SPARKASSE BANK DD BIH

Financial statements for the year ended 31 December 2018 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

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

16 May 2019

Deloitte.

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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 the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, and a summary of significant accounting policies and other notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, 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* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters (continued)

Impairment of carrying value of loans and receivables

Key audit matter	How the key audit matter was addressed in the audit
The International Accounting Standards Board (IASB) issued IFRS 9 – "Financial Instruments" which replaces "IAS 39 – Financial Instruments: Recognition and Measurement" as of the date of its effectiveness on 1 January 2018. The key changes arising from adoption of IFRS 9 are that the Bank's credit losses are now based on expected losses rather than an incurred loss model, and the change in the classification and measurement of the Bank's financial assets and liabilities, which are detailed in Note 2. to the financial statements. As at 31 December 2018, the Bank's gross loans and receivables amount to KM 1,053,965 thousand and the related impairment allowances amount to KM 85,464. The policy for impairment of loans and receivables is presented in the accounting policies in Note 2. to the financial statements. The Bank exercises significant judgement using subjective assumptions over both when and how much to record as loan impairment, and estimation of the amount of the impairment allowances for loans and receivables. Because loans and receivables form a major portion of the Bank's assets, and due to the significance of the judgments used in classifying loans and receivables into various stages stipulated in IFRS 9 and determining related impairment requirements, this audit area is considered a key audit risk. Key areas of judgment included: • The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model. • The identification of exposures with a significant deterioration in credit quality. • Assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices). • The need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.	With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following: • We read the Bank's IFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of IFRS 9; • We obtained an understanding and checked the Bank's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are "solely payments of principal and interest" [SPPI test]; and • We checked the appropriateness of the opening balance adjustments. With respect to impairment methodology, our audit procedures comprised the following: • We read the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; • We gained understanding of the Bank's key credit processes comprising granting and monitoring, and tested operating effectiveness of key controls over these processes; • We assessed the design and tested the operating effectiveness of relevant controls over the: a. Data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of date and interfaces to the expected credit loss model. b. Expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy. • For exposures determined to be individually impaired, we tested a sample of loans and receivables and examined management's estimate of future cash flows, assessed their reasonableness and checked the resultant impairment calculations; and • For provision against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Bank's impairment methodology, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the management.

Key audit matters (continued)

1. Impairment of carrying value of loans and receivables

Key audit matter	How the key audit matter was addressed in the audit
	• We checked the appropriateness of the determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages; • For a sample of exposures, we checked the appropriateness of the Bank's staging; • We checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) models used by the Bank to determine impairment allowances; • For forward looking assumptions used by the Bank's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information; • For a sample of exposures, we checked the appropriateness of determining Exposure at Default, including the consideration of prepayments and repayments in the cash flows and the resultant arithmetical calculations; • For Probability of Default (PD) used in the ECL calculations, we checked the Through the Cycle (TTC) PDs calculation and checked the appropriateness of development of PDs at a point in time (PIT); • We checked the calculation of the Loss Given Default (LGD) used by the Bank in the ECL calculations, including the appropriateness of the use of collateral and the resultant arithmetical calculations; • We checked the completeness of loans and receivables, off-balance sheet items, and other financial assets included in the ECL calculations as of 31 December 2018; We understood the theoretical soundness and tested the mathematical integrity of the models; • For data from external sources, we understood the process of choosing such data, its relevance for the Bank, and the controls and governance over such data; • Where relevant, we used information system specialists to gain comfort on data integrity; • We checked consistency of various inputs and assumptions used by the Bank's management to determine impairment provisions; and • We checked the appropriateness of the opening balance adjustments. We assessed the financial statement disclosures arising on adoption of IFRS 9 to determine if they were in accordance with the requirements of the Standard. Refer to the accounting policies, critical accounting estimates and judgements, disclosures of loans and receivables and credit risk management in Notes 2, 3, 4, 23 and 36 to the financial statements.

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 Sabina Softić.

Deloitte d.o.o.

Sead Bahtanović, director and licensed auditor

Sabina Softić, partner and licensed auditor

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16 May 2019

Statement of profit or loss and other comprehensive income
for the year ending 31 December 2018

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

	Notes	2018	2017
Interest and similar income	5	55,361	55,199
Interest and similar expenses	6	(9,739)	(10,883)
Net interest income		**45,622**	**44,316**
Fee and commission income	7	26,297	24,066
Fee and commission expense	8	(5,349)	(4,514)
Net fee and commission income		**20,948**	**19,552**
Foreign exchange gains, net	9	2,311	1,988
Other operating income	10	2,178	2,927
Operating income		**4,489**	**4,915**
Personnel expenses	11	(18,999)	(18,258)
Depreciation and amortization	24, 25	(3,952)	(3,787)
Other administrative expenses	12	(20,014)	(19,264)
Operating expenses		**(42,965)**	**(41,309)**
PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND INCOME TAX		**28,094**	**27,474**
Impairment losses and provisions	13	(3,891)	(4,519)
Other provisions	14	(2,670)	(2,839)
Collected written off receivables		730	1,735
PROFIT BEFORE TAXATION		**22,263**	**21,851**
Income tax	15	(2,760)	(2,009)
NET PROFIT FOR THE YEAR		**19,503**	**19,842**
Other comprehensive income / (loss)			
Net change in fair value of financial assets at FVOCI		834	(215)
Net adjustment of impairment of financial assets at FVOCI		222	-
TOTAL COMPREHENSIVE INCOME		**20,559**	**19,627**
Earnings per share (in KM)	16	**22.55**	**22.95**

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

Statement of financial position
for the year ending 31 December 2018

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

	Notes	31 December 2018	December 2017
ASSETS			
Cash and accounts with other banks	17	203,723	167,023
Obligatory reserve with the Central Bank	18	119,125	111,603
Financial assets at FVTPL	19	111	-
Financial assets available for sale	20	-	100,520
Financial assets at FVOCI	21	123,535	-
Financial assets at amortized cost		968,501	907,147
Placements with other banks	22	-	*22,370*
Loans and advances to customers	23	*968,501*	*884,776*
Investment in associates	24	607	656
Deferred tax assets	15	1,244	653
Other assets	25	5,546	15,536
Prepaid expenses		696	811
Tangible and intangible assets	26	36,333	35,134
Investment property	27	3,582	4,242
		1,463,003	**1,343,324**
EQUITY			
Share capital	33	86,473	86,473
Share premium		3,000	3,000
Regulatory and other reserves		45,205	45,205
Accumulated earnings		41,832	22,856
Revaluation reserves		1,418	(208)
Profit for the year		19,503	19,842
		197,431	**177,168**
LIABILITIES			
Due to other banks	28	136,733	142,613
Due to customers	29	1,052,949	941,466
Borrowings	30	57,313	63,473
Provisions	31	11,591	9,511
Income tax liabilities		798	1,046
Deferred tax liabilities	15	63	203
Other liabilities	32	6,125	7,844
		1,265,572	**1,166,156**
TOTAL LIABILITIES AND EQUITY		**1,463,003**	**1,343,324**

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

Signed for the and in the name of Sparkasse Bank dd BiH on 16 May 2019.

Sanel Kusturica
President of the Management Board

Amir Softić
Member of the Management Board

Statement of cash flows
for the year ending 31 December 2018

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

	2018	2017
Operating activities		
Profit before taxation	**22,263**	**21,851**
Adjustments:		
Depreciation and amortization	3,952	3,787
Impairment losses and provisions	6,561	7,358
Gain on sale of tangible and intangible assets, net	(548)	(611)
Gain on sale of investments in associates, net	-	(361)
Interest income from financial assets available- for-sale, recognized in statement of profit and loss and other comprehensive income	(2,183)	(1,936)
Dividend income recognized in statement of profit and loss and other comprehensive income	(791)	(935)
Cash flow before changes in operating assets and liabilities:	*29,254*	*29,153*
(Increase) / decrease in obligatory reserve with the CBBH, net	(8,624)	1,707
Decrease / (increase) in placements with other banks, before allowance, net	22,370	(17,853)
Increase in loans and advances to customers, before allowance, net	(86,155)	(44,103)
Decrease / (increase) in other assets, before allowance, net	8,253	(11,509)
Decrease in due to other banks, net	(5,880)	(30,211)
Increase in due to customers, net	111,483	149,127
Decrease in provisions, net	(590)	(1,213)
(Decrease) / increase in other liabilities, net	(1,967)	2,906
Cash generated in operating activities	***68,144***	***78,004***
Income tax paid	(2,869)	(2,588)
NET CASH GENERATED IN OPERATING ACTIVITIES	**65,275**	**75,416**
Investing activities		
Purchase of financial assets available-for-sale	(19,263)	(33,933)
Purchase of tangible and intangible assets	(4,680)	(2,704)
Proceeds from disposal of tangible and intangible assets	737	791
Proceeds from sale of investments in associates	-	410
Dividend received	791	935
NET CASH USED IN INVESTING ACTIVITIES	**(22,415)**	**(34,501)**
Financial activities		
Increase of borrowings	(6,160)	14,934
NET CASH (USED) / GENERATED IN FINANCIAL ACTIVITIES	**(6,160)**	**14,934**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**36,700**	**55,849**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**167,023**	**111,174**
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**203,723**	**167,023**

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

Statement on changes in equity
for the year ending 31 December 2018

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

	Share capital	Share premium	Regulatory and other reserves	Accumulated earnings	Revaluation reserves	Profit for the year	Total
31 December 2016	**86,473**	**3,000**	**35,862**	**13,514**	**7**	**18,685**	**157,541**
Allocation of profit for 2016	-	-	9,343	9,342	-	(18,685)	-
Net profit for the year	-	-	-	-	-	19,842	19,842
Other comprehensive loss	-	-	-	-	(215)		(215)
Total comprehensive income	-	-	-	-	*(215)*	*19,842*	*19,627*
31 December 2017	**86,473**	**3,000**	**45,205**	**22,856**	**(208)**	**19,842**	**177,168**
Effects of change of the accounting policy (Note 2)	-	-	-	(866)	570	-	(296)
1 January 2018 – IFRS 9	**86,473**	**3,000**	**45,205**	**21,990**	**362**	**19,842**	**176,872**
Allocation of profit for 2017	-	-	-	19,842	-	(19,842)	-
Net profit for the year	-	-	-	-	-	19,503	19,503
Other comprehensive loss	-	-	-	-	1,056	,	1,056
Total comprehensive income	-	-	-		*1,056*	*19,503*	*20,559*
31 December 2018	**86,473**	**3,000**	**45,205**	**41,832**	**1,418**	**19,503**	**197,431**

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

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 97%. 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.

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

1. GENERAL (CONTINUED)

Managing bodies of the Bank

Supervisory Board:

Gerhard Maier	President since 14 November 2018
	Member until 14 November 2018
Renate Ferlitz	Member
Maximilian Clary und Aldringen	Member since 14 November 2018
Ismeta Čardaković	Independent member since 14 November 2018
	Member until 14 November 2018
Željko Šain	Independent member since 14 November 2018
Sava Dalbokov	President until 14 November 2018
Georg Bucher	Member until 14 November 2018

Management Board:

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

Audit Board:

Sandra Petrcizek-Mahr	President since 10 January 2018
	Member until 10 January 2018
Aida Sivro – Rahimić	Member
Aleksandar Klemenčić	Member
Slaviša Kojić, član	Member
Damir Sokolović	Member since 10 January 2018
Samir Omerhodžić	President until 10 January 2018

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 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

The adoption of these standards, amendments and interpretations has not led to any material changes in the Bank's accounting policies, except for IFRS 9, whose application is explained in detail in Note 2.3.

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 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to 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 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 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 if IFRS 16, which establishes principles for recognition, measurement, presentation and disclosure of leases for both parties, i.e. the buyer ("lessee") and supplier ("lessor"). The Standard requires lessees to account for all leases under a single balance sheet model in a similar way to financing leases in accordance with IAS 17, with certain exceptions. The lessor's accounting remains largely unchanged. According to the estimate, the Bank expects no significant impact of the application of IFRS 16 on the financial statements. The Bank has reviewed the lease contracts and calculated the effects of the first application of the classification of contracts under IFRS 16. The total estimated effect of the right to use assets is KM 2,698 thousand or 0.18% of the total assets of the Bank, and it results in increase of total assets and liabilities of the Bank for the stated amount.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 IFRS 9: "Financial Instruments"

As of 1 January 2018, the Bank has applied the requirements of IFRS 9 'Financial Instruments' replacing IAS 39 'Financial Instruments: Recognition and Measurement'. The application of this standard has led to changes in accounting policies in the area of classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 requirements have also led to significant changes in IFRS 7 'Financial Instruments: Disclosure', whereby disclosure of financial information is adapted to new requirements.

The Standard requires retrospective application (excluding hedge accounting), and presentation of comparable data is not mandatory and the Bank has chosen such an approach. In this way, the comparative figures in the financial statements for 2018 represent the structure used in the financial statements for 2017 and disclosures related to the comparative period include the requirements of IAS 39 in respect of classification, measurement and impairment and IFRS 7 requirements (before the changes brought by IFRS 9). For these reasons, part of the accounting policies pertaining to the scope of financial instruments regulated by IAS 39 are an integral part of the report.

Below are the effects of transition from IAS 39 to IFRS 9.

Classification and measurement of financial instruments

As a basis for the classification of debt assets, a business model of the entity for financial asset management and the contractual characteristics of the cash flow of a financial asset are used. Accordingly, debt instruments should be measured at amortized cost if:

a) a business model of holding financial assets solely for the collection of contractual cash flows,

b) the contractual cash flows exclusively reflect principal and interest payments.

All other debt instruments and equity instruments, including investments in complex credit instruments and debt securities, must be recognized at fair value and presented in profit or loss, other than investments in non-trading equity securities that can be recorded in profit or loss or in the reserve.

The requirements of the new standard in the area of impairment are based on the expected credit loss model and replace the current IAS 39 model of impairment losses. The new expected credit loss model includes three stages of approach, whereby financial assets move through stages as their credit quality changes. In the first stage, the expected loss is calculated for a period of 12 months, and for the next two phases the expected losses are calculated for the entire lifetime of the instrument.

The Bank has evaluated the contractual characteristics of the portfolio and estimates that the entire portfolio of loans granted to customers will be measured at amortized cost and the portfolio of securities at fair value. The estimates show that the transition to the new standard has no significant effects on the impairment allowances in the Bank's balance sheet (the estimated amount is KM 296 thousand, or decrease of total capital for 0.17% compared to the total capital as at 31 December 2017).

The Standard is officially in effect since 1 January 2018, and the effects of the first application are presented through the Bank's equity.

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 IFRS 9: "Financial Instruments" (continued)

The table below presents changes between measurement categories and carrying amounts of financial assets and financial liabilities under IAS 39 and IFRS 9 as at 1 January 2018. For transition illustration purposes, effects are disclosed compared to original balance sheet positions that reflect IAS 39 requirements.

	IAS 39			IFRS 9	
ASSETS	**Measurement category**	**Net amount 31 December 2018**	**Effect of IFRS 9**	**Measurement category**	**Net amount 1 January 2018**
Cash and bank accounts	Amortized cost	167,023	622	Amortized cost	167,645
Obligatory reserve at the Central Bank of BiH	Amortized cost	111,603	-	Amortized cost	111,603
Financial assets available for sale	Fair value through other comprehensive income (available for sale)	100,520	251	Fair value through other comprehensive income (FVOCI for sale)	100,771
			147	Fair value through profit or loss (FVTPL)	147
Loans and advances to clients	Amortized cost	884,776	(484)	Amortized cost	884,292
Placements with other banks	Amortized cost	22,370	-	Amortized cost	22,370
Investments in associates	Cost less impairment	656	-	Cost less impairment	656
Deferred tax assets	Amortized cost	653	419	Amortized cost	1,072
Other assets	Amortized cost	15,536	68	Amortized cost	15,603
Prepaid expenses	Amortized cost	811	-	Amortized cost	811
Tangible and intangible assets	-	35,134	-	-	35,134
Investment property	-	4,242	-	-	4,242
Total assets		**1,343,324**	**1,023**		**1,344,347**
LIABILITIES					
Due to other banks	Amortized cost	142,613	-	Amortized cost	142,613
Due to clients	Amortized cost	941,466	-	Amortized cost	941,466
Borrowings	Amortized cost	63,473	-	Amortized cost	63,473
Provisions	Amortized cost	9,511	1,049	Amortized cost	1,560
Income tax payables	Amortized cost	1,046	473	Amortized cost	1,519
Deferred tax payables	Amortized cost	203	(203)	Amortized cost	-
Other payables	Amortized cost	7,844	-	Amortized cost	7,844
Total liabilities		**1,166,156**	**1,319**		**1,167,475**
EQUITY					
Shareholders' capital	-	86,473	-	-	86,473
Treasury shares	-	3,000	-	-	3,000
Regulatory and other reserves	-	45,205	-	-	45,205
Accumulated earnings	-	22,856	(866)	-	21,990
Revaluation reserves	-	(208)	570	-	362
Profit for the year	-	19,842	-	-	19,842
TOTAL EQUITY	-	**177,168**	**(296)**	-	**176,872**
TOTAL LIABILITIES AND EQUITY	-	**1,343,324**	**1,023**	-	**1,344,347**

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 IFRS 9: "Financial Instruments" (continued)

The table below presents reconciliation of the carrying amounts and reclassification of financial assets as a result of the first application of IFRS as at 1 January 2018.

Financial instruments	As at 31 December 2017 (IAS 39)	Reclassification	Re-measurement	As at 31 December 2018 (IFRS 9)
Cash and bank accounts				
Opening balance under IAS 9	167,023	-	-	-
Subsequent measurement under IFRS 9 (Note 17)	-	-	622	-
Closing balance under IFRS 9	-	-	-	167,645
Obligatory reserve at the Central Bank of BiH				
Opening balance under IAS 9	111,603	-	-	-
Closing balance under IFRS 9	-	-	-	111,603
Placements with other banks				
Opening balance under IAS 9	22,370	-	-	-
Closing balance under IFRS 9	-	-	-	22,370
Loans and advances to clients				
Opening balance under IAS 9	884,776	-	-	-
Subsequent measurement under IFRS 9 (Note 20)	-	-	(484)	-
Closing balance under IFRS 9	-	-	-	884,292
AFS financial assets				
Opening balance under IAS 9	100,520	-	-	-
Closing balance under IFRS 9	-	(100,520)	-	-
Financial assets at FVTPL				
Opening balance under IAS 9	-	-	-	-
Reclassification (Note 19)	-	147	-	-
Closing balance under IFRS 9	-	-	-	147
Financial assets at FVOCI				
Opening balance under IAS 9	-	100,373	-	-
Subsequent measurement under IFRS 9 (Note 21)	-	-	398	-
Closing balance under IFRS 9	-	-	-	100,771
Deferred tax assets				
Opening balance under IAS 9	653	-	-	-
Subsequent measurement under IFRS 9 (Note 15)	-	-	419	-
Closing balance under IFRS 9	-	-	-	1,072
Other assets				
Opening balance under IAS 9	15,732	-	-	-
Subsequent measurement under IFRS 9	-	-	68	-
Closing balance under IFRS 9	-	-	-	15,800
Total	**1,302,677**	**-**	**1,023**	**1,303,700**

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 IFRS 9: "Financial Instruments" (continued)

The table below presents reconciliation of the carrying amounts of financial assets and provisions for off-balance sheet exposures as a result of the first application of IFRS as at 1 January 2018.

Financial liabilities	**As at 31 December 2017 (IAS 39)**	**Reclassification**	**Re-measurement**	**As at 1 January 2018 (IFRS 9)**
Provisions for off-balance				
Opening balance under IAS 9	2,493	-	-	-
Subsequent measurement under IFRS 9 (Note 31)	-	-	1,049	-
Closing balance under IFRS 9	-	-	-	3,542
Income tax liability				
Opening balance under IAS 9	1,046	-	-	-
Subsequent measurement under IFRS 9 (Note 15)	-	-	473	-
Closing balance under IFRS 9	-	-	-	1,519
Deferred tax liabilities				
Opening balance under IAS 9	203	-	-	-
Subsequent measurement under IFRS 9 (Note 15)	-	-	(203)	-
Closing balance under IFRS 9	-	-	-	-
total	**3,742**	**-**	**1,319**	**5,061**

The table below presents reconciliation of the carrying amounts of impairment allowances and provisions for off-balance sheet exposures as a result of the first application of IFRS as at 1 January 2018.

Impairment allowances and provisions

	Impairment under IAS 39 (as at 31 December 2017) in KM 000	**Reclassification**	**Re-measurement (as at 1 January 2018) in KM 000**	**Impairment under IFRS 9**
Cash and accounts at banks	752	-	(622)	130
Loans and advances to clients	84,049	-	5,197	89,246
AFS financial assets	430	(430)	-	-
Financial assets at FVTPL	-	-	-	-
Provisions for off-balance sheet	2,493	-	1,049	3,542
Total	**87,724**	**-**	**5,238**	**92,962**

Effect of the first application of IFRS 9 in the amount of KM 484 thousand on the impairment of given loans and advances to customers is a result of return of suspended interest from off-balance sheet record to the balance sheet record in the total gross carrying amount of KM 4,713 thousand, as well as re-measurement of impairment that resulted in the effect in the amount of KM 5,197 thousand.

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 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.

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.

Under the equity method, investments in associates are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, adjusted for any impairment in the value of individual investments. Losses of an associate in excess of the Bank's interest in that associate which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate are not recognised.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets and liabilities after reassessment is recognised immediately in profit or loss. Where the companies within the Group transact with the Bank, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

Measurement and recognition of investments in separate financial statements

Investments in associates in separate financial statements are stated at cost adjusted for any impairment 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 adjusted for any impairment allowance for credit 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 and other comprehensive income. 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 statement of financial position, 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 and other comprehensive income. Gains and losses on impairment are recognized in the statement of profit or loss and other comprehensive income as "Impairment losses and provisions" while in the statement of financial position are presented through equity (OCI). As a result, the impact on the statement of profit or loss and other comprehensive income 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 statement of profit or loss 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 and other comprehensive income. Gains or losses arising from the derecognition of a financial liability are recognized in the statement of profit or loss and other comprehensive income 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:

- Contractual rights to cash flows of financial assets expire, or
- 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:

- If substantially all the risks and rewards of ownership of the financial asset are transferred, financial assets are derecognised,
- 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 statement of profit or loss and other comprehensive income. 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 and other comprehensive income, 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.

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

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.

As at 31 December 2018, due to change in intended use of investment properties, decrease of tangible assets of the Bank in the amount of KM 665 thousand was recorded, and own buildings were increased.

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 2018	EUR 1 = KM 1.95583	USD 1 = KM 1.707550
31 December 2017	EUR 1 = KM 1.95583	USD 1 = KM 1.630810

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.

Investments revaluation reserve

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

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 2017.

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)

According to the IAS 39 impairment loss model used for the comparative period, the Bank reviewed its financial assets that were not measured at fair value through profit or loss at each statement of financial position date to assess whether the impairment loss should be recorded in the statement of profit or loss and other comprehensive income. This is to determine whether there is objective evidence of impairment as a result of the loss after initial recognition and the estimate of the amount and timing of future cash flows when determining the impairment loss.

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.

Impairment losses on loans and receivables

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

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 29, the Bank has reserved KM 1,189 thousand (2017: KM 1,040 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 37, 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. INTEREST AND SIMILAR INCOME

	2018	2017
Interest on loans to companies	20,857	22,472
Interest on loans to individuals	31,768	30,656
Interest on bond investment	2,519	1,936
Interest on placements with other banks	217	135
	55,361	**55,199**

6. INTEREST AND SIMILAR EXPENSES

	2018	2017
Interest on deposits from individuals	4,731	5,548
Interest on deposits and loans from banks	3,516	3,412
Interest on deposits from companies	1,492	1,923
	9,739	**10,883**

7. FEE AND COMMISSION INCOME

	2018	2017
Fees from payment transactions	22,435	20,546
Fees from off-balance sheet transactions	1,929	1,775
Fees from conversion transactions	1,933	1,745
	26,297	**24,066**

8. FEE AND COMMISSION EXPENSE

	2018	2017
Fees and commissions from payment transactions	4,541	3,702
Other fees from banks	808	812
	5,349	**4,514**

9. FOREIGN EXCHANGE GAINS, NET

	2018	2017
Gain on foreign exchange transactions	504,042	179,488
Loss on foreign exchange transactions	(501,731)	(177,500)
	2,311	**1,988**

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

10. OTHER OPERATING INCOME

	2018	2017
Dividend income – associates (Note 24)	791	935
Rent income	623	512
Gain on disposal of tangible and intangible assets	548	611
Dividend income – financial assets available-for-sale	24	22
Gain on sale of investment in associates	-	361
Other	192	486
	2,178	**2,927**

11. PERSONNEL EXPENSES

The average employee number of the Bank during the year ending 31 December 2018, and year ending 31 December 2017 was 530 and 521 respectively.

	2018	2017
Net salaries	9,913	9,646
Taxes and contributions	7,393	7,105
Other	1,693	1,507
	18,999	**18,258**

12. OTHER ADMINISTRATIVE EXPENSES

	2018	2017
Services	5,677	5,412
Insurance	2,696	2,471
Maintenance	2,211	1,898
Rent	1,828	1,885
Telecommunications	1,218	1,220
Other taxes and contributions	1,115	880
Transport	1,071	1,050
Agency fees	866	774
Energy	775	753
Advertising, marketing and entertainment	722	1,028
Material	595	695
Supervisory Board reimbursement	65	120
Other administrative expenses	1,175	1,078
	20,014	**19,264**

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

13. IMPAIRMENT LOSSES AND PROVISIONS

	2018	2017
Loans and advances to customers (Note 23)	1,844	3,770
Obligatory reserve at the Central Bank (Note 18)	1,102	-
Cash and accounts with other banks (Note 17)	417	211
Provisions for POCI, amortisation of modification and securities	358	-
Financial instruments at FVOCI (Note 21)	222	-
Other assets (Note 25)	(52)	399
Financial instruments available-for-sale (Note 20)	-	229
Placements with other banks (Note 22)	-	(90)
	3,891	**4,519**

14. OTHER PROVISIONS

	2018	2017
Employee benefits (Note 31)	1,522	1,697
Provision for legal proceedings (Note 31)	162	146
Provisions for off-balance (Note 31)	393	(104)
Other provisions (Note 31)	593	1,100
	2,670	**2,839**

15. INCOME TAX

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 2018 and 31 December 2017 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:

Group and Bank	2018	2017
Current income tax – FBiH	2,778	2,568
Current income tax – RS and BD	91	20
Deferred tax assets	(172)	(266)
Deferred tax liabilities	63	(313)
	2,760	**2,009**

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

15. INCOME TAX (CONTINUED)

Reconciliation between income tax presented in tax balance and accounting income tax can be presented as follows:

	2018	2017
Profit before income tax	**22,263**	**21,851**
Income tax expense at prescribed rate of 10%	**2,226**	**2,185**
Capital gain (IFRS 9 effect)	643	-
Non-taxable income	(232)	(247)
Effects of non-deductible expenses	391	731
Other (tax reliefs)	(250)	(101)
Current income tax	**2,778**	**2,568**
Effective income tax rate for the year	**14,60%**	**11,17%**

Movement in deferred tax assets can be presented as follows:

	2018	2017
Balance at 31 December of the previous year	**653**	**387**
Effects of accounting policy change (Note 2)	419	-
Balance at 1 January	**1,072**	-
Increase of tax assets with effect in PL	172	266
Balance at 31 December	**1,244**	**653**

Movement in deferred tax liabilities can be presented as follows:

	2018	2017
Balance at 31 December of the previous year	**203**	**516**
Effects of accounting policy change (Note 2)	(203)	-
Balance at 1 January	-	-
Increase / (decrease) of tax assets with effect in PL	63	(313)
Balance at 31 December	**63**	**203**

16. 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	2017
Profit attributable to shareholders, net	19,503	19,842
Average number of ordinary shares during the year	864,733	864,733
Basic earnings per share (KM)	**22.55**	**22.95**

There were no dilution effects during 2018 and 2017.

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

17. CASH AND ACCOUNTS WITH OTHER BANKS

	31 December 2018	31 December 2017
Cash at hand	78,677	70,218
Correspondent accounts with other banks in foreign currencies	73,642	67,255
Account with the CBBH in domestic currency	51,951	30,302
Total before provisions	**204,270**	**167,775**
Less: Impairment losses	(547)	(752)
	203,723	**167,023**

Impairment losses are related to the cheques and cash on correspondent accounts with other banks in foreign currencies. The movements in the allowance for impairment losses are summarized as follows:

	2018	2017
Balance at 31 December of the previous year	**752**	**541**
Effect of accounting policy change (Note 2)	(622)	-
Balance at 1 January	**130**	**-**
Increase, net (Note 13)	417	211
Balance at 31 December	**547**	**752**

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

	31 December 2018	31 December 2017
Obligatory reserve with the CBBH	120,227	111,603
Less: Impairment	(1,102)	-
	119,125	**111,603**

Changes in impairment can be presented as follows:

	2018	2017
Balance at 1 January	**-**	**-**
Increase, net (Note 13)	1,102	-
Balance at 31 December	**1,102**	**-**

Interest rate on funds kept up to minimum obligatory reserve amounted to 0%. Cash held at the obligatory reserve account with the CBBH is not available for daily operations without specific approval from the CBBH and FBA.

Since 1 July 2016, the new Decision on determining and maintaining obligatory reserves and determining CBBiH fee on the amount of reserves ("Official Gazette of BiH", no. 30/16) is in effect. The Decision determines the unified obligatory reserve rate of 10%, which the CBBiH applies to the basis for calculation of obligatory reserve. On the amount of assets exceeding the obligatory reserve, CBBiH charges fee at the rate equal to 50% of the rate applied by European Central Bank (ECB) on commercial banks' deposits.

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

19. FINANCIAL ASSETS AT FVTPL

	31 December 2018	31 December 2017
Equity securities	111	-
	111	**-**

Investments in equity securities, except for investments in associates, are classified at fair value through profit or loss (FVTPL). Equity instruments were classified in the comparative period as financial instruments available for sale.

20. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	31 December 2018	31 December 2017
Total equity instruments	-	**179**
Governments bonds - Federation Bosnia and Herzegovina and Republika Srpska	-	49,735
Government of Republic of Austria – bonds	-	23,133
Kingdom of Belgium - bonds	-	9,663
Republic of France - bonds	-	9,646
Government of Republic of Croatia – bonds	-	8,594
Total debt securities	**-**	**100,950**
Less: Impairment losses	-	(430)
	-	**100,520**

Interest rate (yield to maturity) on bonds ranged from 0.23% to 6.1% p.a. during 2017.

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

	2018	2017
Balance at 31 December of the previous year	**430**	**-**
Effects of accounting policy change (Note 2)	(430)	-
Balance at 1 January	**-**	**201**
Changes, net (Note 13)	-	229
Balance at 31 December	**-**	**430**

Expected to be recovered:		
- no more than 12 months after the reporting period	-	9,242
- more than 12 months after the reporting period	-	91,708
Less: Impairment	-	(430)
	-	**100,520**

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

21. FINANCIAL ASSETS AT FVOCI

	31 December 2018	31 December 2017
Governments bonds - Federation Bosnia and Herzegovina and Republika Srpska	71,462	-
Government of Republic of Austria – bonds	23,228	-
Republic of France - bonds	9,702	-
Kingdom of Belgium - bonds	9,621	-
Government of Republic of Croatia – bonds	9,522	-
	123,535	**-**

The Bank did not invest in treasury notes in 2018. Interest rate (yield to maturity) on bonds ranged from 0.23% to 4.55% p.a. during 2018.

Changes in impairment allowance can be presented as follows:

	2018	2017
Balance at 31 December of the previous year	-	-
Effects of accounting policy change – reclassification (Note 2)	100,373	-
Effects of accounting policy change – measurement (Note 2)	398	-
Balance at 1 January	**100,771**	**-**
New financing	36,060	-
Repaid assets	(14,130)	-
Change, net (other comprehensive income)	834	-
At 31 December	**123,535**	**-**

Changes in impairment allowance for financial assets through OCI are recorded in equity and can be presented as follows:

	2018	2017
Balance at 31 December of the previous year	-	-
Effects of accounting policy change (Note 2)	633	-
Balance at 1 January	**633**	**-**
Change, net (Note 13)	222	-
At 31 December	**855**	**-**

Expected to be recovered:		
- no more than 12 months after the reporting period	9,907	-
- more than 12 months after the reporting period	113,628	-
	123,535	**-**

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

22. PLACEMENTS WITH OTHER BANKS

	31 December 2018	31 December 2017
Placements with banks		
Placements in money market	-	22,370
	-	*22,370*
Total before impairment	**-**	**22,370**
Less: Impairment losses	-	-
	-	**22,370**

Placements with banks stated in EUR and other currencies as at 31 December 2018 represent interest-bearing assets.

Changes in impairment can be presented as follows

	2018	2017
Balance at 1 January	**-**	**90**
Changes, net (Note 13)	-	(90)
Balance at 31 December	**-**	**-**
Expected to be recovered:		
- no more than 12 months after the reporting period	-	22,370
- more than 12 months after the reporting period	-	-
Less: Impairment	-	-
	-	**22,370**

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

23. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2018	31 December 2017
Long-term loans		
Retail	486,520	431,509
Corporate	357,051	325,944
	843,571	*757,453*
Short-term loans		
Retail	23,914	23,559
Corporate	186,480	187,813
	210,394	*211,372*
Total loans before impairment losses	***1,053,965***	***968,825***
Less: Impairment losses based on individual assessment	(42,935)	(43,576)
Less: Impairment losses based on group assessment	(42,529)	(40,473)
	968,501	**884,776**

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

	2018	2017
Balance at 31 December of the previous year	**84,049**	**89,375**
Effects of accounting policy change (Note 2)	5,197	-
Balance at 1 January	**89,246**	-
Movements in provisions, net (Note 13)	1,844	3,770
Transfer to other assets (Note 25)	(1,261)	(2,162)
Write-offs	(4,365)	(6,665)
Unwinding	-	(269)
Balance at 31 December	**85,464**	**84,049**

Loans and allowances presented in table above include accrued interest in the amount of KM 9,448 thousand (2017: KM 5,023 thousand) and decreased for deferred income from fees amounting KM 3,854 thousand (2017: KM 4,440 thousand).

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

23. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	**836,816**	**48,841**	**74,308**	**13,574**	**973,539**
New financing	526,716	-	-	282	526,998
Derecognized assets (excluding write-offs)	(390,575)	(36,071)	(10,237)	(4,055)	(440,938)
Transfer from Stage 1 to Stage 2	(118,840)	118,840	-	-	-
Transfer from Stage 1 to Stage 3	(263)	-	263	-	-
Transfer from Stage 2 to Stage 1	65,240	(65,240)	-	-	-
Transfer from Stage 2 to Stage 3	-	(14,654)	14,654	-	-
Transfer from Stage 3 to Stage 2	-	795	(795)	-	-
Write-offs	-	-	(4,365)	-	(4,365)
Other changes	-	-	(1,269)	-	(1,269)
As at 31 December 2018	**919,094**	**52,511**	**72,559**	**9,801**	**1,053,965**

Movement in impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at 1 January 2018	**10,791**	**6,731**	**60,285**	**11,439**	**89,246**
New financing	14,808	-	-	375	15,183
Derecognized assets	(13,274)	(1,812)	(4,777)	(2,841)	(22,704)
Transfer from Stage 1 to Stage 2	(3,352)	15,653	-	-	12,301
Transfer from Stage 1 to Stage 3	(40)	-	176	-	136
Transfer from Stage 2 to Stage 1	1,677	(8,827)	-	-	(7,150)
Transfer from Stage 2 to Stage 3		(5,331)	9,561		4,230
Transfer from Stage 3 to Stage 2		289	(441)		(152)
Write-offs	-	-	(4,365)	-	(4,365)
Other changes	-	-	(1,261)	-	(1,261)
As at 31 December 2018	**10,610**	**6,703**	**59,178**	**8,973**	**85,464**

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

23. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

a) Corporate – credit quality

Gross exposure

Bank	31 December 2018					31 December 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Internal rating level						
Performing	**453,790**	**41,823**	**-**	**24**	**495,637**	**460,067**
Low risk	413,677	20,272	-	-	433,949	382,721
Medium risk	38,651	16,522	-	24	55,197	71,781
High risk	1,462	5,029	-	-	6,491	5,565
Non-performing	**-**	**-**	**38,363**	**9,531**	**47,894**	**53,691**
Default status	-	-	38,363	9,531	47,894	53,691
Total	**453,790**	**41,823**	**38,363**	**9,555**	**543,531**	**513,758**

Movement in gross exposure	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	**422,477**	**36,499**	**44,438**	**13,285**	**516,699**
New financing	345,097	-	-	210	345,307
Derecognized assets (excluding write-offs)	(271,848)	(32,403)	(5,148)	(3,940)	(313,339)
Transfer from Stage 1 to Stage 2	(81,299)	81,299	-	-	-
Transfer from Stage 1 to Stage 3	(96)	-	96	-	-
Transfer from Stage 2 to Stage 1	39,459	(39,459)	-	-	-
Transfer from Stage 2 to Stage 3	-	(4,160)	4,160	-	-
Transfer from Stage 3 to Stage 2	-	47	(47)	-	-
Write-offs	-	-	(3,882)	-	(3,882)
Other changes	-	-	(1,254)	-	(1,254)
As at 31 December 2018	**453,790**	**41,823**	**38,363**	**9,555**	**543,531**

Movement in impairment	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2018	**8,440**	**3,184**	**39,717**	**11,271**	**62,612**
New financing	13,536	-	-	183	13,719
Derecognized assets (excluding write-offs)	(12,181)	(3,388)	(1,507)	(2,600)	(19,676)
Transfer from Stage 1 to Stage 2	(2,574)	6,405	-	-	3,831
Transfer from Stage 1 to Stage 3	(4)	-	50	-	46
Transfer from Stage 2 to Stage 1	1,042	(2,701)	-	-	(1,659)
Transfer from Stage 2 to Stage 3	-	(352)	2,267	-	1,915
Transfer from Stage 3 to Stage 2	-	8	(29)	-	(21)
Write-offs	-	-	(3,903)	-	(3,903)
Other changes	-	-	(1,251)	-	(1,251)
As at 31 December 2018	**8,259**	**3,156**	**35,344**	**8,854**	**55,613**

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

23. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

a) Retail – credit quality

Gross exposure

Bank	31 December 2018					31 December 2017
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Internal rating level						
Performing	**465,304**	**10,688**	**-**	**98**	**476,090**	**426,703**
Low risk	449,290	635	-	38	449,963	399,112
Medium risk	15,966	5,471	-	60	21,497	21,923
High risk	48	4,582	-	-	4,630	5,668
Non-performing	**-**	**-**	**34,196**	**148**	**34,344**	**28,364**
Default status	-	-	34,196	148	34,344	28,364
Total	**465,304**	**10,688**	**34,196**	**246**	**510,434**	**455,067**

Movement in gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying amount as at 1 January 2018	**414,339**	**12,342**	**29,870**	**289**	**456,840**
New financing	181,619	-	-	72	181,691
Derecognized assets (excluding write-offs)	(118,727)	(3,668)	(5,089)	(115)	(127,599)
Transfer from Stage 1 to Stage 2	(37,541)	37,541	-	-	-
Transfer from Stage 1 to Stage 3	(167)	-	167	-	-
Transfer from Stage 2 to Stage 1	25,781	(25,781)	-	-	-
Transfer from Stage 2 to Stage 3	-	(10,494)	10,494	-	-
Transfer from Stage 3 to Stage 2	-	748	(748)	-	-
Write-offs	-	-	(483)	-	(483)
Other changes	-	-	(15)	-	(15)
As at 31 December 2018	**465,304**	**10,688**	**34,196**	**246**	**510,434**

Movement in impairment	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at 1 January 2018	**2,351**	**3,547**	**20,568**	**168**	**26,634**
New financing	1,272	-	-	192	1,464
Derecognized assets	(1,093)	1,576	(3,270)	(241)	(3,028)
Transfer from Stage 1 to Stage 2	(778)	9,248	-	-	8,470
Transfer from Stage 1 to Stage 3	(36)	-	126	-	90
Transfer from Stage 2 to Stage 1	635	(6,126)	-	-	(5,491)
Transfer from Stage 2 to Stage 3	-	(4,979)	7,294	-	2,315
Transfer from Stage 3 to Stage 2	-	281	(412)	-	(131)
Write-offs	-	-	(462)		(462)
Other changes	-	-	(10)		(10)
As at 31 December 2018	**2,351**	**3,547**	**23,834**	**119**	**29,851**

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

23. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Industry gross loan analysis before impairment losses can be presented as follows:

	31 December 2018	31 December 2017
Natural resources and/or raw materials	42,523	36,118
Utilities and renewable energy resources	27,943	20,597
Construction and construction materials	100,759	88,715
Automobile industry	24,046	14,990
Cyclic consumer products	118,593	142,546
Noncyclic consumer products	131,351	107,089
Machinery and equipment	10,241	10,863
Transport	29,072	30,566
Telecommunications, media, technology, paper and packaging	16,226	15,575
Healthcare and services	18,658	18,529
Hotels, gambling and entertainment	10,695	10,625
Real estate	6,841	10,565
Public sector	119	173
Financial institutions	6,048	6,258
Population	510,433	455,067
Other	417	549
	1,053,965	**968,825**

The amounts presented in table above include loan principal increased by interest receivables and decreased for prepaid loan fees as of 31 December 2018, and 31 December 2017. Total amount of non-performing loans was KM 82,237 thousand and KM 82,055 thousand as at 31 December 2018 and 2017, respectively.

Weighted average interest rate on loans and advances to customers as at 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Corporate	4.20%	4.72%
Individuals	6.60%	7.03%

24. INVESTMENT IN ASSOCIATES

The Bank's investments in associates are as follows:

Name of the company	31 December 2018	31 December 2017
Sparkasse Leasing d.o.o. Sarajevo	607	607
Sparkasse Nekretnine d.o.o. Sarajevo in liquidation	-	49
	607	**656**

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

25. INVESTMENT IN ASSOCIATES (CONTINUED)

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

	31 December 2018	31 December 2017
Total assets	65,296	57,774
Total liabilities	(58,205)	(51,530)
Net assets	7,091	6,244

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

	Cost method 2018	2017
Balance at 1 January	**656**	**705**
Decrease in share	(49)	(49)
Balance at 31 December	**607**	**656**

25. OTHER ASSETS

	31 December 2018	31 December 2017
Acquired tangible assets	4,199	4,281
Authorized exchange office receivables	2,076	1,690
Domestic transactions receivables	1,809	2,342
Fees and commission receivables	1,527	1,347
Consumables	189	173
Western union receivables	106	140
Receivables from foreign banks – currency in transit	44	10,056
VAT receivables	1	1
Other assets	1,999	2,184
Total other assets before impairment losses	***11,950***	***22,214***
Less: Impairment losses	(6,404)	(6,678)
	5,546	**15,536**

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

	2018	2017
Balance at 1 January	**6,678**	**5,142**
Changes, net (Note 13)	(52)	399
Transfer of loans and advances receivables (Note 23)	1,261	2,162
Acquired tangible assets disposal	(1,426)	(813)
Write-offs	(57)	(212)
Balance at 31 December	**6,404**	**6,678**

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

26. TANGIBLE AND INTANGIBLE ASSETS

	Land and buildings	Computers	Vehicles	Furniture and equipment	Patents, licences and software	Leasehold improve-ments	Investment in progress	Total
COST								
As at 31 December 2016	**28,114**	**4,068**	**1,598**	**11,650**	**10,070**	**1,155**	**840**	**57,495**
Additions	-	-	-	-	-	-	2,704	2,704
Transfer (from) / to	127	391	382	860	814	188	(2,762)	-
Transfer from investment property (Note 27)	1,507	-	-	-	-	-	-	1,507
Disposals	-	(948)	(341)	(1,643)	(4)	(306)	-	(3,242)
As at 31 December 2017	**29,748**	**3,511**	**1,639**	**10,867**	**10,880**	**1,037**	**782**	**58,464**
Additions	-	-	40	-	-	-	4,640	4,680
Transfer (from) / to	116	185	17	1,100	1,993	185	(3,596)	-
Transfer from investment property (Note 27)	665	-	-	-	-	-	-	665
Disposals	(97)	(20)	(17)	(728)	-	(30)	(6)	(898)
As at 31 December 2018	**30,432**	**3,676**	**1,679**	**11,239**	**12,873**	**1,192**	**1,820**	**62,911**
ACCUMULATED DEPRECIATION								
As at 31 December 2016	**4,072**	**2,603**	**585**	**7,871**	**6,799**	**594**	**-**	**22,524**
Depreciation	575	517	235	1,089	1,069	194	-	3,679
Transfer from investment property (Note 27)	189	-	-	-	-	-	-	189
Write offs	-	(945)	(251)	(1,576)	(4)	(286)	-	(3,062)
As at 31 December 2017	**4,836**	**2,175**	**569**	**7,384**	**7,864**	**502**	**-**	**23,330**
Depreciation	602	573	238	995	1,274	189	-	3,871
Transfer from investment property (Note 27)	86	-	-	-	-	-	-	86
Write offs	(20)	(17)	-	(645)	-	(27)	-	(709)
As at 31 December 2018	**5,504**	**2,731**	**807**	**7,734**	**9,138**	**664**	**-**	**26,578**
NET BOOK VALUE								
As at 31 December 2018	**24,928**	**945**	**872**	**3,505**	**3,735**	**528**	**1,820**	**36,333**
As at 31 December 2017	**24,912**	**1,336**	**1,070**	**3,483**	**3,016**	**535**	**782**	**35,134**

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

27. INVESTMENT PROPERTY

	Buildings
COST	
As at 31 December 2016	**6,440**
Transfer to tangible and intangible assets (Note 26)	(1,507)
As at 31 December 2017	**4,933**
Transfer to tangible and intangible assets (Note 26)	(665)
As at 31 December 2018	**4,268**
ACCUMULATED DEPRECIATION	
As at 31 December 2016	**772**
Depreciation	108
Transfer to tangible and intangible assets (Note 26)	(189)
As at 31 December 2017	**691**
Depreciation	81
Transfer to tangible and intangible assets (Note 26)	(86)
As at 31 December 2018	**686**
NET BOOK VALUE	
As at 31 December 2018	**3,582**
As at 31 December 2017	**4,242**

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 3,582 thousand (2017: KM 4,242 thousand) is in use since 2010. On the basis of an investment property, in 2017 the Bank generated a total income from rents in the amount of KM 623 thousand – Note 10 (2017 – KM 512 thousand), while the direct costs for the year amounted to KM 56 thousand (2017 – KM 69 thousand). According to Management Board opinion fair value of investment properties as at 31 December 2018 and 2017 does not significantly differ from the carrying value of the building during 2018 and 2017.

28. DUE TO OTHER BANKS

	31 December 2018	31 December 2017
Demand deposits		
In KM	1,325	5,607
In foreign currencies	906	617
	2,231	***6,224***
Term deposits		
In KM	-	-
In foreign currencies	134,502	136,389
	134,502	***136,389***
	136,733	**142,613**

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

29. DUE TO CUSTOMERS

	31 December 2018	31 December 2017
Demand deposits:		
Individuals:		
In KM	186,428	151,105
In foreign currencies	85,797	76,706
	272,225	*227,811*
Corporate:		
In KM	164,046	143,951
In foreign currencies	35,920	32,543
	199,966	*176,494*
Other government and non-government organisations:		
In KM	48,105	44,263
In foreign currencies	42,639	26,998
	90,744	*71,261*
Total demand deposits	**562,935**	**475,566**
Term deposits:		
Individuals:		
In KM	146,115	144,643
In foreign currencies	166,441	143,010
	312,556	*287,653*
Corporate:		
In KM	112,258	93,331
In foreign currencies	49,528	47,728
	161,786	*141,059*
Other government and non-government organisations:		
In KM	15,672	37,184
In foreign currencies	-	4
	15,672	*37,188*
Total term deposits	**490,014**	**465,900**
	1,052,949	**941,466**

Interest rates on demand deposits remained on the same level as previous year, and at the end of 2017 they amounted to 0.03% p.a., while interest rates on short-term deposits had a growth trend fro 0.50% (2017) to 0.56% (2018), and interest rates on long-term deposits had a falling trend compared to previous year from1.78% in 2017 to 1.45% in 2018.

30. BORROWINGS

Group and Bank	31 December 2018	31 December 2017
European Investment Bank (EIB) – *average weighted interest rate per drawn instalment is 1.566% with the following maturities: 15 August 2020, 15 May 2023, 15 October 2021 and 15 August 2022*	29,562	37,907
European Bank for Reconstruction and Development (EBRD) – *weighted average interest rate 1% p.a., maturities on 20 January 2021 and 20 November 2020*	17,872	15,687
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
	57,313	**63,473**

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

31. PROVISIONS

	31 December 2018	31 December 2017
Provisions for off balance items	3,935	2,493
Provisions for employee benefits	2,712	2,789
Provisions for legal proceedings	1,189	1,040
Other provisions	3,755	3,189
	11,591	**9,511**

Commitments and contingencies

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

	31 December 2018	31 December 2017
Granted but undrawn loans	152,186	133,167
Performance guarantees	67,186	57,340
Payment guarantees	41,817	33,204
Acreditives	1,012	3,347
	262,201	**227,058**

As of 31 December 2018, 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 0.95%
  - Average fluctuation rate 1.07%
- Financial assumptions (discount rate, wage levels, expected wage growth):
  - Discount rate 5.0% (there were no changes in actuarial assumptions compared to the previous year)
  - 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).

31. PROVISIONS (CONTINUED)

Movements in provisions were as follows:

	Off balance	Employee benefits	Legal proceedings	Other provisions	Total
Balance at 1 January 2017	**2,597**	**2,289**	**904**	**2,095**	**7,885**
Additional provisions recognized, net (Note 14)	-	1,697	146	1,100	2,943
Release due to re-measurement (Note 14)	(104)	-	-	-	(104)
Release due to payments	-	(1,197)	(10)	(6)	(1,213)
Balance at 31 December 2017	**2,493**	**2,789**	**1,040**	**3,189**	**9,511**
Effects of accounting policy change (Note 2)	1,049	-	-	-	1,049
Balance at 1 January 2018	**3,542**	2,789	1,040	**3,189**	**10,560**
Additional provisions recognized, net (Note 14)	393	1,522	162	593	2,670
Release due to re-measurement (Note 14)	-	-	-	-	-
Release due to payments	-	(1,599)	(13)	(27)	(1,639)
Balance at 31 December 2018	**3,935**	**2,712**	**1,189**	**3,755**	**11,591**

32. OTHER LIABILITIES

	31 December 2018	31 December 2017
Liabilities towards suppliers	3,479	2,775
Liabilities for unallocated payments	382	983
Liabilities for taxes	74	73
Liabilities towards employees	-	1,481
Other liabilities	2,190	2,532
	6,125	**7,844**

33. SHARE CAPITAL

Shareholding structure as at 31 December 2018 and 2017 was as follows.

Group and Bank	31 December 2018 No. of shares	31 December 2018 Amount in KM '000	31 December 2018 %	31 December 2017 No. of shares	31 December 2017 Amount in KM '000	31 December 2017 %
Steiermarkische Bank und Sparkassen AG, Graz, Austria	864,733	86,473	100,0	839,160	83,916	97,0
Other	-	-	-	25,573	2,557	3,0
Total paid capital	**864,733**	**86,473**	**100,0**	**864,733**	**86,473**	**100,0**

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)

34. 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

	31 December 2018		31 December 2017	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Steiermarkische Bank und Sparkassen AG. Graz, Austria	7,539	164,182	10,231	183,950
	7,539	**164,182**	**10,231**	**183,950**

	2018		2017	
	Income	**Expense**	**Income**	**Expense**
Steiermarkische Bank und Sparkassen AG. Graz, Austria	-	3,416	2	3,367
	-	**3,416**	**2**	**3,367**

Transactions with other related parties

	31 December 2018		31 December 2017	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Erste Bank der Oesterreichischen Sparkassen AG Beč, Austria	18,732	5,397	29,634	515
Erste and Steiermarkische bank d.d. Zagreb, Croatia	6,711	71	12,111	45
Sparkasse Bank a.d. Skopje, Macedonia	163	-	614	-
Sparkasse Leasing d.o.o. Sarajevo, BiH	3	1,125	1	1,281
S Premium d.o.o. Sarajevo, BiH	-	-	-	446
Sparkasse nekretnine d.o.o. Sarajevo, BiH	-	-	-	42
	25,609	**6,593**	**42,360**	**2,329**

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

34. RELATED-PARTY TRANSACTIONS (CONTINUED)

	2018		2017	
Group and Bank	**Income**	**Expenses**	**Income**	**Expenses**
Sparkasse Leasing d.o.o. Sarajevo, BiH	57	-	91	11
Erste and Steiermarkische bank d.d. Zagreb, Croatia	25	18	2	-
Erste Bank der Oesterreichischen Sparkassen AG Beč, Austria	56	176	5	137
Sparkasse Nekretnine d.o.o. Sarajevo, BiH	-	-	-	-
S Premium d.o.o. Sarajevo, BiH	-	-	12	1
Sparkasse Bank a.d. Skopje, Macedonia	1	-	1	-
Erste Group Card Processor d.o.o. (vm.MBU)	-	831	-	919
S IT Solutions AT Spardat GmBH Vienna, Austria	-	792	-	1,173
Erste Group IT International GmbH	-	-	5	137
S IT Solutions HR d.o.o. Bjelovar, Croatia	-	68	-	69
S IT Solutions CZ s.r.o. Prag, Czech Republic	-	-	-	2
	139	**1,885**	**112**	**2,313**

Management remunerations

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

	2018	**2017**
Gross salaries	985	872
Other benefits	81	35
Fees to Supervisory Board members	29	21
	1,095	**928**

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

35. 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:

	31 December 2018	31 December 2017
Loans		
Corporate	15,547	16,802
Individuals	2,621	2,806
	18,168	**19,608**
Financing sources		
Employment agency of Federation of Bosnia and Herzegovina	16,230	16,733
Intesa Sanpaolo banka d.d. Bosna i Hercegovina	-	778
Ministry of war military invalids of Zenica–Doboj Canton	514	650
Bosnian-Podrinje Canton Government	799	799
International guarantee agency – IGA	326	326
Zenica-Doboj Canton Government	62	84
Employment agency of Zenica-doboj Canton	118	119
Lutheran World Federation	73	73
Housing fund of Unsko-Sanski Canton	25	25
Employment agency of Bosnian-Podrinje Canton	21	21
	18,168	**19,608**
Liability, net	-	-

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

36. FINANCIAL INSTRUMENTS

a) Capital risk management

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

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

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

Bank	31 December 2018	31 December 2017
Debt	1,246,995	1,147,552
Equity	197,431	177,168
Debt to capital ratio	**6.32**	**6.48**

36. FINANCIAL INSTRUMENTS (CONTINUED)

a) Capital risk management (continued)

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)

36. FINANCIAL INSTRUMENTS (CONTINUED)

a) Capital risk management (continued)

As of 31 December 2018 and 2017 the Bank complied with all of the externally imposed capital requirements to which it was subject. As of 31 December 2018 the adequacy of the Bank's capital amounts to 16.5% (2017: 14.6%).

	31 December 2018*	31 December 2017*
Tier 1 capital		
Ordinary shares	86,473	86,473
Share premium	3,000	3,000
Statutory reserves	45,205	45,205
Retained earnings	40,356	22,066
Negative revaluation reserves	-	(478)
Accumulated other comprehensive income	1,364	-
Less: Intangible assets	(3,745)	(3,634)
Less: Deferred tax assets	(1,244)	(706)
Less: Significant investments in financial sector entities	(607)	-
Less: Deductions for Tier 1 capital – other	(1,076)	-
Total tier 1 capital	**169,726**	**151,926**
Tier 2 capital		
General provision - FBA regulations	11,111	13,679
Positive Revaluation reserves	-	270
Subordinated debt	9,779	9,779
Deductions for Tier 1 capital – other	(20,890)	-
Total tier 2 capital	**-**	**23,728**
Impairment of capital		
Shortfall in regulatory reserves	-	(15,810)
Net capital	**169,726**	**159,844**
Weighted credit risk (unaudited)	888,870	1,018,696
Position, currency and merchandise risk (unaudited)	25,686	-
Weighted operational risk (unaudited)	115,575	75,628
Total weighted risk	**1,030,131**	**1,094,324**
Capital adequacy (%)*	**16.5**	**14.6**

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

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

36. FINANCIAL INSTRUMENTS (CONTINUED)

b) Significant accounting policies

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

c) Categories of financial instruments

	31 December 2018	31 December 2017
Financial assets		
At amortized cost:		
Cash and cash equivalents (including Obligatory reserve with the CBBH)	*322,848*	*278,626*
Placements with other banks	*-*	*22,370*
Loans and advances to customers, net	*968,501*	*884,776*
Other financial assets	*4,865*	*15,037*
Financial assets at FVOCI	123,535	101,176
Financial assets at FVTPL	111	101,176
	1,419,860	**1,301,985**
Financial liabilities		
At amortised cost		
Due to other banks	*136,733*	*142,613*
Due to customers	*1,052,949*	*941,466*
Due for loans taken	*57,313*	*63,473*
Other financial liabilities	*6,333*	*9,093*
	1,253,328	**1,156,645**

d) Financial risk management objectives

The Bank's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports, which 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.

e) Market risk

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below points f and g). Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Bank's exposure to market risks or the manner in which it manages and measures the risk.

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

36. FINANCIAL INSTRUMENTS (CONTINUED)

f) Foreign currency risk management

The Bank undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Bank's monetary assets and monetary liabilities in foreign currencies at the reporting date are as follows:

Bank	KM	EUR	USD	Other currencies	Total
ASSETS					
Cash and cash equivalents	84,890	90,604	17,656	10,573	203,723
Obligatory reserve with the CBBH	119,125	-	-	-	119,125
Loans and advances to customers, net	610,795	357,706	-	-	968,501
Financial assets at FVOCI	20,204	103,332	-	-	123,535
Financial assets at FVTPL	-	111	-	-	111
Other assets	4,641	189	35	-	4,865
	839,655	**551,942**	**17,691**	**10,573**	**1,419,860**
LIABILITIES					
Due to other banks	1,325	134,880	-	528	136,733
Due to clients	672,626	353,487	17,454	9,382	1,052,949
Borrowings	-	57,313	-	-	57,313
Other liabilities	5,646	633	53	1	6,333
	679,597	**546,313**	**17,507**	**9,911**	**1,253,328**
Discrepancy as at 31 December 2018	**160,058**	**5,629**	**184**	**662**	**166,532**
Total monetary assets	747,857	527,340	17,768	9,020	1,301,985
Total monetary liabilities	610,023	519,514	17,900	9,208	1,156,645
Discrepancy as at 31 December 2017	**137,834**	**7,826**	**(132)**	**(188)**	**145,340**

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 Effect	
Bank	31 December 2018	31 December 2017
Profit / (loss)	19	(15)

36. FINANCIAL INSTRUMENTS (CONTINUED)

g) 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 2018 would increase / decrease by KM thousand 3,825 (2017: by KM 3,288 thousand).

h) Credit risk management

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

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

Policies for impairment and provisions (applicable from 1 January 2018)

General principles for impairment and provisions are defined through the umbrella internal act of the bank which describes the general principles and standards for assessing significant increases in credit risk (SICR), including the definition of impaired loan assets and measurement of CLAs within the Bank and the rest of the group are defined in accordance with:

36. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

1) International Financial Reporting Standard 9 (IFRS 9) Financial Instruments

2) EBA - Credit Practice Guidelines for Credit Risk Management and Accounting for Expected Credit Losses

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.

36. FINANCIAL INSTRUMENTS (CONTINUED)

h) 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.

36. FINANCIAL INSTRUMENTS (CONTINUED)

h) 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.

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

36. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Financial assets

Bank	**Total gross carrying amount**	**Unimpaired assets**	**Impaired assets**	**Individually impaired assets**	**Group impaired assets**	**Total net carrying amount**
As at 31 December 2018						
Cash and accounts in banks	204,270	78,678	125,592	-	(547)	203,723
Obligatory reserve with the CBBH	120,227	-	120,227	-	(1,102)	119,125
Loans to customers	1,053,965	971,726	82,239	(42,935)	(42,529)	968,501
Financial assets at FVOCI	123,535	123,535	-	-	-	123,535
Financial assets at FVTPL	111	111	-	-	-	111
Other assets	7,519	-	7,519	-	(2,654)	4,865
	1,509,627	**1,173,939**	**335,579**	**(42,935)**	**(46,844)**	**1,419,860**
As at 31 December 2017						
Cash and accounts in banks	167,775	167,775	-	-	(752)	167,023
Obligatory reserve with the CBBH	111,603	111,603	-	-	-	111,603
Placements with other banks	22,370	22,370	-	-	-	22,370
Loans to customers	968,825	886,770	82,055	(43,576)	(40,473)	884,776
Financial assets available-for-sale	101,606	101,606	-	-	(430)	101,176
Other assets	17,813	15,309	2,504		(2,776)	15,037
	1,389,892	**1,305,433**	**84,559**	**(43,576)**	**(44,431)**	**1,301,985**

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

36. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Credit exposure and collateral

Bank	Credit risk exposure		
	Net exposure	Unwithdrawn loans / Guarantees	Value of collateral
As at 31 December 2018			
Cash and cash equivalents	203,723	-	-
Obligatory reserve with the CBBH	119,125	-	-
Placements with other banks	-	-	-
Loans to customers	968,501	262,201	376,621
Financial assets at FVOCI	123,535	-	-
Financial assets at FVTPL	111	-	-
Other financial assets	4,865	-	-
	1,419,860	**262,201**	**376,621**
As at 31 December 2017			
Cash and cash equivalents	167,023	-	-
Obligatory reserve with the CBBH	111,603	-	-
Placements with other banks	22,370	-	-
Loans to customers	884,776	224,565	369,737
Financial assets available-for-sale	101,176	-	-
Other financial assets	15,037	-	-
	1,301,985	**224,565**	**369,737**

Value of the collateral

Bank	**31 December 2018**	**31 December 2017**
Real estate	339,443	334,746
Movable property	8,337	8,453
Deposits	22,396	19,723
Other	6,444	6,815
	376,621	**369,737**

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

36. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Credit exposure and collateral (continued)

Arrears

Bank	Total gross loan portfolio	Not due	Up to 30 days	31 – 90 days	91 – 180 days	181 – 270 days	over 270 days
31 December 2018							
Corporate	543,531	483,409	10,694	5,321	88	770	43,249
Retail	510,434	469,498	5,542	2,945	2,491	1,449	28,509
Subtotal	**1,053,965**	**952,907**	**16,236**	**8,266**	**2,579**	**2,219**	**71,758**
Impairment losses	(85,464)	(18,137)	(1,581)	(1,785)	(1,881)	(1,582)	(60,498)
Total	**968,501**	**934,770**	**14,655**	**6,481**	**698**	**637**	**11,260**
31 December 2017							
Corporate	513,757	446,094	18,431	2,178	1,252	1,121	44,681
Retail	455,068	420,408	6,899	2,763	2,237	1,766	20,995
Subtotal	**968,825**	**866,502**	**25,330**	**4,941**	**3,489**	**2,887**	**65,676**
Impairment losses	(84,049)	(16,383)	(1,800)	(1,565)	(2,320)	(2,373)	(59,608)
Total	**884,776**	**850,119**	**23,530**	**3,376**	**1,169**	**514**	**6,068**

i) 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)

36. FINANCIAL INSTRUMENTS (CONTINUED)

i) Liquidity risk management (continued)

Liquidity and interest risk tables

Maturity for financial assets

Bank	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	2 to 5 years	Over 5 years	Total
31 December 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**
31 December 2017							
Non-interest bearing	-	114,346	27	1,043	1	-	115,417
Variable interest rate instruments	3.04%	114,765	7,435	32,983	141,679	138,743	435,605
Fixed interest rate instruments	6.10%	91,182	57,510	235,415	339,566	220,035	943,708
		320,293	**64,972**	**269,441**	**481,246**	**358,778**	**1,494,730**

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

Bank	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	2 to 5 years	Over 5 years	Total
31 December 2018							
Non-interest bearing	-	477,197	2,141	2,201	6,813	4,870	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**
31 December 2017							
Non-interest bearing	-	371,003	240	3,371	3,870	4,086	382,570
Variable interest rate instruments	1.58%	-	-	18,631	98,348	13,355	130,334
Fixed interest rate instruments	1.30%	121,846	87,557	145,853	286,519	19,296	661,071
		492,849	**87,797**	**167,855**	**388,737**	**36,737**	**1,173,975**

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

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

37. FAIR VALUE MEASUREMENT

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

37.1 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).

Group and Bank **Financial assets/ financial liabilities**	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
	31 December 2018	**31 December 2017**		
1) Financial assets available-for-sale (see Note 22)	Listed equity securities in stock exchange in Bosnia and Herzegovina:	Listed equity securities in stock exchange in Bosnia and Herzegovina: • BamCard d.d Sarajevo – KM 115 thousand		
	Listed equity securities on stock exchanges in other countries: • Belgium – KM 111 thousand	Listed equity securities on stock exchanges in other countries: • Belgium – KM 64 thousand		
	Listed debt securities in stock exchange in other countries: • Croatia – KM 9,522thousand (Baa3/BBB) • Austria – KM 23,288 thousand (AA/AA) • Belgium – KM 9,621 thousand (AA/AA) • France – KM 9,702 thousand (AA/AA)	Listed debt securities in stock exchange in other countries: • Croatia – KM 8,364 thousand (Baa3/BBB) • Austria – KM 23,082 thousand (AA/AA) • Belgium – KM 9,619 thousand (AA/AA) • France – KM 9,640 thousand (AA/AA)	Level 1	Quoted bid prices in an active market.
	Listed debt securities in stock exchange in Bosnia and Herzegovina: • FBiH Ministry of Finance – KM 28,518thousand (B+) • RS Ministry of Finance – KM 42,956 thousand (B+)	Listed debt securities in stock exchange in Bosnia and Herzegovina: • FBiH Ministry of Finance – KM 26,889 thousand (B+) • RS Ministry of Finance – KM 22,028 thousand (B+) • Hadžići Municipality – KM 100 thousand		

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

37. FAIR VALUE MEASUREMENT (CONTINUED)

37.2 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.

	31 December 2018		31 December 2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
At amortized cost:				
- loans to customers	968,501	975,091	884,776	887,766
Financial liabilities				
At amortized cost:				
- due to banks and customers	1,189,682	1,195,061	1,084,079	1,087,901

	Fair value hierarchy as at 31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
At amortized cost:				
- loans to customers	-	-	975,091	975,091
	-	**-**	**975,091**	**975,091**
Financial liabilities				
At amortized cost:				
- due to banks and customers	-	-	1,195,061	1,195,061
	-	**-**	**1,195,061**	**1,195,061**

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

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

38. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board of the Bank on 16 May 2019.

Sanel Kusturica
President of the Management Board

Amir Softić
Member of the Management Board