances.

In assessing potential future exposure, the Bank estimates the time and amount of potential cash outflows. Where the effect of the time value of money is significant, the amount of the provisioning should be the present value of the costs that are expected to be required to settle the obligation.

The assessment of potential future exposure is differentiated for part of the portfolio that takes into account the expected cash flows from the repayment plan and that part of the portfolios for which it is not applicable.

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

LGD

A Loss Given Default (LGD) parameter describes the percentage of outstanding liabilities at the moment of default (EAD) in case of non-payment. The general approach is to estimate the Loss Given Default (LGD) parameter based on a migration matrix recovery indicator. The LGD used by the Bank to calculate impairment losses on loans and other receivables is basically based on an overdue twelve-month LGD.

Grouping of financial assets measured on collective approach basis

The grouping of financial assets measured on collective approach basis is applied in the following cases:

- Where there is no objective evidence of impairment or
- When there is evidence of impairment, but exposure is not individually material.

Grouping of financial assets measured on individual approach basis

The grouping of financial assets measured on individual approach basis is made based on of valid regulatory guidelines that define the materiality threshold for exposures that are considered individually material.

In the case of Sparkasse Bank d,d, BiH, this threshold is KM 150,000,00, Individually material exposure is individually tested for objective evidence of impairment.

Methodology for POCI

POCI assets are not part of the transfer in Stages regardless of the change in the client's credit risk after initial recognition of POCI assets, POCI assets are subject to expected lifetime credit losses from initial recognition to full derecognition. Further, expected lifletime credit losses, expected on the date of initial recognition of POCI assets, must be taken into account when calculating the fair value of the asset at that date and are not recognized as provisions for credit losses (while subsequent changes to those initial expectations only result in recognition of the provision for impairment losses only if it results in lower expectations compared to the start date, while those that result in better expectations than the recognition date are recognized as an increase in the gross book value of POCI assets). For all these reasons, POCI is defined as a “Stage” per se, as POCI assets have never fully behaved either as Stage 3 assets or as Stage 2 or 1 assets, regardless of changes in client’s credit risk after initial recognition.

Significant increase of credit risk (SICR)

The Bank based its estimate of significant increase in credit risk based on a regular monthly assessment of qualitative and/or quantitative indicators of creditworthiness of the client. Qualitative elements include indicators that are the result of a regular customer tracking process through the EWS system as well as other elements (e.g. days overdue) and data available to the Bank. Quantitative elements relies on monitoring the absolute and relative change in the probability of default of a customer in relation to the date of initial recognition of a particular financial placement.

Credit exposure

Credit exposure includes all financial instruments in Bank's portfolio except for cash in the register and Central Bank BH account balances.

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

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Reconciliation between the gross carrying amount and the carrying amount of the credit risk exposure components

2019	Credit risk exposure	Credit loss allowances	Adjustments	Net carrying amount
Cash and cash balances - demand deposits to credit institutions	**21,846**	**-37**	**-**	**21,809**
Non-trading debt instruments at FVPL	**-**	**-**	**-**	**-**
Debt instruments at FVOCI	**155,873**	**-962**	**3,306**	**159,179**
Debt securities	155,873	-962	3,306	159,179
Debt instruments at AC	**1,200,942**	**-79,331**	**-**	**1,121,611**
Loans and advances to banks	73,992	-97	-	73,895
Loans and advances to customers	1,126,950	-79,234	-	1,047,716
Off balance-sheet exposures	**305,060**	**-3,531**	**-**	**-**
Total	**1,683,721**	**-83,860**	**3,306**	**1,302,599**

2018	Credit risk exposure	Credit loss allowances	Adjustments	Net carrying amount
Cash and cash balances - demand deposits to credit institutions	**37,887**	**-43**	**-**	**37,844**
Non-trading debt instruments at FVPL	**1**	**-**	**-**	**1**
Debt instruments at FVOCI	**122,827**	**-855**	**721**	**123,547**
Debt securities	122,827	-855	721	123,547
Debt instruments at AC	**1,089,940**	**-85,493**	**-**	**1,004,447**
Loans and advances to banks	35,754	-27	-	35,727
Loans and advances to customers	1,054,186	-85,466	-	968,720
Off balance-sheet exposures	**262,201**	**-3,935**	**-**	**-**
Total	**1,512,856**	**-90,326**	**721**	**1,165,839**

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

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by counterparty sector and financial instrument

2019	Cash and cash balances – demand deposits to credit institutions	Non-trading debt instruments at FVTPL	Debt instruments at FVTOCI	At amortised cost		Trade and other receivables	Off-balance sheet exposures	Total
				Loans and advances to banks	Loans and advances to customers			
General governments	-	-	155,873	-	1,552	-	5,514	162,938
Credit institutions	21,846	-	-	73,992	-	9	4,037	99,885
Other financial corporations	-	-	-	-	3,710	-	1,232	4,942
Non-financial corporations	-	-	-	-	546,915	14,601	266,148	827,664
Households	-	-	-	-	560,110	53	28,129	588,292
TOTAL	**21,846**	-	**155,873**	**73,992**	**1,112,287**	**14,663**	**305,060**	**1,683,721**

2018	Cash and cash balances – demand deposits to credit institutions	Non-trading debt instruments at FVTPL	Debt instruments at FVTOCI	At amortised cost		Trade and other receivables	Off-balance sheet exposures	Total
				Loans and advances to banks	Loans and advances to customers			
General governments	-	-	122,827	-	584	-	828	124,239
Credit institutions	37,887	1	-	35,754	-	4	3,183	76,829
Other financial corporations	-	-	-	-	5,543	-	1,501	7,044
Non-financial corporations	-	-	-	-	522,050	5,787	231,349	759,185
Households	-	-	-	-	520,218	-	25,340	545,558
TOTAL	**37,887**	**1**	**122,827**	**35,754**	**1,048,395**	**5,791**	**262,201**	**1,512,856**

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

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by industry and financial instrument

2019	Cash and cash balances – demand deposits to credit institutions	Non-trading debt instruments at FVTPL	Debt instruments at FVOCI	At amortised cost		Trade and other receivables	Off balance-sheet exposures	Total
				Loans and advances to banks	Loans and advances to customers			
Agriculture and forestry	-	-	-	-	5,299	41	870	6,210
Mining	-	-	-	-	12,562	887	708	14,157
Manufacturing	-	-	-	-	154,273	2,483	57,538	214,294
Energy and water supply	-	-	-	-	9,344	183	3,941	13,468
Construction	-	-	-	-	61,469	4,732	62,436	128,637
Trade	-	-	-	-	218,690	6,289	98,471	323,450
Transport and communication	-	-	-	-	52,431	39	32,156	84,626
Hotels and restaurants	-	-	-	-	12,094	-	421	12,515
Financial and insurance services	21,846	-	-	73,991	3,747	9	5,586	105,179
Real estate and housing	-	-	-	-	9,862	-	-	9,862
Services	-	-	-	-	17,418	-	9,580	26,998
Public administration	-	-	155,873	-	1,558	-	5,500	162,931
Education, health and art	-	-	-	-	3,371	-	758	4,129
Private households	-	-	-	-	550,170	-	27,095	577,265
Other	-	-	-	-	-	-	-	-
Total	**21,846**	-	**155,873**	**73,991**	**1,112,286**	**14,663**	**305,060**	**1,683,721**

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

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by industry and financial instrument

2018	Cash and cash balances – demand deposits to credit institutions	Non-trading debt instruments at FVTPL	Debt instruments at FVOCI	At amortised cost		Trade and other receivables	Off balance-sheet exposures	Total
				Loans and advances to banks	Loans and advances to customers			
Agriculture and forestry	-	-	-	-	5,771	-	530	6,301
Mining	-	-	-	-	3,506	-	341	3,847
Manufacturing	-	-	-	-	150,340	1,243	45,851	197,434
Energy and water supply	-	-	-	-	12,944	-	5,553	18,497
Construction	-	-	-	-	46,581	1,803	62,293	110,677
Trade	-	-	-	-	241,470	2,701	80,385	324,556
Transport and communication	-	-	-	-	41,228	39	26,577	67,844
Hotels and restaurants	-	-	-	-	7,125	-	684	7,809
Financial and insurance services	37,887	1	-	35,754	6,049	4	6,703	86,398
Real estate and housing	-	-	-	-	5,876	-	227	6,103
Services	-	-	-	-	11,530	-	7,477	19,007
Public administration	-	-	122,827	-	119	-	-	122,946
Education, health and art	-	-	-	-	4,852	-	1,029	5,881
Private households	-	-	-	-	510,588	-	24,551	535,139
Other	-	-	-	-	417	-	-	417
Total	**37,887**	**1**	**122,827**	**35,754**	**1,048,396**	**5,790**	**262,201**	**1,512,856**

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

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by industry and IFRS 9 treatment

2019	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
Agriculture and forestry	5,205	36	500	-	5,741	469	6,210
Mining	12,027	1,139	611	35	13,812	344	14,157
Manufacturing	167,336	6,298	7,772	231	181,637	32,657	214,294
Energy and water supply	10,359	120	192	-	10,671	2,798	13,468
Construction	64,053	3,430	3,741	-	71,224	57,413	128,637
Trade	222,832	6,713	17,507	557	247,609	75,841	323,450
Transport and communication	53,423	2,389	4,064	73	59,949	24,677	84,626
Hotels and restaurants	10,548	1,316	392	-	12,256	259	12,515
Financial and insurance services	99,630	-	280	-	99,910	5,269	105,179
Real estate and housing	7,212	1,142	1,508	-	9,862	-	9,862
Services	15,133	2,108	1,557	-	18,798	8,200	26,998
Public administration	162,931	-	-	-	162,931	-	162,931
Education, health and art	3,763	111	63	10	3,947	182	4,129
Private households	512,118	27,366	37,410	371	577,265	-	577,265
Total	**1,346,570**	**52,168**	**75,597**	**1,277**	**1,475,612**	**208,109**	**1,683,721**

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

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by industry and IFRS 9 treatment (Continued)

2018	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
Agriculture and forestry	5,489	232	557	24	6,301	-	6,301
Mining	3,040	-	617	190	3,847	-	3,847
Manufacturing	176,059	11,583	8,231	1,561	197,434	-	197,434
Energy and water supply	17,659	161	194	483	18,497	-	18,497
Construction	98,210	6,156	6,311	0	110,677	-	110,677
Trade	283,201	19,346	15,041	6,969	324,556	-	324,556
Transport and communication	60,451	3,760	3,504	129	67,844	-	67,844
Hotels and restaurants	6,545	624	640	-	7,809	-	7,809
Financial and insurance services	86,077	5	315	-	86,397	1	86,398
Real estate and housing	3,188	1,406	1,508	-	6,103	-	6,103
Services	15,499	2,526	982	-	19,007	-	19,007
Public administration	122,946	-	-	-	122,946	-	122,946
Education, health and art	4,913	705	63	200	5,881	-	5,881
Private households	489,521	11,071	34,302	245	535,139	-	535,139
Others	-	-	417	-	417	-	417
Total	**1,372,798**	**57,575**	**72,681**	**9,801**	**1,512,855**	**1**	**1,512,856**

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

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by risk category

	Low Risk	Management attention	Substandard	Non-performing	Total
Credit risk exposure December 2019	1,407,072	186,629	11,695	78,324	**1,683,721**
Share of credit risk exposure	83,60%	11,10%	0,70%	4,70%	**100,00%**
Credit risk exposure December 2018	1,246,149	170,029	13,873	82,803	**1,512,854**
Share of credit risk exposure	82,40%	11,20%	0,90%	5,50%	**100,00%**

Credit risk exposure by region and risk category

2019	Low Risk	Management attention	Substandard	Non-performing	Total
Erste Grupe market	**58,502**	**-**	**-**	**-**	**58,502**
Austria	44,269	-	-	-	44,269
Czech Republic	439	-	-	-	439
Croatia	13,789	-	-	-	13,789
Serbia	5	-	-	-	5
Other European Union	**111,658**	**-**	**-**	**-**	**111,658**
Slovenia	18,578	-	-	-	18,578
Other EU Countries	93,080	-	-	-	93,080
Emerging markets	**1,236,913**	**186,629**	**11,695**	**78,324**	**1,513,561**
BiH	1,236,913	186,629	11,695	78,324	1,513,561
Total	**1,407,073**	**186,629**	**11,695**	**78,324**	**1,683,721**

2018	Low Risk	Management attention	Substandard	Non-performing	Total
Erste Grupe market	**74,348**	**-**	**-**	**-**	**74,348**
Austria	52,382	-	-	-	52,382
Czech Republic	-	-	-	-	-
Croatia	21,958	-	-	-	21,958
Serbia	8	-	-	-	8
Other European Union	**53,864**	**-**	**-**	**-**	**53,864**
Slovenia	-	-	-	-	-
Other EU Countries	53,864	-	-	-	53,864
Emerging markets	**1,117,939**	**170,029**	**13,873**	**82,803**	**1,384,644**
BiH	1,117,939	170,029	13,873	82,803	1,384,644
Total	**1,246,151**	**170,029**	**13,873**	**82,803**	**1,512,856**

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

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by region and IFRS 9 treatment

2019	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
Erste Grupe market	**54,465**	-	-	-	**54,465**	**4,037**	**58,502**
Austria	40,671	-	-	-	40,671	3,598	44,269
Czech Republic	-	-	-	-	-	439	439
Croatia	13,789	-	-	-	13,789	-	13,789
Serbia	5	-	-	-	5	-	5
Other European Union	**111,658**	-	-	-	**111,658**	-	**111,658**
Slovenia	18,578	-	-	-	18,578	-	18,578
Other EU Countries	93,080	-	-	-	93,080	-	93,080
Emerging markets	**1,180,447**	**52,168**	**75,597**	**1,277**	**1,309,489**	**204,072**	**1,513,561**
BiH	1,180,447	52,168	75,597	1,277	1,309,489	204,072	1,513,561
Total	**1,346,570**	**52,168**	**75,597**	**1,277**	**1,475,612**	**208,109**	**1,683,721**

2018	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
Erste Grupe market	**74,348**	-	-	-	**74,348**	**1**	**74,348**
Austria	52,382	-	-	-	52,382	1	52,382
Czech Republic	-	-	-	-	-	-	-
Croatia	21,958	-	-	-	21,958	-	21,958
Serbia	8	-	-	-	8	-	8
Other European Union	**53,864**	-	-	-	**53,864**	-	**53,864**
Slovenia	-	-	-	-	-	-	-
Other EU Countries	53,864	-	-	-	53,864	-	53,864
Emerging markets	**1,244,585**	**57,575**	**72,683**	**9,801**	**1,384,644**	-	**1,384,644**
BiH	1,244,585	57,575	72,683	9,801	1,384,644	-	1,384,644
Total	**1,372,797**	**57,575**	**72,683**	**9,801**	**1,512,856**	**1**	**1,512,856**

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

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Credit risk exposure by financial instrument and collateral

2019	Total credit risk exposure	Colaterals total	Collateralised by			Credit risk exposure net of collateral	IFRS9 impairment relevant		
			Guarantees	Real estate	Other		Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
Cash and cash balances - demand deposits to credit institutions	21,847	-	-	-	-	21,847	21,847	-	21,847
Debt instruments - held for trading	-	-	-	-	-	-	-	-	-
Debt instruments at FVOCI	155,873	-	-	-	-	155,873	155,873	-	155,873
Debt instruments at AC	**1,200,942**	**396,965**	**1,665**	**351,398**	**43,902**	**803,977**	1,096,478	27,672	**1,200,942**
Loans and advances to banks	73,992	-	-	-	-	73,992	73,992	-	73,992
Loans and advances to customers	1,126,950	396,965	1,665	351,398	43,902	729,985	1,022,486	27,672	1,126,950
Off balance-sheet exposures	**305,060**	**18,409**	**594**	**15,295**	**2,520**	**286,651**	94,745	2,179	**305,060**
Total	**1,683,721**	**415,374**	**2,259**	**366,693**	**46,422**	**1,268,347**	**1,368,943**	**29,851**	**1,683,721**

2018	Total credit risk exposure	Colaterals total	Collateralised by			Credit risk exposure net of collateral	IFRS9 impairment relevant		
			Guarantees	Real estate	Other		Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
Cash and cash balances - demand deposits to credit institutions	37,887	-	-	-	-	37,887	37,887	-	-
Debt instruments - held for trading	1	-	-	-	-	1	-	-	-
Debt instruments at FVOCI	122,827	-	-	-	-	122,827	122,827	-	-
Debt instruments at AC	**1,089,939**	**359,410**	**49**	**325,156**	**34,205**	**730,529**	984,267	23,351	82,321
Loans and advances to banks	35,754	-	-	-	-	35,754	35,754	-	-
Loans and advances to customers	1,054,185	359,410	49	325,156	34,205	694,775	948,513	23,351	82,321
Off balance-sheet exposures	**262,201**	**17,211**	**400**	**14,288**	**2,523**	**244,991**	255,526	6,634	41
Total	**1,512,854**	**376,621**	**449**	**339,443**	**36,728**	**1,136,234**	**1,400,506**	**29,986**	**82,362**

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

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Information on performing and non-performing exposures

2019	Credit risk exposure	Not past due or Past due <= 30 days	Past due > 30 days <= 90 days	Unlikely to pay that are not past-due or past-due < = 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year <= 5 years	Past due > 5 years
Central banks	151,697	151,697	-	-	-	-	-	-
General governments	1,552	1,552	-	-	-	-	-	-
Credit institutions	95,848	95,848	-	-	-	-	-	-
Other financial corporations	3,710	3,431	-	-	-	-	-	280
Non-financial corporations	561,516	514,359	9,554	3,710	1,501	1,180	11,859	19,354
Households	560,162	517,806	3,183	1,883	2,349	3,303	22,877	8,759
Debt instruments at cost or at amortised cost	**1,374,485**	**1,284,693**	**12,737**	**5,593**	**3,850**	**4,483**	**34,736**	**28,393**
General governments	160,141	160,141	-	-	-	-	-	-
Debt instruments at fair value through other comprehensive income	**160,141**	**160,141**	-	-	-	-	-	-
Contingent credit liabilities	305,060	303,791	-	1,269	-	-	-	-

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

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Information on performing and non-performing impairement

2019	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	Performing exposures - Accumulated impairment and provisions	Unlikely to pay that are not past due or past-due < = 90 days	Past-due > 90 days <= 180 days	Past-due > 180 days <= 1 year	Past-due > 1 year < = 5 year	Past due > 5 years
Central banks	-1,217	-1,217	-	-	-	-	-
General governments	-1	-1	-	-	-	-	-
Credit institutions	-134	-134	-	-	-	-	-
Other financial corporations	-348	-68	-	-	-	-280	-
Non-financial corporations	-40,725	-7,069	-12,293	-933	-287	-19,273	-871
Households	-38,160	-10,160	-16,992	-2,394	-301	-6,644	-1,669
Debt instruments at cost or at amortised cost	**-80,585**	**-18,649**	**-29,285**	**-3,327**	**-588**	**-26,197**	**-2,540**
General governments	-962	-962	-	-	-	-	-
Debt instruments at fair value through other comprehensive income	**-962**	**-962**	-	-	-	-	-
Contingent credit liabilities	-3,531	-2,612	-919	-	-	-	-

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

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Information on performing and non-performing exposures

2018	Credit risk exposure	Not past due or Past due <= 30 days	Past due > 30 days <= 90 days	Unlikely to pay that are not past-due or past-due < = 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year <= 5 years	Past due > 5 years
Central banks	172,178	172,178	-	-	-	-	-	-
General governments	584	584	-	-	-	-	-	-
Credit institutions	73,645	73,645	-	-	-	-	-	-
Other financial corporations	5,543	5,227	-	-	-	-	316	-
Non-financial corporations	527,837	475,951	6,313	3,908	77	2,234	20,850	18,504
Households	520,218	480,873	2,536	2,151	2,505	3,701	21,230	7,222
Debt instruments at cost or at amortised cost	**1,300,005**	**1,208,458**	**8,849**	**6,059**	**2,582**	**5,935**	**42,396**	**25,726**
General governments	124,402	124,402	-	-	-	-	-	-
Debt instruments at fair value through other comprehensive income	**124,402**	**124,402**	-	-	-	-	-	-
Contingent credit liabilities	262,201	262,096	106	-	-	-	-	-

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

31. RISK MANAGEMENT (CONTINUED)

b) Credit risk management (continued)

Information on performing and non-performing exposures (continued)

2018	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	Performing exposures - Accumulated impairment and provisions	Unlikely to pay that are not past due or past-due < = 90 days	Past-due > 90 days <= 180 days	Past-due > 180 days <= 1 year	Past-due > 1 year < = 5 year	Past due > 5 years
Central banks	-1,579	-1,579	-	-	-	-	-
General governments	-19	-19	-	-	-	-	-
Credit institutions	-70	-70	-	-	-	-	-
Other financial corporations	-484	-168	-316	-	-	-	-
Non-financial corporations	-53,027	-11,054	-21,978	-1,889	-166	-17,890	-50
Households	-31,936	-6,106	-15,952	-2,590	-357	-5,100	-1,831
Debt instruments at cost or at amortised cost	**-87,115**	**-18,996**	**-38,246**	**-4,479**	**-523**	**-22,990**	**-1,881**
General governments	-855	-855	-	-	-	-	-
Debt instruments at fair value through other comprehensive income	**-855**	**-855**	-	-	-	-	-
Contingent credit liabilities	-3,935	-3,899	-36	-	-	-	-

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

31. RISK MANAGEMENT (CONTINUED)

c) Market risk management

Market risk is the risk of loss that may arise from adverse changes in market prices and the resulting parameters

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

Currency risk management

The bank is exposed to various types of exchange rate risks. This involves the risk of an open currency position and other risks. An open currency position risk is a risk associated with a mismatch between assets and liabilities in a particular currency or from currency derivatives. This type of risk can arise from client transactions or trading on its own account and is monitored and managed on a daily basis. Exposure to currency risk is limited by regulatory and internal limits. Internal limits are set by the Management Board.

The following table shows the largest open currency positions at December 31, 2018 and December 31, 2019:

	2018	2019
Euro	-17,052	-13,076
American dolar	190	-171
Other	627	-418

Foreign currency sensitivity analysis

The Bank is mainly exposed to EUR, USD and other currencies. 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 other currencies. 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 in currencies different from lender and borrower currencies. A positive number below indicates an increase in profit or other capital where KM strengthens 10% against other relevant currency.. For a 10% weakening of KM against other relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Efekat	
	2018	**2019**
Dobit / (gubitak)	19	19

32. FINANCIAL INSTRUMENTS (CONTINUED)

c) Market risk management

Interest rate risk management

The Bank is exposed to interest rate risk as the Bank is placing and borrowing funds at fixed interest rates. 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 derivative and non-derivative instruments at the reporting period date. For floating rate liabilities, the analysis is prepared assuming the amount of liability 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's net profit for the year ending 31 December 2019 would increase / decrease by KM thousand 5,814 (2018: by KM 3,825 thousand).

d) Liquidity risk management

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

The following table details the rest of Bank's contractual maturities for financial assets. The table is prepared based on nondiscounted financial assets cash flows, including interest for that assets and interest for that asset that will be earned, except for the assets that it is expected for the cash flow to appear in the future period.

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

31. RISK MANAGEMENT (CONTINUED)

d) Liquidity risk management (Continued)

Liquidity and interest risk tables

Maturity for financial assets

	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	1 to 5 years	Over 5 years	Total
2019							
Non-interest bearing	-	131,968	-	-	-	-	131,968
Variable interest rate instruments	3,58%	32,567	7,974	36,155	249,715	18,448	344,859
Fixed interest rate instruments	4,16%	157,570	57,331	264,001	473,069	85,619	1,037,590
		322,105	**65,305**	**300,156**	**722,784**	**104,067**	**1,514,417**
2018							
Non-interest bearing	-	122,488	24	1,003	-	-	123,515
Variable interest rate instruments	2,45%	143,354	8,126	35,732	167,851	155,839	510,902
Fixed interest rate instruments	5,91%	69,381	54,005	249,136	369,740	213,553	955,815
		335,223	**62,155**	**285,871**	**537,591**	**369,392**	**1,590,232**

The following table details the Bank's remaining contractual maturity for its non-derivative financial liabilities. The tables have 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	1 to 5 years	Over 5 years	Total
2019							
Non-interest bearing	-	452,739	-	-	-	-	452,739
Variable interest rate instruments	1,40%	-	15,696	19,949	52,948	-	88,593
Fixed interest rate instruments	1,13%	152,974	62,974	204,485	320,494	8,803	749,730
		605,713	**78,670**	**224,434**	**373,442**	**8,803**	**1,291,062**
2018							
Non-interest bearing	-	477,197	2,141	2,201	6813	4870	493,222
Variable interest rate instruments	1,55%	-	15,705	15,812	66,572	12,968	111,057
Fixed interest rate instruments	0,94%	116,601	124,959	243,657	228,800	7,833	721,850
		593,798	**142,805**	**261,670**	**302,185**	**25,671**	**1,326,129**

The Bank expects to meet other operating cash flow and cash inflow obligations.

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

33. FAIR VALUE MEASUREMENT

This note provides information about how the Bank determines fair values of various financial assets and financial liabilities.

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

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

Financial assets/ financial liabilities	Fair value as at 31 December 2019	Fair value as at 31 December 2018	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets at fair value through other comprehensive income (Note 17,) Non-trading financial assets at fair value through profit or loss (Note 16,)	Listed equity securities in stock exchange in Bosnia and Herzegovina: - Listed equity securities on stock exchanges in other countries: • Belgium –111 thousand KM Listed debt securities in stock exchange in other countries: • Croatia – 9,977 thousand KM (Baa3/BBB) • Austria – 23,498 thousand KM (AA/AA) • Belgium – 15,062 thousand KM (AA/AA) • France – 10,021 thousand KM (AA/AA) • Slovenia - 18,376 thousand KM (AA/AA) Listed debt securities in stock exchange in Bosnia and Herzegovina: • FBiH Ministry of Finance – 40,841 thousand KM (B+) • RS Ministry of Finance – 41,404 thousand KM (B+)	Listed equity securities in stock exchange in Bosnia and Herzegovina: - Listed equity securities on stock exchanges in other countries: • Belgium –111 thousand KM Listed debt securities in stock exchange in other countries: • Croatia – 9,522 thousand KM (Baa3/BBB) • Austria – 23,228 thousand KM (AA/AA) • Belgium – 9,621 thousand KM (AA/AA) • France – 9,702 thousand KM (AA/AA) Listed debt securities in stock exchange in Bosnia and Herzegovina: • FBiH Ministry of Finance – 28,518 thousand KM (B+) • RS Ministry of Finance – 42,956 thousand KM (B+)	Level 1	Quoted bid prices in an active market,

(all amounts are expressed in thousand 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, from period to period (but fair value disclosures are required)

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

	2018,					2019,				
	Book value	Fer value	Quoted market prices in active markets Level 1	Valued according to a model based on available market data Level 2	Valued according to a model based on unavailable data Level 3	Book value	Fer value	Quoted market prices in active markets Level 1	Valued according to a model based on available market data Level 2	Valued according to a model based on unavailable data Level 3
ASSET										
Cash and cash balances	287,121	287,121	-	-	-	248,957	248,957	-	-	-
Financial assets at amortised cost	**1,010,101**	**1,039,804**	-	-	**1,039,804**	**1,136,055**	**1,137,674**	-	-	**1,137,674**
Loans and advances to banks	35,727	35,713	-	-	35,713	73,895	73,903	-	-	73,903
Loans and advances to customers	968,720	998,265	-	-	998,265	1,047,716	1,049,327	-	-	1,049,327
Trade and other receivables	5,654	5,826	-	-	5,826	14,444	14,444	-	-	14,444
LIABILITIES										
Financial liabilities measured at amortised cost	**-1,246,986**	**1,255,058**	-	-	**1,255,058**	**1,336,813**	**1,335,703**	-	-	**1,335,703**
Deposits from banks	-194,118	195,031	-	-	195,031	187,947	189,939	-	-	189,939
Deposits from customers	-1,052,868	1,060,028	-	-	1,060,028	1,148,866	1,145,764	-	-	1,145,764
FINANCIAL GUARANTEES AND COMMITMENTS										
Financial guarantees	-	-	-	-	-	,	-	-	-	-
Irrevocable commitments	-	262,2010825	-	-	262,2010825	,	6,860	-	-	6,860

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

32. FAIR VALUE MEASUREMENT (CONTINUED)

32.2 Fair value of the Bank's non-financial assets and non-financial liabilities

Fair values and fair value hierarchy of non-financial assets

2019	Book value	Fer value	Quoted market prices in active markets Level 1	Model-based on market data observation level 2	Market by model based on observable inputs that are not visible in the market for Level 3
Assets whose value is shown in the notes					
Real estate investment	3,497	3,497	-	-	3,497
Assets whose fair value is shown in the balance sheet					
Held-for-sale assets	-	-	-	-	-

2018	Book value	Fer value	Quoted market prices in active markets Level 1	Model-based on market data observation level 2	Market by model based on observable inputs that are not visible in the market for Level 3
Assets whose value is shown in the notes					
Real estate investment	3,582	3,582	-	-	3,582
Assets whose fair value is shown in the balance sheet					
Held-for-sale assets	-	-	-	-	-

34. EVENTS AFTER THE REPORTING DATE

The rapid development of the Covid-19 epidemic and its social and economic impact in Bosnia and Herzegovina and around the world may lead to the need to change assumptions and estimates, which can result in significant adjustments in the carrying values of assets and liabilities in the next financial year. In particular, the Management expects that the current situation will influence the assumptions and estimates that are used to determine the assets and liabilities that will reflect the current situation and their carrying values. At this point, the Board is unable to reliably assess the impact as the situation changes from day to day.

Long-term impact can also affect the volume of business activities, cash flows, and profitability. Notwithstanding the foregoing, at the date of issue of these financial statements, the Bank continues to operate in a difficult but undisturbed manner and, consequently, prepares financial statements under the going concern assumption.

35. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board of the Bank on 15 April 2020

Sanel Kusturica President of the Management Board	SPARKASSE Bank 100	Amir Softić Member of the Management Board