Raiffeisen
Bosna i Hercegovina

Annual report 2019

Survey of key data

Raiffeisen *BANK* d.d. Bosna i Hercegovina Monetary values in EUR million	2019	2018	Change
Income Statement			
Net interest income after impairment and provisioning	49.5	59.1	83.8%
Net fee and commission income	37.4	36.2	103.3%
Trading income	6.4	6.0	106.7%
General administrative expenses	58.7	57.1	102.9%
Profit before tax	38.5	48.1	79.9%
Profit after tax	29.1	43.2	67.4%
Balance Sheet			
Cash and cash equivalents	753.3	593.0	127.0%
Loans and advances to customers	1,273.3	1,235.1	103.1%
Deposits from banks and financial institutions	172.6	90.4	191.1%
Deposits from customers	1,882.8	1,803.9	104.4%
Equity (incl. profit)	287.6	291.5	98.7%
Total assets	2,418.0	2,247.7	107.6%
Regulatory information			
Risk-weighted assets	1,463.5	1,421.5	103.0%
Capital adequacy ratio	16.7%	16.9%	0.4 PP
Key ratios			
Return on equity (ROE) before tax	15.2%	19.6%	(2.0) PP
Return on equity (ROE) after tax	11.5%	17.6%	0.9 PP
Cost/income ratio	53.6%	53.6%	(3.3) PP
Return on assets before tax	1.7%	2.2%	0.4 PP
Resources			
Number of employees	1,341	1,389	(3.5%)
Business outlets	100	99	1.0%

The Raiffeisen Group in Bosnia and Herzegovina consists of Raiffeisen *BANK* d.d. Bosna i Hercegovina, Raiffeisen *LEASING* d.o.o. Sarajevo, Raiffeisen *INVEST* Društvo za upravljanje fondovima d.d. Sarajevo, Raiffeisen *CAPITAL* a.d. Banja Luka, društvo za finansijsko posredovanje and Raiffeisen *ASSISTANCE* d.o.o. Sarajevo.

Raiffeisen *BANK* d.d. Bosna i Hercegovina

Raiffeisen Bank has operated as a financial institution in Bosnia and Herzegovina since 1992 when it was founded as Market banka d.d. Sarajevo. Thanks to the quality of its business, it soon stood out as a very successful and profitable bank. Today, the bank has more than 1,300 employees serving over 430,000 customers. The bank's key competitive advantages are: investment in new technology; experienced, educated and constantly developed staff; its focus on the individual customer approach, and keeping up with the latest market and industry trends.

Raiffeisen *LEASING* d.o.o. Sarajevo

Raiffeisen *LEASING* has been operating in the Bosnia and Herzegovina market for more than 10 years. The *LEASING* offer includes a wide range of tailor-made finance and operating leases. This member of the Raiffeisen Group in Bosnia and Herzegovina offers modern, personalized and flexible financing, committed to be a reliable partner to its customers.

Raiffeisen *INVEST* d.d. Sarajevo

Raiffeisen *INVEST* Društvo za upravljanje fondovima d.d. Sarajevo is a fund management company operating in the Bosnia and Herzegovina market since 2012. Raiffeisen *INVEST* offers new investment products to the local market, intended for various customer profiles, depending on their risk appetite and expected investment return.

Raiffeisen *CAPITAL* a.d. Banja Luka

The Raiffeisen *CAPITAL* a.d. Banja Luka brokerage company operates as a member of the Banja Luka Stock Exchange (BLSE) and provides security trading services to private and institutional investors, both local and international ones. Beside stock broking, it offers services related to the take-over of stock companies and services related to block transactions.

Raiffeisen *ASSISTANCE* d.o.o. Sarajevo

The insurance mediation agency Raiffeisen *ASSISTANCE* d.o.o. Sarajevo aims to provide end users with easier access to all types of insurance. This member of the Raiffeisen Group in Bosnia and has been operating since 2010.

SUSTAINABILITY MANAGEMENT - PART OF THE CORPORATE CULTURE OF RAIFFEISEN BANK

Sustainability management and social responsibility are the key components of the Raiffeisen identity and the bank's corporate culture. Responsible corporate conduct harmonized with the environment and society is the key to lasting economic success. The three pillars of the sustainability strategy are: being a responsible banker, a fair partner and an engaged corporate citizen. Some examples showing how Raiffeisen Bank lives these three pillars are provided below.

THE THREE PILLARS OF THE SUSTAINABILITY STRATEGY

1.

Responsible banker - we adapt to new conditions and trends within the banking sector whilst maintaining our status as a responsible company through business operations, processes and products throughout the Group.

Some of the actions by which we live this part of the strategy are: creating products for different population groups (such as students, pensioners, premium customers, children), customer data protection, no financing to industries that pollute the environment, energy efficiency credit lines, adapting our business strategy in a way that our business activities bring benefit to the country's economy.

2.

Fair partner to all external and internal stakeholders - we are always open to communication with our customers and inform them on time about the business activities of the bank.

In our daily business we live by the guidelines defined by this sustainability pillar though various activities such as: ongoing controls aimed at preventing corruption and fraud, improving electricity and water saving, making a contribution towards reducing environment pollution.

3.

Engaged citizen - we endeavour to address social issues, provide support to institutions that care for the most vulnerable social categories.

The activities within this pillar include, among other things: financial donations to relief associations such as SUMERO, SOS Kinderdorf, A Heart for Children with Cancer, support for various projects focusing on children within this year's public invitation, volunteering by the bank's staff, financial education of citizens.

Raiffeisen at a Glance

Report of the Supervisory Board

Ladies and Gentlemen,

Raiffeisen *BANK* dd Bosna i Hercegovina concluded another successful year with a total net profit of BAM 56.9 million, capital of BAM 562.5 million and assets of BAM 4.7 billion.

In the 2019 financial year, the members of the Supervisory Board held 16 meetings out of which 12 were paper meetings. The overall attendance rate for Supervisory Board meetings was therefore 99 per cent.

The Supervisory Board regularly and comprehensively monitored the business performance and risk developments at Raiffeisen *BANK* dd Bosna i Hercegovina. Discussions were regularly held with the Management Board on the adequacy of capital and liquidity, as well as on the direction of the bank's business and risk strategies. The Supervisory Board also dealt at length with further developments within corporate governance and monitored the implementation of corresponding policies. In the course of its monitoring and advisory activities, the Supervisory Board maintained direct contact with the responsible Management Board members, the auditor and heads of the internal control functions. It also maintained a continuous exchange of information and views with representatives from supervisory authorities on topical issues.

Moreover, the Management Board provided the Supervisory Board with regular and detailed reports on relevant matters concerning performance in the respective business areas. Between meetings, the Supervisory Board maintained contact with the Chairman and members of the Management Board. The Management Board was available when required for bilateral or multilateral discussions with members of the Supervisory Board, where applicable with the involvement of experts on matters being addressed.

The work undertaken together with the Management Board was based on a relationship of mutual trust and conducted in a spirit of efficient and constructive collaboration. Discussions were open and critical, and the Supervisory Board passed resolutions after fully considering all aspects. If additional information was required in order to consider individual issues in more depth, this was provided to members of the Supervisory Board without delay and to their satisfaction

The Supervisory Board discussed matters of significance for the smooth performance and business operations of the bank. In addition to the fulfilment of its duties as defined by the local legislation, such as adopting numerous internal regulations, business and other policies, plans and procedures, the Supervisory Board discussed orders and rulings by supervisory authorities related to the bank's business, as well as other issues from its scope of responsibility. Some of the specific issues discussed by the Supervisory Board were the business strategy 2019 - 2021, the SME strategy, transformation of the IT architecture and the payment ecosystem.

I would like to take this opportunity to thank all the employees of Raiffeisen *BANK* dd Bosna i Hercegovina for their hard work and unwavering efforts in 2019, as well as to ask for their continued commitment in tackling any challenges going forward.

On behalf of the Supervisory Board

Peter Jacenko
Chairman of the Supervisory Board

Preface of the Chairman of the Management Board

The year behind us was another successful business year for Raiffeisen *BANK* d.d. Bosna i Hercegovina in which despite the very challenging environment and strong competition we achieved a very good business result. We finished the year with a total net profit of BAM 56.9 million, total deposits of BAM 3.7 billion and loans of BAM 2.5 billion.

Digitalization remains in our focus. With the launch of new digital channels for doing business with our bank, we have made our services available through various channels to both senior and younger citizens, depending on their preferences. We have released a new Raiffeisen Mobile Banking application this year and are the first bank in the market to offer the Contactless bracelet. Also, together with our external partners, we have developed the OPA payment platform.

We continued with our strategy of broadening and strengthening our business network and opened the jubilee 100th branch in this market, in which we also operate a network of 281 ATMs. This is yet another proof that we, as part of an international corporation, regard Bosnia and Herzegovina as our home market and are here to stay.

We continuously shift borders in the banking industry. Confirmation that we are on the right track of innovations and adaptations came with the numerous awards we received during the year. Four prestigious global magazines, The Banker, EMEA Finance, Global Finance and Euromoney, honored us as the 'Best Bank in Bosnia and Herzegovina' and we also received awards from the local magazine Banke&Biznis and the European Bank for Reconstruction and Development. According to external research results, customers have recognized Raiffeisen bank as the most recommendable financial institution in the second half of 2019, which we are particularly proud of.

As in previous years, many employees of Raiffeisen bank engaged in volunteer activities and made a contribution to many projects that we implement as an engaged citizen, thereby living the Raiffeisen sustainability strategy. In this year alone, we supported more than 100 projects of this type, not only through public invitations for sponsorships and donations but also through our social responsibility projects, such as donations for religious holidays and New Year, which has become a tradition for us.

Many challenges lie ahead of us, especially considering the turbulences in economic flows caused by the Covid pandemic, and we will meet them with readiness and confidence. Raiffeisen bank is stable and well capitalized and thus capable of tackling the challenges ahead.

I would like to thank all our customers and business partners for the trust that they place in us and to assure them that we will strive to remain a fair and reliable partner for them in order to meet all their needs in the best possible way.

Karlheinz Dobnigg
Chairman of the Management Board

Macroeconomic Overview

The economic slowdown that began in the final quarter of 2018 continued in the new year 2019, which was in line with expectations. The first macroeconomic data published for 2019 already showed a considerable slowdown in economic growth compared to the average economic growth rate of 3.3 per cent year-on-year recorded the period 2015-2018. It is important to note that the weak economic trend towards the end of 2018 was the result of global economic slowdown. In the second half of 2018, Italy moved into recession for the first time since 2013. Germany, the EU's largest economy, saw a drop of its real GDP in Q3 and stagnation in Q4 2018. And finally, the entire eurozone recorded growth of 1.9 per cent year-on-year in 2018, which is much lower than the 2.7 per cent reached in 2017. Bosnia and Herzegovina's small and open economy is sensitive to any negative trends in the eurozone and the European Union. It is therefore no surprise that the first negative growth rates in some segments of the Bosnia and Herzegovina economy were registered already towards the end of 2018.

The first quarter of 2019 was marked by negative growth rates in industrial production and export of goods. Both categories saw their first negative growth rates since 2012, which was the last recession year for the country's economy. It was clear already at the end of the first quarter of 2019 that the country's economy would not record growth at the rates reached in recent years. This is why most of the key financial institutions immediately made downward corrections of their outlooks for the local economy. The International Monetary Fund (IMF), for instance, decreased the expected annual economic growth rate to 3.1 per cent in April 2019, and additionally to 2.8 per cent until the end of the year. The European Bank for Reconstruction and Development (EBRD) also decreased its growth outlook for the country's economy from 3.5 per cent to 3.0 per cent year-on-year. It turned out that the negative trends that had started towards the end of 2018 lasted throughout 2019 and that the country's economy grew by 2.6 per cent year-on-year, which is the lowest growth rate in the past six years.

The negative trends in 2019 were most strongly felt in the export-oriented economic sectors. Industrial production fell by 5.5 per cent compared with 2018 and recorded its first negative growth rate in the past seven years. All three industrial categories recorded a decrease in the year under review, making industrial data even more pessimistic. Nevertheless, the main cause of economic weakness is to be found in the processing sector, which had a 68 per cent share in the country's overall industry. The processing industry was weakened by low external demand (furniture, textile, wood and leather) on the one hand, and shutdowns/reconstruction of large industrial plants in the country, on the other hand. Seven out of the ten largest processing categories ended in the negative zone, including metal products, base metals, wood, furniture, textile, leather, chemical products etc.

The decline in industrial production was a direct cause of lower exports in 2019. Bosnia and Herzegovina exported goods worth BAM 11.49 billion, down by 3.4 per cent compared to 2018. The largest part of exports was concentrated in five sectors, which had a 59 per cent share in overall exports: base metals, machinery and equipment, furniture, mineral products and chemical products. Among these sectors, only machinery and equipment recorded positive growth. The EU remains the country's key export market, as goods worth BAM 8.39 billion (minus 3.4 per cent year on year) or 73 per cent of overall exports in 2019 went to the EU market. Viewed individually, the key markets are Germany (14.6 per cent), Croatia (12.2 per cent), Italy (11.3 per cent), Austria (9.5 per cent) and Slovenia (8.8 per cent). Exports to all key EU countries except Austria recorded a decline in 2019. Bosnia and Herzegovina's largest trade partner outside the EU is Serbia with a share of 11.4 per cent. In addition to the EU, the decline in exports to Kosovo was another reason for the drop of overall exports in 2019. Exports to Kosovo in 2019 reached only BAM 4.25 million, which is a strong decrease of 96.8 per cent compared to the year before. This decrease is the result of a 100 per cent tariff on goods produced in Bosnia and Herzegovina imposed late in 2018. When it comes to imports, Bosnia and Herzegovina imported goods worth BAM 19.49 billion in 2019, which is 1.2 per cent more than in the year before. This was the fourth consecutive year of growth of imports in Bosnia and Herzegovina. Consequently, the country's foreign trade deficit reached a nominal value of BAM 8.01 billion, which represents a 22.9 per cent share in GDP for 2019.

While the country's external sector suffered the negative impacts of the external environment and one-off internal issues, private consumption consolidated its position as the key driver of economic growth. The retail trade index in 2019 increased by 5.0 per cent year-on-year, marking the seventh year in a row in which this index recorded real growth. The growth of retail trade was driven by a combination of several factors: improved labour market indices, stronger inflow of investments, lending by banks and a record-high tourist season. Bosnia and Herzegovina saw record low jobless rates in 2019 according to both LFS methodology (15.7 per cent) and the official jobless rate (32.6 per cent). Also, net average wages in 2019 grew by the strongest pace in the last ten years. The average net wage in 2019 was BAM 921, which is an increase of 4.8 per cent compared to 2018. The tourism industry recorded a new record high season with 1.64 million tourist arrivals (annual growth of 12 per cent) and 3.37 million overnight stays (annual growth of 10.9 per cent). This made 2019 the fifth year in a row in which the tourist industry recorded double-digit growth rates, outpacing all other economic sectors. According to data for the first three quarters of 2019, the surplus on the secondary income account (most of which relates to personal transfers) reached a record high value of BAM 2.9 billion. Remittances and the tourist industry played a key role in keeping the deficit on the current account at a still moderate level. Due to lower exports of goods, the current account deficit in first three quarters in 2019 reached BAM 1.1 billion and thus the highest amount in the past five years.

The tourist industry and remittances from abroad helped preventing the deficit from growing much stronger. The surplus on the services account reached a record high value of BAM 1.99 billion, driven mostly by the tourist industry with a surplus of BAM 1.1 billion. Consequently, the surplus in services and secondary income covered around 80 per cent of the deficit in the country's exchange of goods. Although the current account deficit was growing, it was still successfully financed, mostly by foreign direct investments. The net inflow of foreign direct investments in 2019 was BAM 958 million, which is the highest nominal value since 2007. In relation to GPD, however, net foreign direct investments were moderate 2.7 per cent and thus insufficient to give a strong impetus to overall economic dynamics.

The weak inflow of direct foreign investments was the direct result of the poor investment environment and climate in the country. According to the most recent report on the ease of doing business published by the World Bank in 2019, Bosnia and Herzegovina fell behind by one position and now ranks 90th among 190 countries. The country scored very disappointing results in the areas *starting a business* (184), *dealing with construction licenses* (173) and *paying taxes* (141). In the global competitiveness report, Bosnia and Herzegovina also fell by one position and now ranks 92nd among 141 countries.

In order to improve the investment climate, Bosnia and Herzegovina needs political stability and faster implementation of reforms. Political stalemate was another factor that marked the year 2019 and had an impact on the country's overall economic environment. After the general elections held in October 2018, it took 14 months to form the new state-level government in December 2019. This means that Bosnia and Herzegovina has lost a whole year in which the strongly needed reforms could have been adopted and implemented. Luckily, the budgets of the two entities for 2019 were adopted on time and hence fiscal stability was not harmed, although the political stalemate stopped the negotiations with the International Monetary Fund in the year under review.

Therefore, the country's small economy – being under constant pressure of the global slowdown and internal weaknesses like political stalemates – remained mostly driven by private consumptions. In this complex environment, real GDP growth of 2.6 per cent annually was in line with our expectations (2.5 per cent).

Despite the slowdown in economic trends in Bosnia and Herzegovina, the banking sector again recorded much stronger growth than the overall economy. Total banking assets grew by 7.9 per cent reaching a historical high of BAM 33.4 billion, or 97.3 per cent of the country's GDP. Total loans also reached a historical high of BAM 20.76 billion, which is 6.5 per cent more than in 2018. From the global financial crisis 2009 onwards, stronger credit growth rates were recorded only in 2017.

The growth in overall loans was driven by all loan categories: private individuals, corporate and public sector. Loans to private individuals recorded their strongest growth in the past ten years (7.9 per cent year-on-year), driven by personal cash loans. At year-end 2019, loans to private individuals reached BAM 9.97 billion and a 48.1 per cent share in total loans. Corporate loans, which consist of loans to privately-owned and public companies, reached BAM 9.5 billion, growing 5.2 per cent on the year. This is the second largest growth rate in corporate loans since 2009. They grew stronger only in 2017. On the other balance sheet side, deposits grew by 9.6 per cent compared with 2018. This is a slightly lower growth rate compared with previous years, but the sixth consecutive year in which deposits grew faster than loans. The private individuals segment was the key driver of deposit growth. Deposits from private individuals grew by 9.0 per cent in 2019, posting the strongest growth since 2015. Private savings amounted to BAM 13.24 billion and accounted for 55.6 per cent of total deposits. Corporate deposits grew by 6.9 per cent to BAM 5.56 billion and accounted for 23.3 per cent of total deposits. This is the lowest growth rate of corporate deposits since 2016, but also the seventh year in which corporate deposits were rising. Summing up, the loan-to-deposits ratio fell to 87.1 per cent, indicating strong stability in the banking sector. The loan-to-deposits ratio has been below 100 per cent since July 2016.

The loans and deposits growth was accompanied by improved financial stability indicators and profitability of the local banking sector. The non-performing loan ratio (NPL) fell to 7.5 per cent in 2019, which is the lowest NPL level since the first quarter of 2010. The NPL ratios was 5.9 per cent in the private individuals sector and 8.8 per cent in the corporate sector. The banking sector's capitalisation rate also remained at high 18.0 per cent and thus still far above the legal minimum of 12.0 per cent. In the same period, banks in Bosnia and Herzegovina posted a net profit of BAM 370.5 million, which is the highest annual net profitability amount in the country's history. The banking sector's liquidity grew steadily and the liquidity ratio was 29.6 per cent at the end of 2019, reaching the highest value since 2009. The banking sector's liquidity is attested by favourable central bank data, according to which the average balance on the central bank's reserve account is twice as high as the required average legal reserve (the average level of reserves in 2019 was BAM 2.69 billion, while the balance on the central bank's reserve account reached an average of BAM 5.72 billion).

The consolidation process in the country's banking sector continued in 2019 as the local privately-owned ASA banka d.d. acquired Vakufska banka. But the number of banks at year's end remained unchanged (23 banks like in the year before), as the merger process of these two banks was not yet formally completed as at December 31, 2019. Further consolidations are inevitable, due to the fact that the three largest banking groups still hold a market share of almost 50 per cent measured by key financial positions (assets, loans, deposits, capital). All in all, with 9,739 employees and 825 units, the banking sector remains the most stable and successful sector of overall economy.

After seven years of positive economic growth, Bosnia and Herzegovina, like the entire developed world, is facing a new recession. The beginning of 2020 was marked by the outbreak of the Covid pandemic and restriction measures to prevent the disease from spreading, which caused a downturn in global economic activity on a scale unprecedented in modern times. The drastic restrictions will lead to the deepest recession since the Great Depression in many countries, including Bosnia and Herzegovina. Our base scenario relies on the assumption that the pandemic and the restriction measures should reach their peak in the second quarter of the year for most countries, including most countries of the EU and the region, while in the second half of the year these countries should see a revival and recovery of economic activity. There is great uncertainty about this assumption as much remains unknown about the behaviour of the virus.

Within these assumptions, however, we target a GDP decline in 2020 by -5.2 per cent year-on-year, which is the deepest recession Bosnia and Herzegovina has seen since the end of the žBosnian war'. Compared with the base scenario before the Covid outbreak, this represents a loss of GDP or economic production of 7.8 percentage points in just one year. The recession in 2020 will manifest itself in a decline of private consumption due to the restriction measures, on the one hand, and an increase in unemployment and pressure on salary growth, on the other hand. Private consumption in Bosnia and Herzegovina is expected to drop by -6.8 per cent year-on-year (or contribute -5 percentage points to overall GDP), which is the strongest decline ever and much sharper than during the global financial crisis 2009. Due to disrupted supply chains and collapsed demand in external markets, export of goods and services is expected to decrease by -9 per cent year-on-year (-3.7 percentage points).

Import of goods and services is expected to drop even more dramatically due to lower private consumption and less private investments in the country. The decline of import is additionally driven by a strong drop in global oil prices, as oil (mineral products) is our largest import category. Import is expected to decline by -10 per cent year-on-year (-5.3 percentage points of GDP) and consequently, net export should have an adverse impact on overall GDP (-1.6 percentage points of GDP). The only stimulus effect on economy is expected to come from public consumption (2.3 per cent year-on-year), while large-scale fiscal support measures (direct and indirect) in a total amount of € 1.25 billion (or 7.1 per cent of GDP), mainly driven by external funding, should yield a positive impact and help the economy recover in 2021.

We therefore expect slight GDP growth in 2021 of 3.3 per cent year-on-year (average growth rate in the 5 years before the Covid crisis), while it should take three consecutive years of economic recovery to cover the losses suffered in the production industry. For the first time since 2016, Bosnia and Herzegovina is expected to register deflation (-0.3 per cent year-on-year) in 2020 due to decreased import prices for oil and a collapse of domestic demand. We also expect an increase in the jobless rate by 1.3 percentage points to 17 per cent, as well as the pressure on the labor market to continue into the next year. Due to lower imports and remittances from abroad, the overall current account deficit is expected to shrink only slightly to -3 per cent of GDP in 2020. Due to large inflows of external debt in foreign currencies, the Central Bank's foreign currency reserves and the Currency Board will remain stable.

Key Economic Data

	2015	2016	2017	2018	2019	2020e
Nominal GDP (EUR billion)	14.6	15.3	16.0	17.1	17.9	17.6
Real GDP (% yoy)	3.1	3.2	3.2	3.7	2.6	(5.2)
GDP per capita (EUR)	4,134	4,347	4,574	4,880	5,114	5,022
GDP per capita (EUR in PPP)	7,500	7,900	8,300	8,800	9,400	9,822
Private consumption (real growth % yoy)	1.6	2.1	1.0	2.2	2.4	(6.8)
Gross investment (real growth % yoy)	2.9	10.8	10.1	4.7	6.2	(11.0)
Industrial output (% yoy)	2.6	4.3	3.1	1.6	(5.5)	(4.0)
Production prices (avg % yoy)	0.6	(2.3)	3.0	3.9	0.2	(1.5)
Consumer prices – inflation (avg % yoy)	(1.0)	(1.1)	1.3	1.4	0.6	(0.3)
Average gross salaries in industry (% yoy)	0.6	1.5	2.6	3.5	2.8	(3.5)
Unemployment rate (avg %)	27.7	25.4	20.5	18.4	15.7	17.0
Budget deficit (% GDP)	0.7	1.2	2.6	2.3	1.5	(2.8)
Public foreign debt (% GDP)	41.9	40.4	36.1	34.2	32.9	38.0
Trade deficit (% GDP)	(24.0)	(22.5)	(22.7)	(22.0)	(22.9)	(21.0)
Current account deficit (% GDP)	(5.1)	(4.7)	(4.3)	(3.7)	(3.5)	(3.1)
Net foreign investments (% GDP)	1.8	1.8	2.1	2.5	2.7	2.4
Foreign reserves (EUR billion)	4.4	4.9	5.4	6.0	6.4	6.8
Gross foreign debt (% GDP)	72.2	72.2	68.5	65.5	63.1	71.7
EUR/BAM (eop)	1.96	1.96	1.96	1.96	1.96	1.96
EUR/BAM (avg)	1.96	1.96	1.96	1.96	1.96	1.96
USD/BAM (eop)	1.80	1.85	1.63	1.71	1.74	1.73
USD/LCY (avg)	1.76	1.77	1.73	1.66	1.75	1.76

Source: Source: Central Bank of BiH, Statistics Agency of BiH, Raiffeisen *RESEARCH*

Overview of Banking Trends

	2019	2018	2017	2016	2015	2014
Aggregate balance sheet data						
Total assets, EUR million	17,071.6	15,828.4	14,440.2	13,343.6	12,756.0	12,298.8
growth in % yoy	7.9%	9.6%	8.2%	4.6%	3.7%	4.3%
Total loans, EUR million	10,613.5	9,963.0	9,419.3	8,794.8	8,623.9	8,422.8
growth in % yoy	6.5%	5.8%	7.1%	2.0%	2.4%	2.8%
Total deposits, EUR million	12,188.3	11,120.5	10,056.6	9,076.4	8,452.1	7,861.2
growth in % yoy	9.6%	10.6%	10.8%	7.4%	7.5%	7.9%
Loan to deposit ratio	87.1%	89.6%	93.7%	96.9%	102.0%	107.1%
Structural information						
Number of banks	23	23	23	23	26	26
Market share of state-owned banks, in %	2.6	2.6	1.4	2.1	2.9	2.7
Market share of foreign-owned banks, in %	83.7	84.8	85.9	85.5	84.4	84.4
Profitability and efficiency						
Average return on assets (ROA)	1.5	1.3	1.5	1.1	0.3	0.8
Average return on equity (ROE)	10.5	9.6	10.2	7.3	2.0	5.4
Non-performing loans (% of total loans)	7.5	8.8	10.0	11.8	13.7	14.2

Raiffeisen Bank International

RBI regards Austria, where it is a leading corporate and investment bank, as well as Central and Eastern Europe (CEE) as its home market. Subsidiary banks cover 13 markets across the region. In addition, the Group includes numerous other financial service providers active in areas such as leasing, asset management and M&A.

In total, almost 47,000 RBI employees serve 16.7 million customers in more than 2,000 business outlets, the vast majority of which are in CEE. RBI AG shares have been listed on the Vienna Stock Exchange since 2005.

At year-end 2019, RBI's total assets stood at € 152 billion. The regional Raiffeisen banks hold approximately 58.8 per cent of RBI shares, with the remaining approximately 41.2 per cent in free float.

SUPPORT FOR THE YOUTH

One of the aspects of Raiffeisen's corporate responsibility is caring for the youth by providing them with different types of support.

In its efforts to present its products to the young population in a tailor-made and modern approach, the bank developed a special product several years ago - the Raiffeisen CLUB set which is available free-of-charge to people aged from 15 to 26 until they get a job or turn 26. This set contains many banking products and services, including digital services which are especially appealing to young people.

Raiffeisen Bank has also **donated the Raiffeisen CLUB** Youth Corner to the Faculty of Business and Economy of Sarajevo - one of the country's largest educational institutions - where students can take a break between lectures.

Students of the Faculty of Business and Economy, the Faculty of Law and the Faculty of Electrical Engineering of Sarajevo University, who seek to expand their knowledge and practical experience in a business environment and keep up with technology trends, are provided with the possibility **to do their internship in Raiffeisen Bank.**

The bank also supports the **dual education system**, by taking in students of the Vocational School of Economy for practical education during their second, third and fourth grade.

This year, **Raiffeisen Bank has also supported the opening of the Homework Hub** - the first multifunctional space for both high school and university students, and freelancers. This is the first mini university hub in Bosnia and Herzegovina resulting from the idea of young people who have decided to start their own business. Young people are provided with motivational space for studying in groups or individually, giving instructions, holding seminars, conferences and workshops..

Another special type of supporting young people, as well as art and culture is ***Raiffeisen GALLERY*** – a special exhibition space in the bank's Head Office building where the top students of the Academy of Fine Arts are given an opportunity to exhibit their work.

Raiffeisen *BANK* d.d. Bosna i Hercegovina

Raiffeisen *BANK* d.d. Bosna i Hercegovina is a subsidiary of Raiffeisen Bank International AG (RBI), one of the leading universal type banks in the region of Central and Eastern Europe (CEI) and one of the top commercial and investment banks in Austria.

The bank has operated as a financial institution since November 1992, when it was founded as Market banka d.d. Sarajevo with a dominant share of privately owned capital (above 90 per cent).

Thanks to the quality of its business, it soon stood out as a very successful and profitable bank. Raiffeisen *BANK* d.d. Bosna i Hercegovina was a leading banking partner to numerous international financial organizations (World Bank, IFC, KfW, SOROŠ and EBRD) in the implementation of credit lines between 1996 and 2000.

Raiffeisen Zentralbank Österreich AG-Vienna acquired Market banka d.d. on July 21, 2000. It was then successfully integrated into the Raiffeisen network where it now operates as Raiffeisen *BANK* d.d. Bosna i Hercegovina. RZB became the sole shareholder of Hrvatska Poštanska banka in May 2001 and renamed it Raiffeisen *BANK* HPB. Since January 1, 2003, when Raiffeisen *BANK* HPB was successfully integrated into Raiffeisen *BANK*, the bank has been operating under the single name 'Raiffeisen *BANK* d.d. Bosna i Hercegovina'. This allowed Raiffeisen to strengthen its position in the local market and significantly expand its business network.

In the years that followed, Raiffeisen *BANK* d.d. Bosna i Hercegovina took on a pioneering role in the country's banking industry and was one of the first banks to sign a deposit insurance agreement. After the transfer of payment services from the Payment Transactions Authority to commercial banks Raiffeisen *BANK* d.d. Bosna i Hercegovina successfully made the transition and was one of the most active banks during the introduction of the euro. The bank was one of the first to launch card business, the first to offer online banking services and a SME program, and the first to negotiate and place foreign credit lines (DEG, KfW and IFC). It also became the first bank to operate in both entities of Bosnia and Herzegovina. Having established a presence in Banja Luka in March 2001, the bank continued to operate in the single market of Bosnia and Herzegovina (BiH).

Raiffeisen *BANK* Bosna i Hercegovina reaffirmed its leading position in the local banking market in 2004 when it became the first bank in the country with assets exceeding BAM 2.0 billion. In the years that followed its assets almost doubled reaching BAM 4.7 billion, as of December 31, 2019.

By that time, Raiffeisen *BANK* Bosna i Hercegovina operated 100 business outlets with 1,341 employees.

Numerous international and local awards attest to the successful business operations of Raiffeisen *BANK* Bosna i Herzegovina. These include the Global Finance 'Best Bank in BiH' and 'Best Digital Bank in BiH' awards, The Banker 'Bank of the Year' award, EMEA Finance 'Best Bank in BiH' award and the local awards the 'Golden BAM' and the 'Crystal Prism'.

Investment in new technology, experienced staff, the active development of its personnel, its focus on the individual customer approach and implementation of new sales channels and new state-of-the-art products and services are the key competitive advantages of Raiffeisen *BANK* d.d. Bosna i Hercegovina in the local market.

Shareholder Structure of Raiffeisen *BANK* d.d. Bosna i Hercegovina:

Raiffeisen SEE Region Holding GmbH	100.00%

In addition to Raiffeisen BANK Bosna i Hercegovina, the Raiffeisen Group in Bosnia and Herzegovina also comprises Raiffeisen INVEST, Raiffeisen LEASING, Raiffeisen ASSISTANCE and Raiffeisen CAPITAL.

Vision

- We are the most recommended financial services group

Mission

- We transform continuous innovation into superior customer experience

The gable cross is part of the trademark used by almost every company in the Raiffeisen Banking Group in CEE. It represents two stylized horse's heads, crossed and attached to the gable of a house. It is a symbol of protection rooted in old European folk tradition: a gable cross on the roof was believed to protect the house and its occupants from outside dangers and to ward off evil. It symbolizes the protection and security that the members of the Raiffeisen banks enjoy through their self-determined collaboration. Today, the gable cross is one of Austria's best-known trademarks and a well-recognized brand in CEE.

The Management Board

Heribert Fernau, Executive Director
Maida Zahirović Salom, Executive Director
Karlheinz Dobnigg, Chairman of the Management Board
Mirha Hasanbegović, Executive Director
Ante Odak, Executive Director


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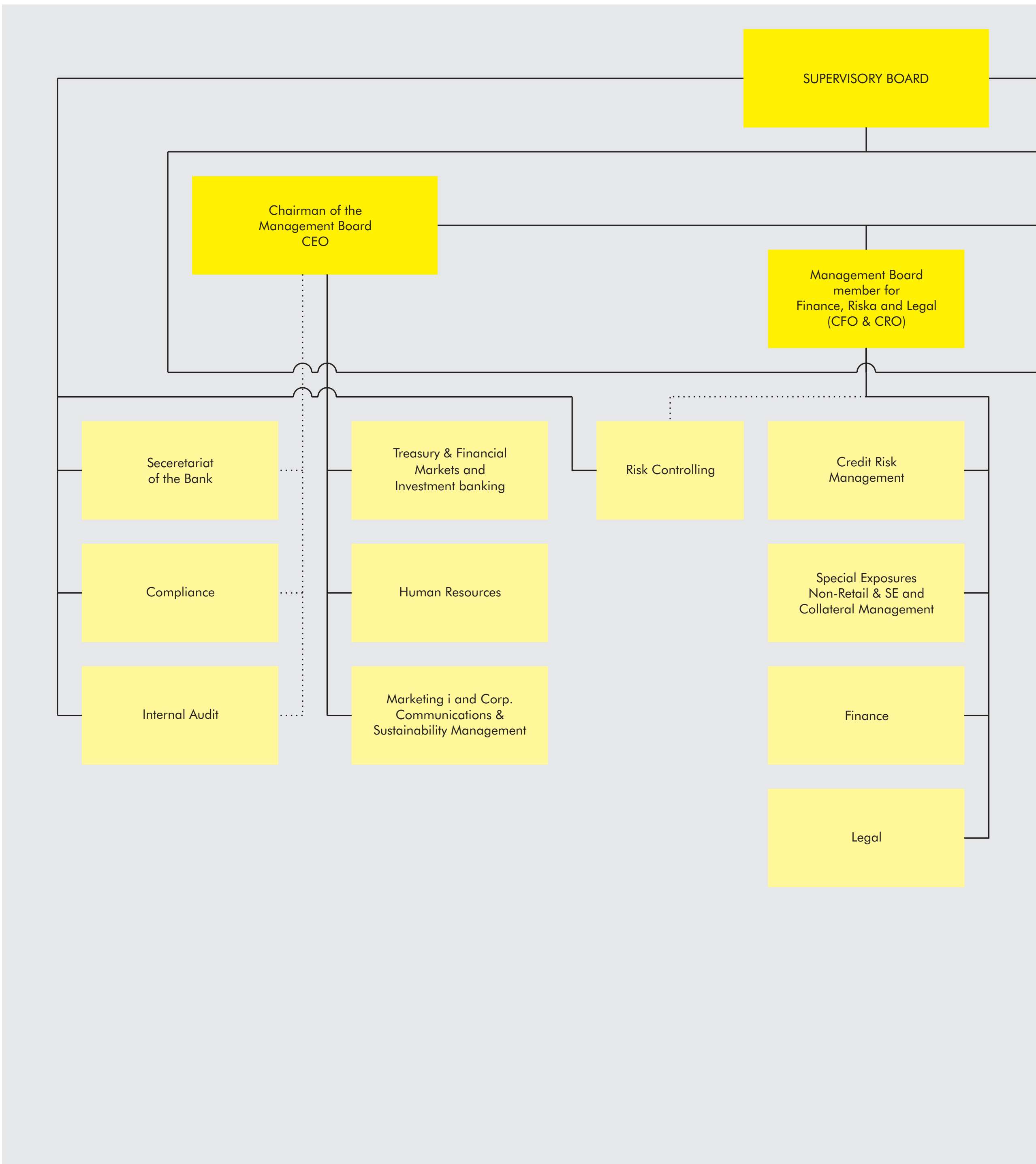
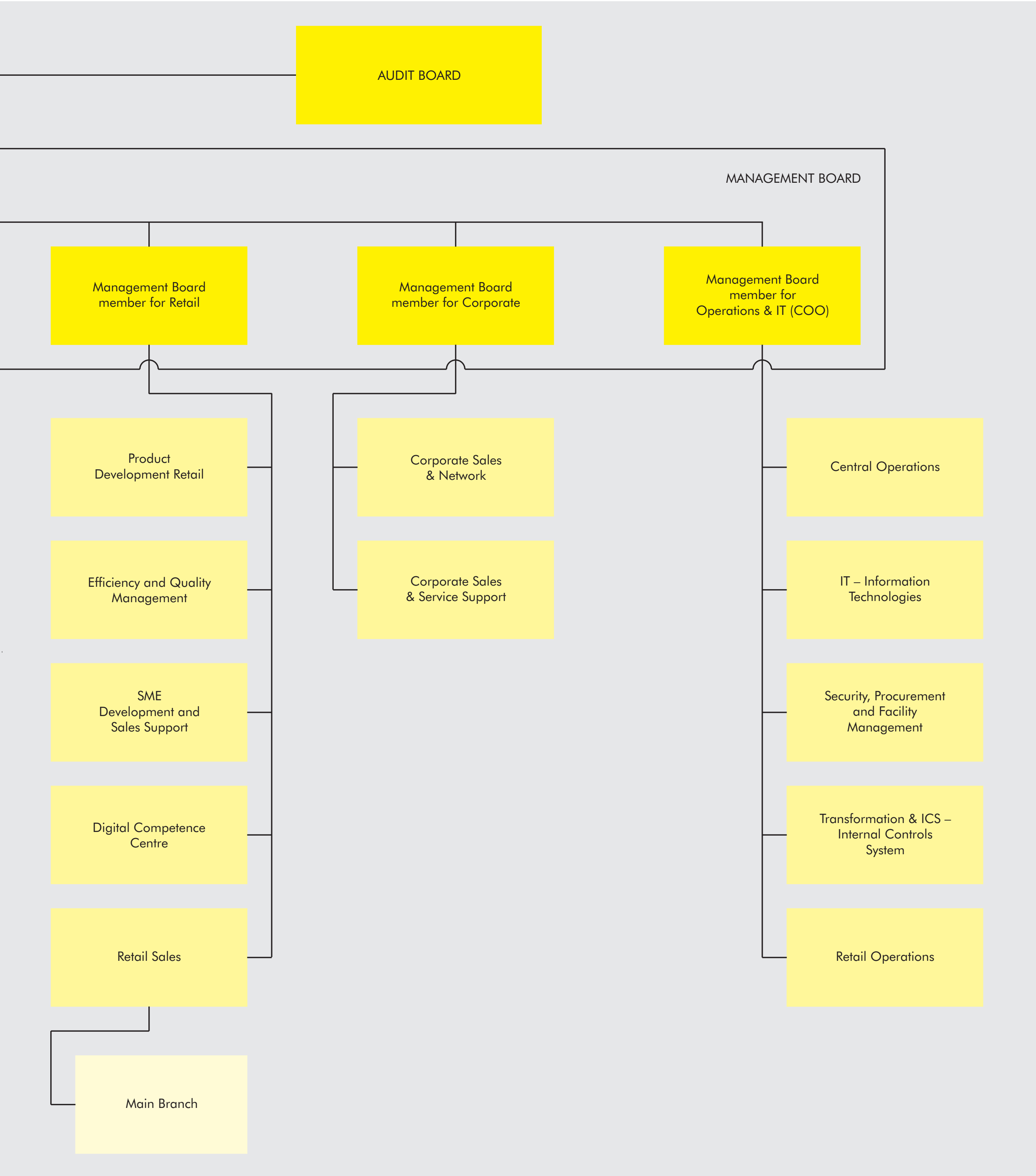
Organisational Structure




AUDIT BOARD
MANAGEMENT BOARD
Management Board member for Retail
Management Board member for Corporate
Management Board member for Operations & IT (COO)
Product Development Retail
Efficiency and Quality Management
SME Development and Sales Support
Digital Competence Centre
Retail Sales
Main Branch
Corporate Sales & Network
Corporate Sales & Service Support
Central Operations
IT – Information Technologies
Security, Procurement and Facility Management
Transformation & ICS – Internal Controls System
Retail Operations

Balance Sheet

as at 31 December 2019 and 2018

	2019 (BAM 000)	2019 (EUR 000)	2018 (BAM 000)	2018 (EUR 000)
ASSETS				
Cash and cash equivalents	1,473,344	753,309	1,159,893	593,044
Legal reserve with the Central Bank of BiH	398,999	204,005	376,261	192,379
Loans and advances to customers	2,490,432	1,273,338	2,415,608	1,235,081
Financial assets at fair value through other comprehensive income	545	279	537	275
Assets held for sale	-	-	71	36
Financial assets at fair value through profit and loss	6,966	3,562	81,560	41,701
Financial assets at amortised cost	143,178	73,206	146,772	75,043
Investments in subsidiaries	11,050	5,650	11,050	5,650
Investments in associates and joint investments	3,827	1,957	2	1
Income tax prepayments	359	184	1,927	985
Deferred tax assets	107	55	159	81
Other assets and receivables	36,444	18,634	49,087	25,098
Investment property	30,656	15,674	32,687	16,713
Tangible and intangible fixed assets	122,154	62,456	120,545	61,634
Right-of-use assets	11,215	5,734	-	-
TOTAL ASSETS	**4,729,276**	**2,418,040**	**4,396,159**	**2,247,720**
LIABILITIES				
Due to banks	337,665	172,645	176,738	90,365
Due to customers	3,682,424	1,882,793	3,528,207	1,803,944
Provisions	24,242	12,395	24,416	12,484
Rent liabilities	10,986	5,617	-	-
Other liabilities	49,096	25,102	34,911	17,850
Subordinated debt	61,804	31,600	61,800	31,598
Deferred taxes	514	263	-	-
TOTAL LIABILITIES	**4,166,731**	**2,130,416**	**3,826,072**	**1,956,240**
EQUITY				
Share capital	247.167	126.374	247.167	126.374
Share premium	4.473	2.287	4.473	2.287
Fair value reserves	315	161	307	157
Regulatory reserves	-	-	102.443	52.378
Retained earnings	310.590	158.802	215.697	110.284
TOTAL EQUITY	**562.545**	**287.625**	**570.087**	**291.481**
TOTAL EQUITY AND LIABILITIES	**4.729.276**	**2.418.040**	**4.396.159**	**2.247.720**

Income Statement

for the years ended 31 December 2019 and 2018

	2019 (BAM 000)	2019 (EUR 000)	2018 (BAM 000)	2018 (EUR 000)
Interest and interest-like income	154,930	79,214	154,585	79,038
Interest expenses and interest-like expenses	(27,084)	(13,848)	(28,704)	(14,676)
Net interest income	**127,846**	**65,367**	**125,881**	**64,362**
Fee and commission income	96,038	49,103	90,303	46,171
Fee and commission expenses	(22,895)	(11,706)	(19,475)	(9,957)
Net fee and commission income	**73,143**	**37,397**	**70,828**	**36,214**
Net financial income	12,454	6,368	11,633	5,948
Other operating income	7,665	3,919	7,713	3,944
Operating income	**221,108**	**113,051**	**216,055**	**110,467**
Administrative expenses	(101,555)	(51,924)	(102,417)	(52,365)
Depreciation and amortization	(13,268)	(6,784)	(9,204)	(4,706)
Operating expenses	**(114,823)**	**(58,708)**	**(111,621)**	**(57,071)**
Earning before impairment losses, provisions and income tax	**106,285**	**54,343**	**104,434**	**53,396**
Provisioning for impairment losses	(31,050)	(15,876)	(10,323)	(5,278)
PROFIT BEFORE INCOME TAX	**75,235**	**38,467**	**94,111**	**48,118**
Income tax	(18,334)	(9,374)	(9,652)	(4,935)
NET PROFIT FOR THE YEAR	**56,901**	**29,093**	**84,459**	**43,183**
Earnings per share (BAM)	57.42	29.36	85.43	43.68

Key financial ratios

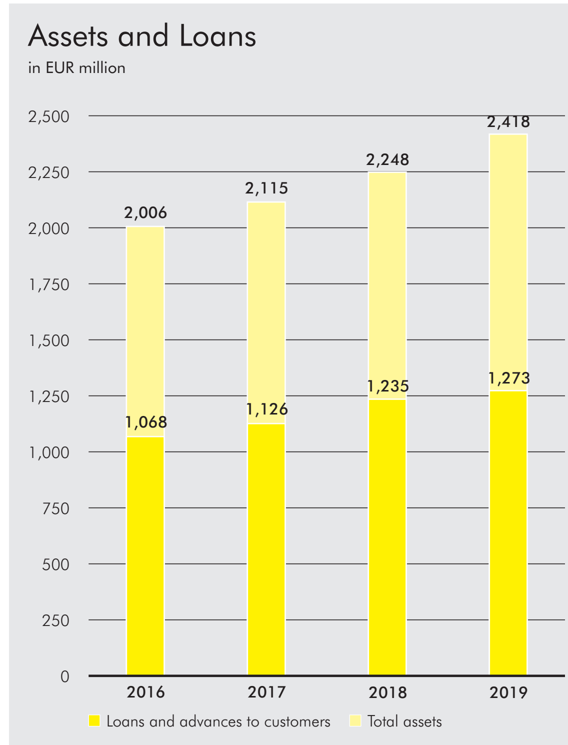
The presented data is stated or calculated on the basis of the bank's revised financial statements

	2019 (BAM 000)	2018 (BAM 000)	2017 (BAM 000)	2016 (BAM 000)
Year-end				
Total assets	4,729,276	4,396,159	4,136,644	3,922,975
Customer deposits	3,682,424	3,528,207	3,289,275	3,188,890
Loans and advances to customers	2,490,432	2,415,608	2,202,535	2,089,206
Share capital	251,640	251,640	251,640	251,640
Share capital and reserves	562,545	570,087	547,735	520,270
Annual results				
Total income	221,108	216,055	210,823	212,056
Total operating expenses	145,873	121,944	129,392	151,117
Profit before tax	75,235	94,111	81,498	60,939
Profit after tax	56,901	84,459	72,620	52,529
Ratios				
Return on assets (ROA)	1.6%	2.2%	2.0%	1.6%
Return on equity (ROE)	11.5%	17.6%	15.4%	11.3%
Cost/income ratio (CIR)	53.6%	53.6%	52.0%	53.3%

	2019 (EUR 000)	2018 (EUR 000)	2017 (EUR 000)	2016 (EUR 000)
Year-end				
Total assets	2,418,040	2,247,720	2,115,032	2,005,785
Customer deposits	1,882,793	1,803,944	1,681,780	1,630,454
Loans and advances to customers	1,273,338	1,235,081	1,126,138	1,068,194
Share capital	128,661	128,661	128,661	128,661
Share capital and reserves	287,625	291,481	280,052	266,010
Annual results				
Total income	113.051	110.467	107.792	108.423
Total operating expenses	74.584	62.349	66.157	77.265
Profit before tax	38.467	48.118	41.669	31.158
Profit after tax	29.093	43.183	37.130	26.858
Ratios				
Return on assets (ROA)	1.6%	2.2%	2.0%	1.6%
Return on equity (ROE)	11.5%	17.6%	15.4%	11.3%
Cost/income ratio (CIR)	53.6%	53.6%	52.0%	53.3%

Assets and loans

Net loans to customers account for 53 per cent of total assets in 2019, while their share in 2018 stood at 55 per cent. Gross loans to customers account for 57 per cent, whereas gross PI loans make up 60 per cent and corporate loans 40 per cent of the total loan portfolio.



	2019 (BAM 000)	2018 (BAM 000)	2017 (BAM 000)	2016 (BAM 000)
Total assets	**4,729,276**	**4,396,159**	**4,136,644**	**3,922,975**
Loans and advances to customers	2,490,432	2,415,608	2,202,535	2,089,206

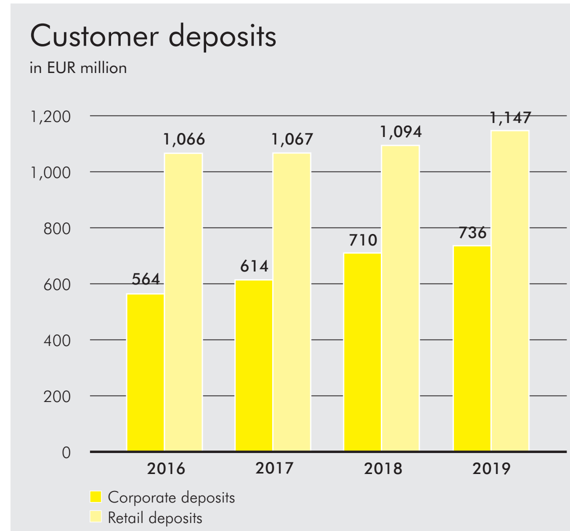
	2019 (EUR 000)	2018 (EUR 000)	2017 (EUR 000)	2016 (EUR 000)
Total assets	**2,418,040**	**2,247,720**	**2,115,032**	**2,005,785**
Loans and advances to customers	1,273,338	1,235,081	1,126,138	1,068,194

Lending

	2019 (BAM 000)	2019 (EUR 000)	2018 (BAM 000)	2018 (EUR 000)	Change %
Corporate loans	1,077,201	550,764	1,084,505	554,499	(0.67)%
Retail loans	1,606,302	821,289	1,515,830	775,032	5.97%
Gross loans	**2,683,503**	**1,372,053**	**2,600,335**	**1,329,530**	**3.20%**
Impairment	193,071	98,716	184,727	94,449	4.52%
Net loans	**2,490,432**	**1,273,338**	**2,415,608**	**1,235,081**	**3.10%**

Customer deposits

Deposits from private individuals make up 61 per cent of total deposits, which is an increase of BAM 104,370 thousand as a result of long-standing and successful business based on meeting customers' needs. Total deposits from private individuals consist of term deposits with a share of 36 per cent and sight deposits with a share of 64 per cent. The share of deposits from private individuals in total deposits at the end of 2018 and 2019 was the same, ie 61 percent.

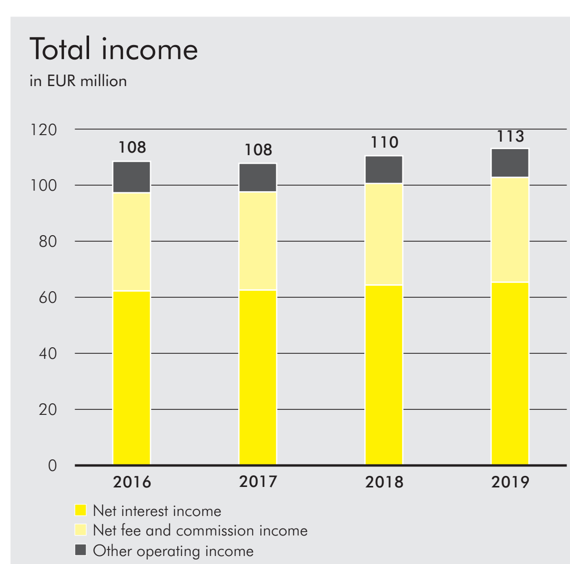


	2019 (BAM 000)	2018 (BAM 000)	2017 (BAM 000)	2016 (BAM 000)
Corporate deposits	1,439,245	1,389,398	1,201,591	1,103,403
Retail deposits	2,243,179	2,138,809	2,087,684	2,085,487

	2019 (EUR 000)	2018 (EUR 000)	2017 (EUR 000)	2016 (EUR 000)
Corporate deposits	735,874	710,388	614,364	564,161
Retail deposits	1,146,919	1,093,556	1,067,416	1,066,293

Total income (with total income structure)

Total income comprises net interest income of 58 per cent and net commission income of 33 per cent. Interest income remained almost unchanged compared to the previous year, while interest expenses are 6 per cent lower than in 2018.

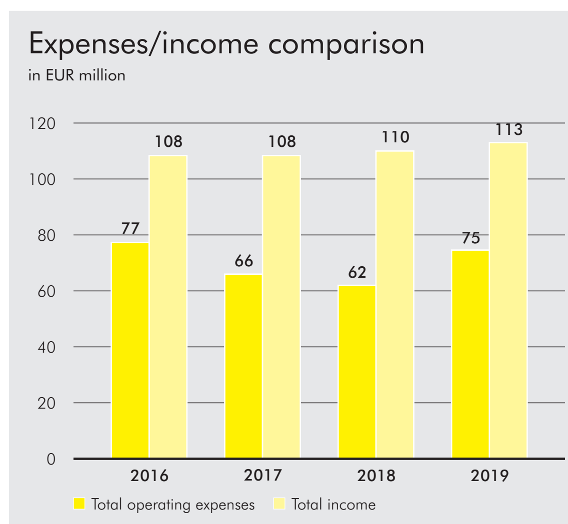


	2019 (BAM 000)	2018 (BAM 000)	2017 (BAM 000)	2016 (BAM 000)
Total income	**221,108**	**216,055**	**210,890**	**212,056**
Net interest income	127,846	125,881	122,429	121,842
Net fee and commission income	73,143	70,828	68,425	68,358
Other operating income	20,119	19,346	20,036	21,856

	2019 (EUR 000)	2018 (EUR 000)	2017 (EUR 000)	2016 (EUR 000)
Total income	**113,051**	**110,467**	**107,826**	**108,423**
Net interest income	65,367	64,362	62,597	62,297
Net fee and commission income	37,397	36,214	34,985	34,951
Other operating income	10,287	9,891	10,244	11,175

Operating expenses/total income comparison

Total operating expenses grew slightly in the period under review (2018-2019). Stricter cost control, by both cost organization and structure, resulted in an improvement of the cost/income ratio.



	2019 (BAM 000)	2018 (BAM 000)	2017 (BAM 000)	2016 (BAM 000)
Total operating expenses	145,873	121,944	129,392	151,117
Total income	221,108	216,055	210,823	212,056

	2019 (EUR 000)	2018 (EUR 000)	2017 (EUR 000)	2016 (EUR 000)
Total operating expenses	74,584	62,349	66,157	77,265
Total income	113,051	110,467	107,792	108,423

Raiffeisen GALERIJA

RAIFFEISEN GALLERY

The blend of art and banking has already become an affirmed concept all over the world. This is why we designed part of the Raiffeisen Bank Head Office building in Sarajevo to serve as a gallery. Back in 2009, we established our very successful cooperation with the Academy of Fine Arts in Sarajevo. As part of this cooperation, each year the bank gives the best students of the Academy an opportunity to exhibit their work and supports them through one-off scholarships.
Our core values oblige us to help our community. Being aware of the challenging position within arts and culture, we support young artists at the onset of their career by offering them a chance to present their work in non-typical gallery premises such as a bank.

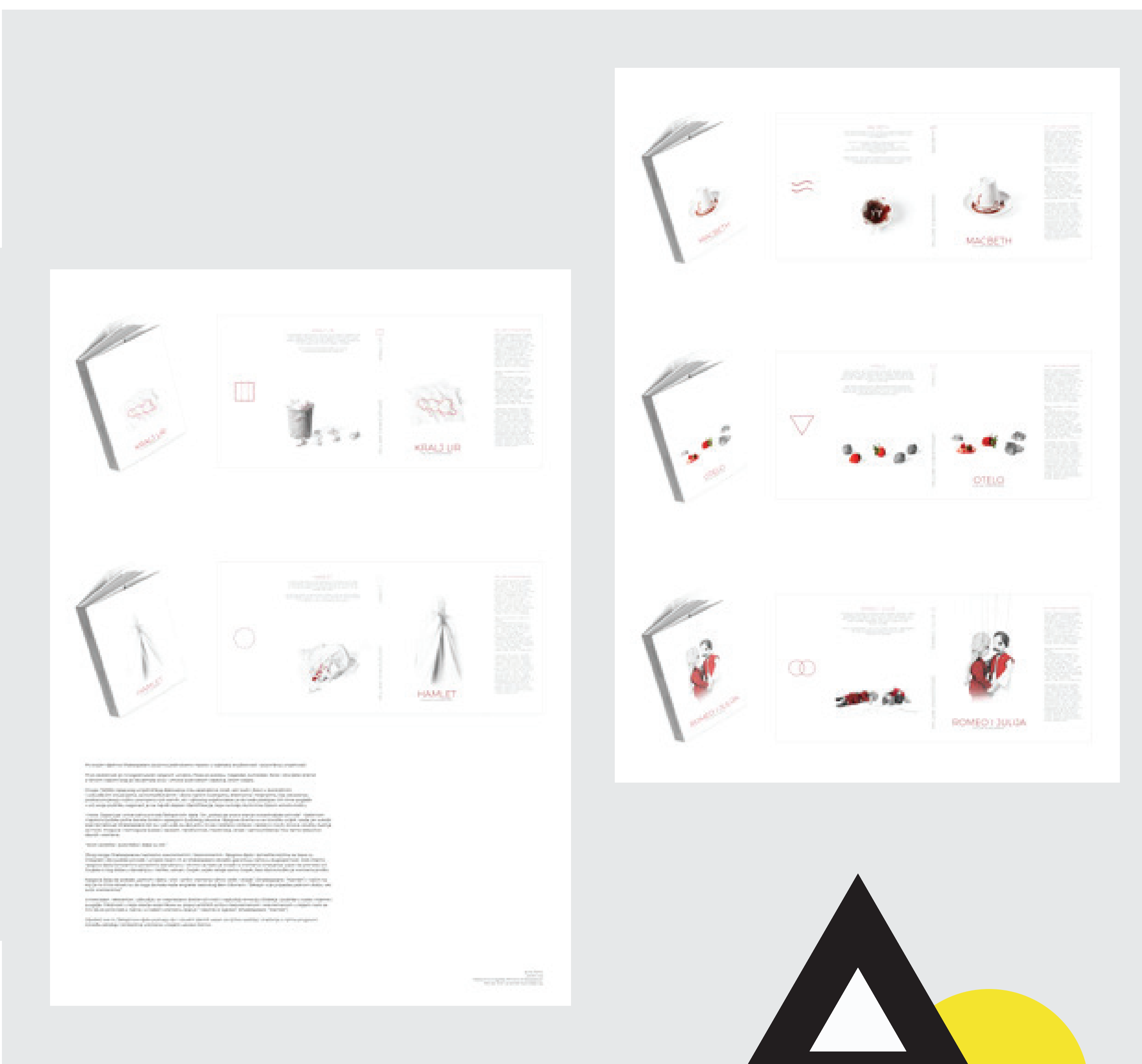
So far, we have hosted **eleven joint and more than 60 individual exhibitions.** In 2019, the opportunity to exhibit their work at the Raiffeisen GALLERY was given to Ismar Žalica, Matei Osenk Saller, Dolores Mrnjavac, Damir Ćatibović, Safet Begić and Ana Matić.

Each exhibition is a sales opportunity that provides visitors with a chance to support these young artists by buying their works of art.

It gives us great pleasure to see that the public is becoming increasingly aware of this project and that the number of purchases of these works of art has increased strongly in recent times. Art lovers can admire these art exhibitions at the bank's head office located at Zmaja od Bosne every business day from 8 a.m. to 4 p.m.

Ismar Žalica

- Ismar was born in Sarajevo in 1995. He graduated from the Sarajevo Academy of Fine Arts with a degree in Graphics Design.
- He was honored with the "Alija Kučukalić" award as top student of the Academy in 2018.



Business Overview

Corporate Banking

The Corporate Division of Raiffeisen Bank continued in 2019 to maintain and strengthen its high quality relationships with existing customers, focusing at the same time on building new partner relationships.

The loan portfolio continued its growth trend from previous years, posting an increase of the average loan volume of 11 per cent compared with 2018.

The strongest lending activities were recorded in the privately-owned companies sector, both local and international, where the bank participated in significant investments in the production, telecommunication and trade sectors.

The focus was placed on both increasing the loan portfolio and preserving its quality and soundness. These activities decreased the share of non-performing loans in the total loan portfolio from 8.8 per cent in 2018 to 7.2 percent in 2019.

The stable and constantly high volume of deposits attests to the stability and safety that the bank warrants to its customers. The average volume of deposits increased by 9.8 per cent compared to the previous year.

We keep our primary focus on customer satisfaction. In this regard, Raiffeisen Bank continued its good business practices of hosting regional customer events in 2019, in order to preserve partner relationships with customers and identify their needs.

In synergy with the Raiffeisen Group, international customers are offered a specially developed business model that they have appreciated for many years. This is confirmed by the fact that the bank is doing business with almost every significant international group in Bosnia and Herzegovina.

Providing active customer support not only enabled the bank to keep its existing customers but also to acquire new ones: the bank had 3,087 corporate customers by the end of 2019.

The commitment to raising the satisfaction of our customers requires constant improvements of internal processes. We successfully implemented the Document Management System in 2019. It allows us to assess our customers in a structured process and address their needs even faster and better.

SME Business

Raiffeisen Bank continued in 2019 to build and maintain long-standing business relationships with existing customers within the small and medium enterprises segment (SME). In order to establish and strengthen long-standing customer relationships, actions were taken throughout the year to improve our services.

Numerous activities were initiated in 2019 to improve the quality of service and introduce new services, to meet our customers' demands and adjust to the market. With our innovations and improvements we want to make a positive contribution to our customers' business in order to further strengthen our relations with them and make them long-lasting.

In 2019, we also implemented a new customer approach through a revised customer segmentation method. By a new sub-segmentation of customers, we have enabled an adjusted approach to customers with similar needs and profiles, in order to support their business even better.

Our digital services enable customers to do their business with us more efficiently. In the period ahead, our focus will be placed on promoting our digital services and enhancing them for SME customers, especially in the cash business at our AMTs, where customers will be able to deposit their daily cash intakes, as well as other digital services.

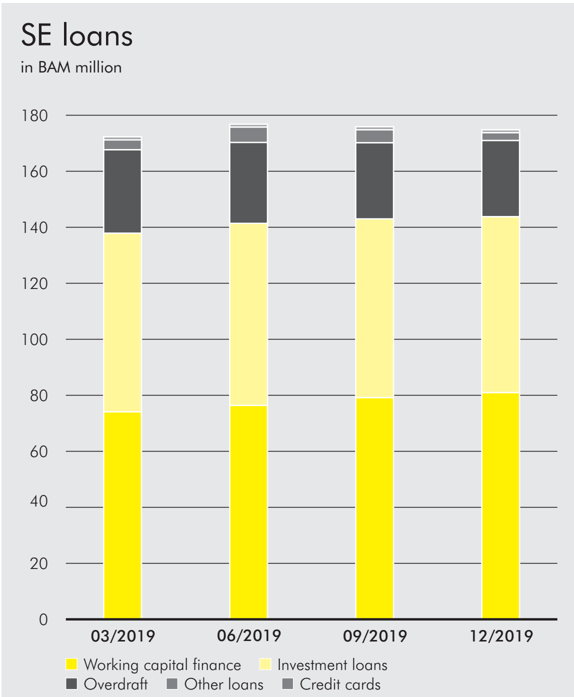
In the period ahead, the bank will continue to provide support to SME customers through a wide range of products and services with holistic financial solutions for each customer.

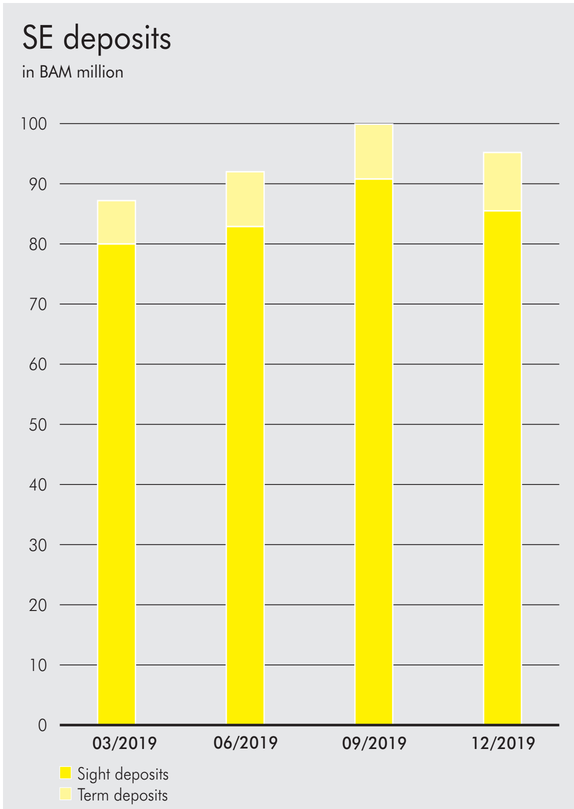
Development of the Loan and Deposit Portfolios (SE customers):

'000 BAM	March 2019	June 2019	September 2019	December 2019
Credit cards	1,089	1,037	1,050	1,008
Other loans	3,522	5,473	4,606	2,795
Overdraft	29,831	28,934	27,156	27,162
Investment loans	63,841	65,001	63,804	62,750
Working capital finance	74,075	76,414	79,174	81,048

The total value of the SE loan portfolio stood at BAM 174.8 million as of December 31, 2019. Growth was recorded in the working capital financing product, while investment loans decreased compared with December 31, 2018. The SE deposits portfolio amounted to BAM 95.1 million as of December 31, 2019 and was dominated by sight deposits.

'000 BAM	March 2019	June 2019	September 2019	December 2019
Term deposits	7,238	9,099	9,116	9,712
Sight deposits	79,952	82,884	90,802	85,458



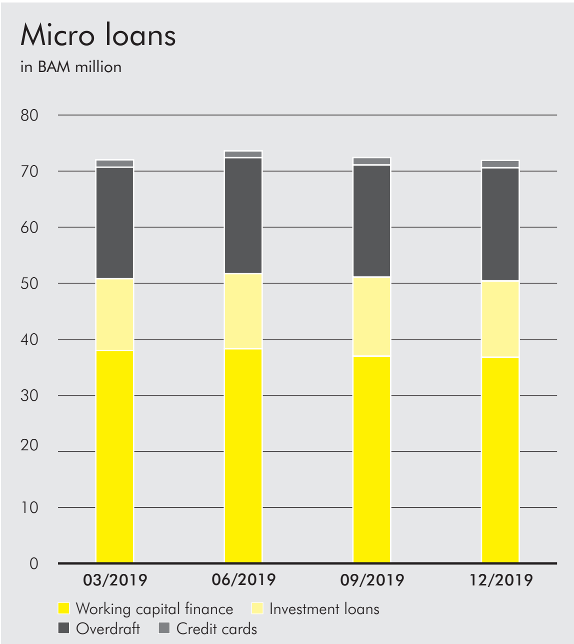


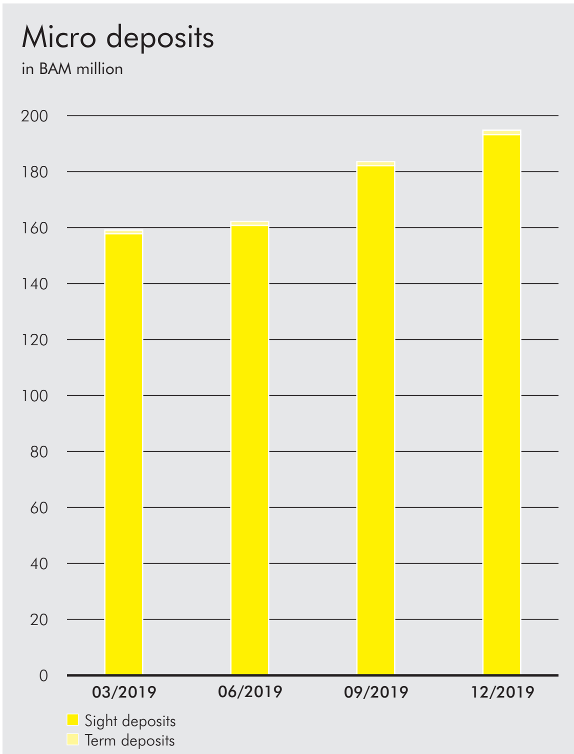
Development of the Loan and Deposit Portfolios (Micro customers):

'000 BAM	March 2019	June 2019	September 2019	December 2019
Credit cards	1,269	1,226	1,302	1,272
Overdraft	19,853	20,733	20,001	20,204
Investment loans	12,816	13,379	14,133	13,611
Working capital finance	37,991	38,317	36,989	36,794

The total loan portfolio of the Micro segment amounted to BAM 71.9 million as of December 31, 2019. Total loans grew by BAM 2.1 million compared with December 31, 2018. The micro deposit portfolio reached a value of BAM 194.7 million as of December 31, 2018. It was dominated by sight deposits, which grew steadily in 2019.

'000 BAM	March 2019	June 2019	September 2019	December 2019
Term deposits	1,348	1,432	1,528	1,579
Sight deposits	157,830	160,849	182,059	193,194





Retail Banking

Raiffeisen *BANK* d.d. Bosna i Hercegovina keeps up with the latest technological solutions in modern banking in order to constantly improve the quality of its services, develop new products and adjust its existing deposit, loan and card products to the demands of private individual customers.

Raiffeisen Premium Banking is a special retail banking concept based on a proactive approach to the individual needs of premium customers.

Neutral Business

The neutral business segment posted the following results in 2019:
- Income from exchange services rose by 8.48 per cent compared to 2018.
- There was an increase in the total number of transaction of 5.78 per cent compared to 2018.

Deposits from Private Individuals

Compared to 2018, total deposits of private individuals placed with Raiffeisen BANK d.d. Bosna i Hercegovina grew by 3.23 per cent in 2019.

Overview of deposits from private individuals

'000 BAM	2019	Change	2018	Change	2017	Change	2016
Sight deposits	894,800	8.8%	822,142	11.3%	738,962	8.0%	684,064
Term deposits	812,794	(5.6)%	861,115	(10.3)%	959,740	(7.1)%	1,033,633
Current accounts	533,203	15.6%	461,426	18.9%	388,145	9.0%	356,035
Total	**2,240,797**	**4.5%**	**2,144,683**	**2.8%**	**2,086,847**	**0.6%**	**2,073,732**

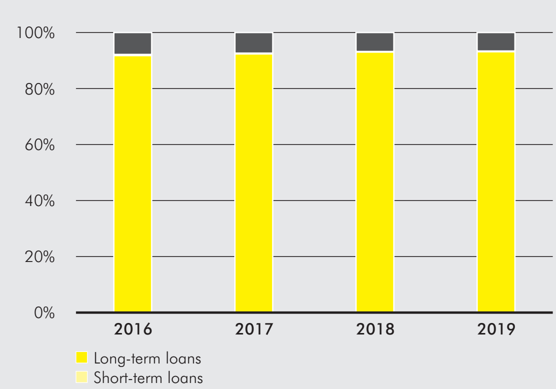
Private Lending

In order to respond to the demands of the market, Raiffeisen *BANK* d.d. Bosna i Hercegovina presented new benefits for its loan products in 2019:
- The housing loan campaign 'Sweet home for lower instalments' was presented in the first quarter of 2019.
- The cash loan campaign 'It's so easy' was presented in the fourth quarter of 2019.
- The KfW loans campaign – energy efficiency loans – was presented in the second quarter of 2019.

In addition to other benefits for customers, the campaign focused on the benefits of lower interest rates and the option for the customer to choose between a fixed or variable interest rate. The additional benefits of the campaign 'It's so easy' were no loan management fee, an easy application process at any branch (the loan application is completed automatically, thus saving the customer time and speeding up the loan handling process) and a special benefit for cash loans. The latter comprises of a repayment holiday of up to three months where the customer only pays the interest on the loan.

Raiffeisen *BANK* dd Bosna i Hercegovina works constantly to improve the quality of its services by implementing the latest technological solutions. It has introduced new products and adjusted existing ones to meet the needs of its customers in the lending, cards and deposit business with private individuals.

Structure of the PI loan portfolio



The loan portfolio was dominated by purpose and non-purpose loans with a 88.90 per cent share. Mortgage loans participated in total lending with a share of 10.10 per cent and lombard loans with a share of 1 per cent.

The best selling products from the loan offer were non-purpose loans, especially the following:
- non-purpose cash loans, with a 24.49 per cent share of total lending;
- XXL non-purpose loans, with a 22.29 per cent share of total lending;
- integral non-purpose loans for refinancing, with a 16.23 per cent share of total lending.
- pre-approved consolidation loans, with a 11.71 per cent share of total lending.

Overview of the PI loan portfolio

'000 BAM	2019	Change	2018	Change	2017	Change	2016
Long-term loans	1,486,574	6.4%	1,397,587	7.9%	1,295,209	4.2%	1,243,627
Short-term loans	3,726	30.4%	2,858	(29.1)%	4,028	(24.1)%	5,306
Card products	105,084	3.5%	101,529	(1.4)%	102,964	(2.7)%	105,810
Total	**1,595,384**	**6.2%**	**1,501,974**	**7.1%**	**1,402,202**	**3.5%**	**1,354,742**

Card Business

Cards

The card portfolio continued to grow throughout 2019 and the year ended with a total of 412,370 issued cards (cumulative figure). A total of 72,679 new cards were issued in 2019 alone, which translates into growth of 8.97 per cent compared to 2018.

The 'Mastercard World Shopping Credit Card' was the leader among the new cards with a share of 61.65 per cent. It allows customers to pay in instalments without any interest or fees at almost 3,000 points of sale.

The number of issued debit cards also grew. The biggest contributor to this growth was the contactless 'MasterCard Debit Card' with a share of 45.60 per cent. It allows customers to pay for goods and services within the country and abroad, withdraw cash and make online payments.

We also launched the contactless wristband in 2019 for even faster, easier and more secure payments.

It is a silicone, anti-allergic wristband that has a small payment card inserted. It is an additional card, but in smaller format that is more convenient and fun to wear.

The main benefits of the contactless wristband
- It safes time and efforts during payments,
- It is always handy for payments,
- A PIN is not required for purchases in amounts up to BAM 30,
- It turns payments into fun,
- It is light and convenient to wear,
- It is a secure payment method as the wristband never leaves its owner's hand,
- It is an ideal method to pay while you are on holiday, in a concert or entertainment park or during fitness.

The contactless payment functionality has been implemented for all card products of the bank. It allows customers to pay for goods and services using contactless technology, where data between the card and the reader is exchanged without having to swipe the card.

The contactless payment functionality allows the card holders to:
- have full control over their transactions,because their card remains in their possession during a transaction,
- Make transactions in amounts up to BAM 30 without having to enter their PIN (the PIN is only required for transactions above this amount).

Card Acceptance at Points of Sale (POS)

The POS network, with its contactless payment functionality, was extended further and the number of merchants and locations using POS terminals of Raiffeisen Bank increased.

There were 8,728 POS devices that allow contactless payment at 4,521 points of sale by the end of 2019. The volume of card transactions increased by 12.83 per cent and commissions from card transactions by 14.66 per cent compared to 2018.

The POS devices were upgraded in 2019 by the DCC payment functionality: DCC (dynamic currency conversion) allows customers to pay either in convertible marks or in the currency of the country where the card was issued.

Several campaigns were implemented that brought certain benefits to all process participants: merchants, card-holders and the bank. In pursuing this approach the bank once again confirmed its orientation towards establishing long-standing partner relationships with merchants and cardholders.

Card Acceptance at ATMs

There were 281 ATMs in the bank's network as of December 31, 2019. Thereof, 59 are multifunctional ATMs where customers can deposit/withdraw money and pay their bills.

To improve the quality of ATM services and the ATM configuration, several actions were taken in 2019. These included digital branches aimed at optimizing the duration of ATM transactions and providing most efficient and convenient services. The DCC functionality was also implemented at ATMs, where customers can withdraw cash either in convertible marks or in the currency of the country where the card was issued.

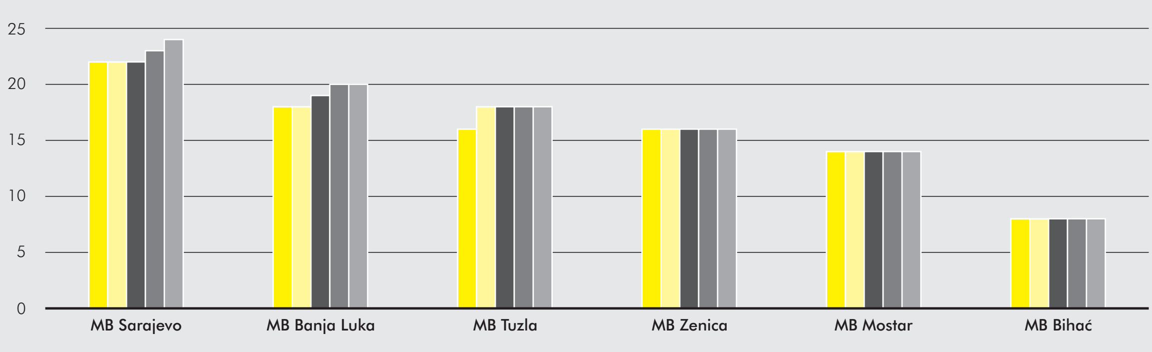
A list of Raiffeisen Bank ATMs is available at www.raiffeisenbank.ba.

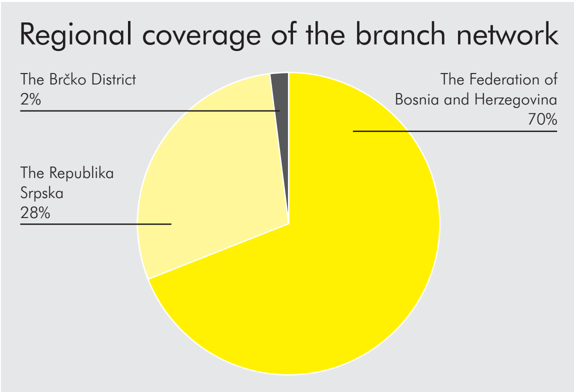
Business Network Coordination

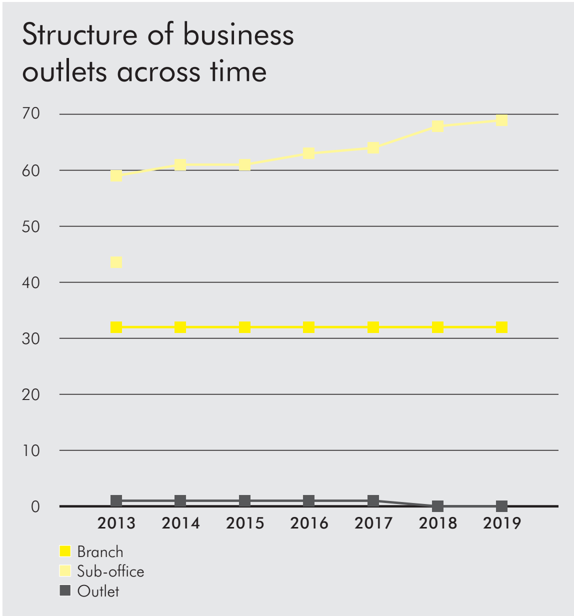
The business network was expanded in 2019 by one new outlet: Ciglane Agency as part of the Sarajevo Main Branch. The bank had a business outlet network of 100 branches as of December 31, 2019 offering products and services to customers as well as six regional branches that act as the hubs of the business network.

The regional branches are located in the country's administrative and political centers and provide the branch network with administrative and professional support.

Development of the branch network from 2015 to 2019







Quality Management

Raiffeisen Bank has again demonstrated its commitment to continuously improve the quality of service in order to meet the actual requirements of its customers.

In doing so, the bank has again satisfied the highest European quality management standards, as evidenced by the fact that it has been re-certified in 2019 to the ISO 9001:2015 quality management system in all business lines.

We analyze complaints, suggestions and commendations in order to gain a picture of our customers experience in terms of their interaction with the bank and to create guidelines for the further improvement of our business. .The bank's employees use the collected data in their daily work and strive to meet the needs and requests of our customers and whenever possible to exceed their expectations.

The bank conducts qualitative and quantitative research on a regular basis. The data collected through this research is used when creating strategic actions for further improvement of our service. In this context, research processes of small, medium and large scope have become a vital element in the bank's efforts to transform itself through a wide use of agile management methods, which are indispensable in the light of high speed digitalization of the banking sector.

In the era of digital transformation and digitalization, the bank has rediscovered the importance of an approach that is marked by openness and human touch. The bank has confirmed its commitment to support the continuous developments of its employees, who are the key players in delivering the high quality services we have promised as a brand.

Digital Competence Center

Digital Services

Throughout 2019, the activities of the Digital Competence Centre focused on increasing the number of users of digital services, the development of new products and sales in simpler and more convenient ways through digital channels. The positive trends of the previous years have continued, because the number of users of digital channels and digital transactions increased in the year under review.

In addition to raising customer awareness of modern payment methods, Raiffeisen Bank worked in 2019 towards developing new and improving its existing digital banking applications that will help customers to manage their finances and payments easier and provide them with more financial flexibility.

Of the wide range of applications developed and launched in 2019, we would like to single out the OPA (Online Payment Application) platform. OPA is a product of the ESP BH doo company that was founded in July 2019 by Raiffeisen Bank and the companies BH Telecom, Com Trade and QSS. The OPA platform is a payment ecosystem designed in a way that each founder connects important links in the market chain by launching payment services and additional benefits, thus creating a strong mobile payment environment that results in rich experience and a high level of end buyer satisfaction. The application went live in December 2019, offering users simple money transfers between private individuals, payments at merchants by QR code scanning and charge-up of prepaid mobile phones. With OPA merchants are offered a simple way of tracking money flows, day-by-day money transfers as well as a CRM and marketing system that allows constant analyses of transactions and direct access to customers.

In 2019, we created and released an entirely new Raiffeisen Mobile Banking application. In addition to its main options allowing customers to make money transfer and keep an eye on their bills and finances, the new RBM application offers customers simple access, faster money transfers and additional features that place this application at the very top of the local market: biometric authentication, personalized look and other specifics.

Like in previous years, all upgrades and changes in existing application as well as the development of new applications were directly aligned with customer requirements through regular research of their needs and market research.

The online application process for the bank's products was revised in 2019 in order to improve and speed up the application process via the bank's websites. The number of required data entries was reduced and the entire process was revised in response to feedback received from customers. New processed were also introduced for customer applications in the Premium segment and for opening accounts online in the SME segment.

In addition to these activities, the Digital Competence Centre organized and hosted the first Elevator Lab Challenge in Bosnia and Herzegovina. It is a completion that has been organized in Austria and other members of the Raiffeisen Bank International Group for many years. Elevator Lab Challenge is a competition for FinTech start-up companies at three levels – local, regional and international. The first Elevator Lab Challenge in Bosnia and Herzegovina, that took place in August 2019 was attended by 8 companies and the winner was UHURA Solutions.

With its artificial intelligence and natural language processing solution, UHURA Solutions placed itself among the top 6 at the international competition in Vienna.

Online Banking

The number of personal online banking customers by the end of 2019 was 1.11 per cent more compared to the previous year.

In the corporate business line, the number of active online banking agreements increased by 13.43 per cent by the end of 2019 compared to the previous year.

Mobile Banking

The focus in 2019 for private individuals was placed on convenient, fast and secure mobile banking. Raiffeisen Mobile Banking (R'm'B) enables customers to access their accounts and other details related to their business with Raiffeisen Bank and to make financial transactions via their mobile phone. The number of customers using this service at the end of 2019 was up by 35.39 per cent. The number of active customers using mobile banking every month rose by 34.77 per cent.

Raiffeisen Viber Banking

With Raiffeisen Viber Banking customers can not only access their accounts and details related to their business with Raiffeisen Bank, but can also make financial transactions simply and quickly via their mobile phone based on chat bot technology. This service is in high demand and very much appreciated by young people. The number of customers using this service by the end of 2019 increased by 60.91 per cent compared to the previous year.The number of orders carried out through this service rose by 1061.83 per cent compared to 2017. We would like to stress that Viber Banking was launched at the beginning of 2017.

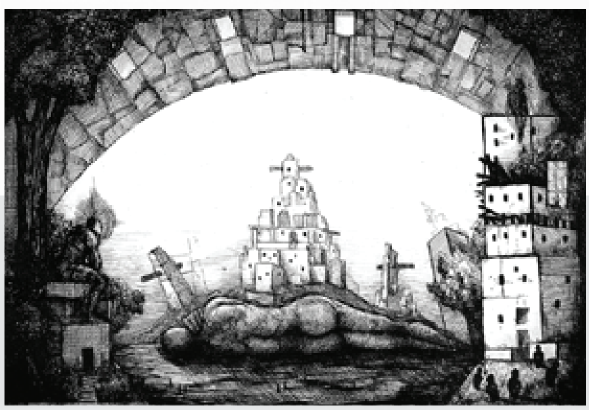
The Use of Digital Services

The use of digital services increased in 2019. This is reflected in the number and volume of payments made through digital services. The number of digital transactions carried out by private individuals increased by 15.86 per cent and by corporate customers by 8.97 per cent, compared to the previous year

Matei Osenk Saller

- Matei was born in Sarajevo in 1995. He graduated from the Sarajevo Academy of Fine Arts with a degree in Graphics Design.

- As an artist, Matei researches archetypical symbols in the arts area and illustrates and interprets them with his own signature.



Treasury, Financial Markets and Investment Banking

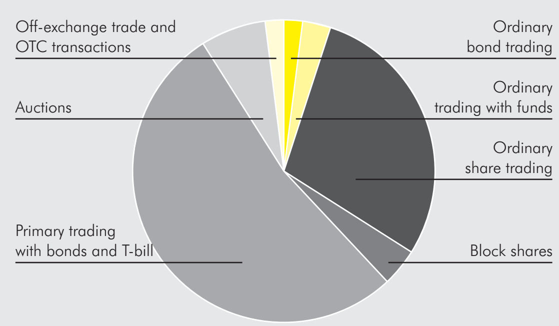
Market Overview in 2019

The total securities trading volume on both stock exchanges in Bosnia and Herzegovina in 2019 was higher than in the previous year. Total turnover on the Sarajevo Stock Exchange (SASE) was BAM 430.9 million and thus around BAM 142.7 million or 49.5 per cent more than in 2018. The number of traded securities and transactions, however, hit a historic low. A total of 19.58 million securities were traded through 4.562 transactions in 2019. Thus the downward trend in trading volumes observed by these two stock exchange categories continued in 2019.

As expected, the increase in the overall trading volume was strongly driven by intensified primary trading. Although the Federal Ministry of Finance cancelled a considerable number of auctions in 2019, the amount raised in debt securities auctions almost tripled compared to 2018. The Federal Ministry of Finance held six bond auctions and one T-bill auction in 2019, raising a total amount of BAM 219.65 million. For comparison: There were only three bond auctions to the amount of BAM 60 million in 2018. The bond auctions in 2019 involved maturities of 3, 5, 7 and 10 years and yields ranging from 0.1 to 0.8 per cent. On the other hand, the average yield per maturity in the only T-bill auction with nine-month maturity was negative at -0.2 per cent. In addition to the issues by the Government of the Federation of Bosnia and Herzegovina, the Sarajevo Canton also held a successful fifth bond auction to the total amount of BAM 8.24 million with three-year maturity and a yield of 2.3 per cent, which is the lowest yield ever on Sarajevo Canton bonds. In 2017, five-year tenor bonds bore a yield of 3.3 per cent, and three-year tenor bonds a yield of 2.85 per cent. Generally speaking, debt securities trading in the primary trading segment remained a dominant component of overall trading on SASE. Total primary trading reached BAM 227.89 million in 2019 and accounted for 52.9 per cent of total turnover on SASE in the year under review. In line with expectations, the overall structure of investors in debt instruments was dominated by banks, insurance companies and funds.

Regular trading on the stock exchange reached BAM 143.6 million, which is the highest volume since 2016. Only 5.1 per cent of that volume came from trading in bonds. As a matter of fact, trading in bonds in the secondary market fell to a historic low, reaching a volume of just BAM 7.35 million. The main reasons that led to lower trading in this major segment on SASE were: the weak offer of existing issues of wartime claims bonds and pre-war foreign currency savings, and the lack of new issues on the market. Wartime claims bonds and pre-war foreign currency savings participated with BAM 2.04 million in the total volume of bond trading in the secondary market (the most traded series of wartime claim bonds was the FBiHK1B series that generated a trading volume of BAM 601.2 thousand, followed by bonds of Autocesta FBiH in the amount of BAM 2.3 million and bonds of ASA banka d.d. in the amount of BAM 3.0 million).

Structure of total turnover on SASE in 2019 (BAM 430.9 million)



Regular trading in shares reached BAM 136.2 million, which is an increase of 8.4 per cent or BAM 10.5 million compared to 2018. All segments except 'issuers under insolvency' recorded higher trading volumes than in 2018. The highest trading volumes were achieved in segment 2 of the free market to a total amount of BAM 61.1 million, which is also the largest trading volume in this segment since 2015. Turnover above BAM 10 million was recorded in trade with 6 companies, led by Vakufska banka d.d. Sarajevo with turnover of BAM 17.37 million.

There were 6 extraordinary auctions held during the year with a total value of BAM 34.9 million. OTC transactions reached a total value of BAM 24.4 million, thereof BAM 16.86 million in blocks of shares. The largest turnover in OTC transaction was achieved with the issuer BNT-TMiH d.d. Novi Travnik (BAM 823.68 thousand) and in blocks of shares with the issuer PBS d.d. Sarajevo in the amount of BAM 2.57 million.

As for the development of the main indices, all SASE indices recorded growth in 2019, compared to the end of 2018. SASX-10 reached 808.9 points and thus 29.0 per more than at the end of 2018. SASX-30 ended the year with 1288.46 points, which is an increase of 13.4 per cent, while the BIFX investment funds index gained 26.8 per cent and ended the year at 189.86 points. The ranking list of SASE members in 2019 shows that Raiffeisen Bank ranked third by total turnover of BAM 184.16 million.

Total turnover on the Banja Luka Stock Exchange (BLSE) was BAM 472.13 million, which is an increase of 10.3 per cent or 43.9 million compared to 2018. The number of transactions was 14,947, which is 2,305 less than in 2018. This makes 2019 one of the worst years by the number of transactions in the history of BLSE.

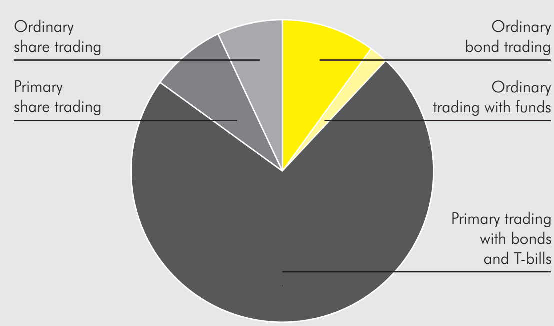
As expected, public offerings played a dominant role in total turnover, most notably debt securities (bonds and T-bills of the RS Ministry of Finance). The RS Ministry of Finance raised a total of BAM 325.09 million through public auctions of debt securities in 2019, which is BAM 204 million more than in 2018. There were eight bond auctions held during the year (with maturities of 5, 7 and 10 years) to a total value of BAM 285.1 million and two T-bill auctions (with maturities of 6 months) to a total value of BAM 39.9 million. The yields per maturities ranged from 1.7 per cent (achieved in an auction of 7-year bonds in Q4) to 3.3 per cent (achieved in an auction of 10-year bonds in Q2). The average yield was 0.0 per cent in one T-bill auction, and 0.1 per cent in two auctions held in 2019. Consequently, turnover in public auctions of government debt securities accounted for 68.9 per cent of total turnover in 2019. There were also 3 auctions of municipal bonds held in the reporting year to a total value of BAM 11.5 million (Sokolac, Vlasenica and Modriča) as well as 7 auctions of corporate bonds to a total value of BAM 13.5 million. Overall, auctions of debt securities (government, municipal and corporate) accounted for 75.6 per cent of total turnover on the BLSE.

Regular turnover on the BLSE amounted to BAM 86.34 million, which is BAM 13.5 million or 13.6 per cent less than in 2018. Despite this decrease, regular turnover participated with a 18.3 share in total turnover and remained the second largest segment of the BLSE by the turnover achieved. Regular turnover was again led by bond trading, thus continuing the trend on the BLSE that started in 2012. Bond trading on the secondary market reached BAM 45.47 million, which is 32.6 per cent less than in 2018, but still accounts for 52.6 per cent of overall regular turnover. The bond series RSRS-O-M (Republika Srpska – war damage compensation 13) was the most traded series amounting to BAM 9.6 million. This bond series was listed on the BLSE in November 2019, with 13-year maturity and annual interest of 1.5 per cent.

Regular share trading on the BLSE reached BAM 30.9 million, which represents an increase of 13 per cent or BAM 3.6 million. The most traded shares in this segment were those issued by Telekom Srpske a.d. Banja Luka (TLKM-R-A) to the total amount of BAM 7.91 million at an average price of BAM 0.87 for this period. Regular trading with investment funds amounted to BAM 9.9 million, which is 95 per cent or BAM 4.8 million more than in 2018.

The members of the Banja Luka Stock Exchange concluded 22 block deals in the year under review, which is one deal less than in 2018 (18 deals more than in the preceding year). The total trading volume of block deals was BAM 27.9 million, thereof the largest volume, BAM 5.6 million, was generated with the issuer Vitaminka a.d. Banja Luka.

Structure of total turnover on BLSE in 2019 (BAM 472.1 million)



When it comes to the development of the main BLSE indices, the blue chip index (BIRS) ended the year with a value of 618.31 index points, which represents an increase of 9.3 per cent or 52.8 points compared to the end of 2018. The index of the company Elektroprivreda Republike Srpske (ERS10) grew by 13.1 per cent since the end of 2018, while the index of Republika Srpska bonds (ORS) gained 6.9 per cent and ended the year with 2,797.57 index points.

Investment Banking

Capital Markets Services

Custody-GSS had a very successful business year, seeing a rise of 52.14 per cent in the funds under custody. This justifies the confidence among both existing and new customers. Annual research organized by the renowned 'Global Custodian Magazine' confirmed and recognized the high level of service quality and the success of Raiffeisen Bank's custody business, while our customers gave us very high grades.

In the year under review, the Fund Administration unit successfully performed depository transactions for its customers through the issuance and trade of securities. Focus in the fund administration area was placed on the acquisition of and providing depository services for open-ended investment funds, which resulted in new customers. The bank's licenses to act as depository in the issuance of and trading in securities and for the depository of funds were successfully renewed. The Securities Commission of the Federation of Bosnia and Herzegovina thereby confirmed that the bank continues to satisfy all of the legal criteria for the provision of depository banking services

In the brokerage segment, as a professional intermediary on the Sarajevo Stock Exchange, the bank ranked third according to the turnover achieved and third according to the number of executed transactions in 2019.

The number of transactions in international markets for the bank's customers also grew and this led to an increase in income generated through brokerage services. The highest level of interest among customers in the domestic market related to securities trading, most notably shares of Bosnalijek d.d. Sarajevo, BH Telecom d.d. and Sarajevo osiguranje d.d. Customers were also kept up-to-date with significant events in the local market.

Research and Financial Consulting

The Research and Financial Consulting Team successfully completed deals in its role as the issuing agent of the Federal Ministry of Finance. The team was actively engaged in intensifying this type of funding through capital markets for all levels of government and various types of investors throughout 2019.

In order to assist its customers in the corporate funding area, the bank entered into negotiations with another two large corporate customers that are also large exporters, in order to find a financial investor for them to expand the production capacities, modernize and certify production for export and increase the number of staff. An important M&A mandate agreement for sale of a local processing company was successfully implemented. The diversified and professional approach to individual customers allowed for a high level of service and made customers choose us for these big deals.

Moreover, the bank's experienced analysts monitor economic and market developments on a daily basis. This allows them to provide the bank's customers and the public with informed forecasts primarily for the local economy and financial market but also for the EU and US markets. This is extremely important for budget development activities, business, investment and other decisions. The reliability of these services is confirmed by the list of its users, which includes rating agencies, international financial institutions, the media, and numerous corporate and institutional customers.

Institutional Customers

The Institutional Customers segment, which covers financial institutions and the central government with its bodies, continued its activities to improve the quality of service and strengthen business relationships with customers. This ensured that the volumes of payment transactions and deposits remained stable.

Again this year, special attention was paid to lending to micro-credit organizations. This resulted in a strong increase in this sector's total assets and an expansion of the standard range of products offered to customers.

Trading and Sales

The Trading and Sales Department achieved an excellent result in 2019 and reaffirmed its position at the top of the local market in the area of foreign exchange trading.

Throughout the year, the department endeavoured to adapt to the actual needs of both domestic and foreign markets, their constant changes as well a high customer expectations. This required continual improvements of the business model. Special emphasis was placed on existing customers of the bank, in order to identify their needs, raise the quality of our business relations with them and manage sales more actively. The year ended with more than 120 active customers. These customers have access to information on developments within the local and international financial markets and are offered the possibility to protect themselves from FX risk by making spot and forward deals.

The quality standard in FX trading will be constantly measured and analysed for ongoing improvement.

Throughout the year, the Trading and Sales Department successfully managed the FX risk by individual currency and in the overall amount for the euro and the BAM. All open FX positions were maintained within the limits set by the Banking Agency of the Federation of Bosnia and Herzegovina (FBA) and within the internal limits determined by the methodology of the Raiffeisen Group.

The business year 2019 will be remembered as a year of exceptional staff efforts in money trading, which resulted in considerable volumes with local partner banks and further optimization of currency management costs.

Throughout the year, our customers again showed how much they appreciate the quality of the services offered by Raiffeisen Bank and its focus on satisfying the needs of its customers. The result of significant improvements by year's end was an increase in the number of banks that place their trust in us for money trading.

The Trading and Sales Department continued to place foreign currencies according to the market conditions, thereby meeting the required liquidity principle and selecting foreign banks that offer market interest rates. Their values reached historic lows in 2019 as a result of non-standard monetary policy measures implemented by the European Central Bank.

Funding and Financial Institutions

In 2019, the bank continued its successful and excellent cooperation with the European Bank for Reconstruction and Development (EBRD) by signing another housing credit line of EUR 10 million, in the same amount and for the same purpose as in the year before.

In the year under review, significant efforts were made to obtain funding from other group members. This led to the signing of both short-term and long-term credit lines with Raiffeisen Bank Hungary (EUR 50 million) and Raiffeisen Bank Russia (EUR 28 million).

The year was marked by successful on-lending of funds from an existing credit line signed with the European Investment Bank (EIB) intended to finance investments by small and medium size enterprises, medium capitalized companies and the public sector.

In the area of arranging adequate channels for international payments in 2019, the bank worked intensively to optimize the routing of remittances by utilizing the benefits of its network of 11 correspondent banks.

During the year under review, the bank exchanged more than 600 SWIFT keys with local and foreign institutions/banks.

In order to meet customer needs and demands, the bank invested continuous effort into ensuring adequate limits for banks.

Financial Statements

Responsibilities of the Management and Supervisory Board for the preparation and approval of the separate financial statements

The Management Board is required to prepare separate financial statements, which give a true and fair view of the financial position of the Bank and of the results of its operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. Management has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then applying them consistently; making judgments and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report of the Bank together with the annual separate financial statements, following which the Supervisory Board and the General Assembly is required to approve the separate financial statements.

The separate financial statements set out on pages 10 to 107 were authorised by the Management Board on 11 May 2020 for issue to the Supervisory Board, and are signed bellow to signify this, on behalf of the Bank, by:

For and on the behalf of Management Board

Raiffeisen BANK dd Bosna i Hercegovina 7

Chairman of the Management Board
Karlheinz Dobnigg

Member of Management Board
Heribert Fernau

Raiffeisen Bank d.d. Bosna i Hercegovina
Zmaja od Bosne bb
71000 Sarajevo
Bosna i Hercegovina
11 May 2020

Independent Auditors' Report

To the shareholders of Raiffeisen *BANK* dd Bosna i Hercegovina:

Opinion

We have audited the separate financial statements of Raiffeisen Bank d.d. BiH ("the Bank"), which comprise the separate statement of financial position as at 31 December 2019, the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2019 and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with 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 *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (*IESBA Code*) together with the ethical requirements that are relevant to our audit of the separate financial statements in Federation of Bosnia and Herzegovina, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment of loans and receivables from customers

As at 31 December 2019, gross loans and receivables amounted to BAM 2,683 million, impairment allowance amounts to BAM 193 million and impairment loss recognised in the income statement amounts to BAM 26.6 million (31 December 2018: gross loans and receivables: BAM 2,600 million, impairment allowance: BAM 184 million and impairment loss recognised in the income statement: BAM 7.4 million).

Refer to Note 3 Significant accounting policies, Note 4 Critical accounting judgements and key sources of estimation uncertainty, Note 19 Loans and receivables to customers, and Note 5.1 Credit risk.

Key audit matter	How our audit addressed the matter
Impairment allowances represent Management's best estimate of the expected credit losses within the loans and receivables from customers at the reporting date. We focused on this area as the determination of impairment allowances requires a significant amount of judgment from the Management Board over both the timing of recognition and the amounts of any such impairment. The expected credit loss (ECL) model of the Bank is based on the requirements of IFRS 9 Financial Instruments, that uses a dual-measurement approach, under which the impairment allowance is measured as either 12-month or life time expected credit losses, depending on whether there has been a significant increase in credit risk.	Our audit procedures in this area included, among others: • Inspecting the Bank's ECL impairment provisioning methodology and assessing its compliance with the relevant requirements of the financial instruments standard (IFRS 9). As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors; • Making relevant inquiries of the Bank's risk management and information technology (IT) personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing of the Bank's IT control environment for data security and access, assisted by our own IT specialists; • Assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of significant increase in credit risk, loss events and default, appropriateness of the classification of exposures into performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the impairment allowances.
Impairment allowances for retail and non-retail performing exposures (Stage 1 and Stage 2 in the Standard's hierarchy) and non-performing (Stage 3) retail exposures (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and significant management judgment are incorporated into the model assumptions. For non-performing non-retail exposures, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis. For the above reasons, impairment of loans to customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be our key audit matter.	• With respect to the impairment accounting requirements under the applicable standard and with the assistance of our own financial risk management specialist: – Testing accuracy of input data used for establishing risk parameters (probability of default (PD), loss given default (LGD), exposure at default (EAD)) and obtaining explanations for exceptions where necessary; – Evaluating the overall modelling approach of calculation of ECLs, including the calculation of main risk parameters (probability of default (PD), loss given default (LGD) and exposure at default (EAD) and macroeconomic factors; – Critically assessing the reasonableness of the key macroeconomic assumptions used by the Bank in its ECL models under different scenarios by reference to publicly available information and through corroborating inquiries of the selected members of the Management Board; – Challenging LGD and PD parameters used by the client, by performing back-testing of historical default, and EAD parameters by reference to individual client contracts and repayment schedules for a sample of exposures; – On a sample basis independently recalculating the amount of ECL, using the above estimated LGDs and PDs and reconciling it with actual ECL recognized; • Selecting a sample of individual exposures, with focus on those with the greatest potential impact on the separate financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as watch-listed, restructured or rescheduled exposures, loans to clients operating in higher risk industries, non-performing exposures with low provision coverage and loans with significant change in the provision coverage;

	• For the sample selected, critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2019; • For non-retail loans classified in Stage 3, challenging key assumptions applied in the Management's estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period, and performing respective independent recalculations, where relevant, with the assistance of our own valuation specialists; • For retail exposures classified in Stage 3 and with days past due over one year, challenging the provisioning level by assessing the adequacy of cash flows and any collateral coverage; • Assessing the accuracy and completeness of the impairment-related disclosures with the requirements of relevant standard.

Other Information

Management is responsible for the other information. The other information comprises the Key indicators, Report from the Supervisory Board, Preface of the President of the Management, Macroeconomic Overview, Raiffeisen Bank International, Raiffeisen Bank d.d. Bosna i Hercegovina, Management of the Bank, Organizational Structure of the Bank, Balance sheet, Income statement, Financial indicators and Business overview that are part of the Annual Report, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

In preparing the separate financial statements, management 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.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate 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 auditors' report to the related disclosures in the separate 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate 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 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 separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 Vedran Vukotić.

KPMG B-H d.o.o. za reviziju
Registered Auditors
Zmaja od Bosne 7-7a
71000 Sarajevo
Bosnia nad Herzegovina

11 May 2020

On behalf of KPMB B-H d.o.o. za reviziju:

Manal Bećirbegović
Executive Director

Vedran Vukotić
FBiH certified auditor
License No: 3090017124

Unconsolidated Statement of profit or loss and other comprehensive income

for the year ended 31 December 2019
(all amounts are expressed in thousands of BAM, unless otherwise stated)

	Notes	2019	2018
Interest income	7	154,930	154,585
Interest expense	8	(27,084)	(28,704)
Net interest income		**127,846**	**125,881**
Fee and commission income	9	96,038	90,303
Fee and commission expense	10	(22,895)	(19,475)
Net fee and commission income		**73,143**	**70,828**
Net income from foreign currency trading	11	12,445	11,660
Net gain/(loss) from other financial instruments at fair value through profit and loss	12	9	(27)
Other operating income	13	7,665	7,713
Net operating income		**221,108**	**216,055**
Administrative expenses	14	(101,555)	(102,417)
Depreciation and amortization	26, 27, 28, 29	(13,268)	(9,204)
Operating expense		**(114,823)**	**(111,621)**
Profit before impairment losses, provisions and income tax		**106,285**	**104,434**
Impairment losses, net	15	(31,050)	(10,323)
		(31,050)	**(10,323)**
PROFIT BEFORE TAX		**75,235**	**94,111**
Income tax expense	16	(18,334)	(9,652)
NET PROFIT FOR THE YEAR		**56,901**	**84,459**
Other comprehensive income			
Other comprehensive income		8	82
Total other comprehensive incomer		**8**	**82**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**56,909**	**84,541**
Earnings per share (BAM)	37	**57.42**	**85.43**

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

Unconsolidated Statement of financial position

as at 31 December 2019
(all amounts are expressed in thousands of BAM, unless otherwise stated)

	Notes	31/12/ 2019	31/12/ 2018
ASSETS			
Cash and cash equivalents	17	1,473,344	1,159,893
Obligatory reserves at the Central Bank of BiH	18	398,999	376,261
Loans and receivables to customers	19	2,490,432	2,415,608
Financial assets at fair value through other comprehensive income	20	545	537
Financial assets at fair value through profit and loss	21	6,966	81,560
Financial assets at amortised cost	22	143,178	146,772
Assets held for sale		-	71
Investments in subsidiaries	23	11,050	11,050
Investments in associates and joint ventures	24	3,827	2
Deferred tax assets	16	107	159
Current tax prepayment		359	1,927
Other assets and receivables	25	36,444	49,087
Investment property	26	30,656	32,687
Property and equipment	27	105,444	104,742
Right-of-use assets	28	11,215	-
Intangible assets	29	16,710	15,803
TOTAL ASSETS		**4,729,276**	**4,396,159**
LIABILITIES			
Due to banks and other financial institutions	30	337,665	176,738
Due to customers	31	3,682,424	3,528,207
Subordinated debt	32	61,804	61,800
Provisions for liabilities and charges	33	24,242	24,416
Lease liabilities	34	10,986	-
Other liabilities	35	49,096	34,911
Deffered tax liabilities		514	-
TOTAL LIABILITIES		**4,166,731**	**3,826,072**
EQUITY AND RESERVES			
Share capital	36	247,167	247,167
Share premium		4,473	4,473
Fair value reserves		315	307
Regulatory reserves for loan losses		-	102,443
Retained earnings		310,590	215,697
TOTAL EQUITY AND RESERVES		**562,545**	**570,087**
TOTAL LIABILITIES, EQUITY AND RESERVES		**4,729,276**	**4,396,159**

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

Unconsolidated Statement of cash flows

for the year ended 31 December 2019
(all amounts are expressed in thousands of BAM, unless otherwise stated)

	Notes	31/12/2019	31/12/2018
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the year		56,901	84,459
Adjustments for:			
Depreciation and amortisation		13,268	9,204
Impairment losses, net	15	31,050	10,323
Loss/(profit) from sale of tangible assets and investment property		405	(605)
Write-off of tangible and intabgible assets		102	-
Net (gain)/loss from other financial instrument at fair value through profit and loss		(9)	27
Net change in provisions for liabilities and charges		(2,457)	(2,052)
Net interest income		(127,846)	(125,881)
Written off liabilities		-	(36)
Dividend income		(3,921)	(4,131)
Income tax expense		18,334	9,652
		(14,173)	**(19,040)**
Changes in operating assets and liabilities:			
Net change in obligatory reserves with CBBH		(22,738)	(41,753)
Net change in loans given to customers, before impairment		(94,034)	(224,061)
Net change in other assets and receivables, before impairment		10,454	10,344
Net change in due to banks and other financial institutions		160,469	30,808
Net change in due to customers		154,015	238,986
Net change in other liabilities		14,185	(30,842)
Net change in provisions for liabilities and expenses		-	(5)
Paid income tax		(16,200)	(8,470)
Received interest		145,298	152,934
Paid interest		(26,187)	(28,670)
Received dividends		3,921	4,131
NET CASH FLOW REALISED IN OPERATING ACTIVITIES		**315,010**	**84,362**
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from financial assets at fair value through profit or loss		74,627	119,622
Acquisition of financial assets at fair value through profit or loss		-	(88,776)
Proceeds from financial assets at amortised costs		185,257	140,072
Acquisition of financial assets at amortised costs		(179,423)	(155,038)
Acquisiton of financial assets at fair value through other comprehensive income		-	(161)
Purchase of assets held for sale		71	81
Investment in associates and joint ventures		(3,825)	-
Purchase of property and equipment		(6,303)	(7,273)
Purchase of intangible assets		(4,610)	(6,326)
Purchase of investment property		-	(372)
Proceeds from property and equipment sold		-	447
Proceeds from investment property sold		904	2,450
NET CASH FLOW REALISED IN FINANCING ACTIVITIES		**66,698**	**4,726**
FINANCING ACTIVITIES			
Proceeds/(repayment) of subordinated debt		4	(23)
Paid dividends		(64,451)	(56,620)
Paid lease liabilities		(3,810)	-
NET CASH FLOW (USED) IN FINANCING ACTIVITIES		**(68,257)**	**(56,643)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**313,451**	**32,445**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	17	**1,159,893**	**1,127,448**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	17	**1,473,344**	**1,159,893**

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

Unconsolidated Statement of changes in equity

for the year ended 31 December 2019
(all amounts are expressed in thousands of BAM, unless otherwise stated)

	Issued share capital	Share premium	Fair value reserves	Regulatory reserves for loan losses	Retained earnings	Total
Balance as at 1 January 2019	**247,167**	**4,473**	**307**	**102,443**	**215,697**	**570,087**
Distribution of dividends	-	-	-	-	(64,451)	(64,451)
Net profit for the year	-	-	-	-	56,901	56,901
Transfer of regulatory reserves for loan losses into retained earnings*	-	-	-	(102,443)	102,443	-
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
Other comprehensive income	-	-	8	-	-	8
Total comprehensive income	**-**	**-**	**8**	**-**	**-**	**8**
Balance as at 31 December 2019	**247,167**	**4,473**	**315**	**-**	**310,590**	**562,545**
Balance as at 1 January 2018	**247,167**	**4,473**	**225**	**102,443**	**187,859**	**542,167**
Distribution of dividends	-	-	-	-	(56,621)	(56,621)
Net profit for the year	-	-	-	-	84,459	84,459
Other comprehensive income						
Other comprehensive income	-	-	82	-	-	82
Total comprehensive income	**-**	**-**	**82**	**-**	**-**	**82**
Balance as at 31 December 2018	**247,167**	**4,473**	**307**	**102,443**	**215,697**	**570,087**

*As explained in Note 3.20, following on the Decison on terms for inclusion of formed regulatory reserves for loan lossess in Common Equity Tier 1 of the bank published by the Banking Agency of FBiH on 8 November 2018, as well as Decision on inclusion of regulatory reserves for loan losses in Common Equity Tier 1 of the Bank number 1-9-5710/2019-3 issued by the Bank's Assembly on 17 December 2019, regulatory reserves for loan losses in the amount of BAM 102,443 have been included within Common Equity Tier 1 i.e. allocated to retained earnings of the Bank.

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

Notes to the separate financial statements

for the year ended 31 December 2019
(all amounts are expressed in thousands of BAM, unless otherwise stated)

1. General

History and incorporation

Raiffeisen *BANK* d.d. Bosna i Hercegovina, Sarajevo (the "Bank") is a joint stock company incorporated in Bosnia and Herzegovina and it commenced operations in 1993.

Principal activities of the Bank are:
1. accepting deposits from the public and placing of deposits;
2. providing current and term deposit accounts;
3. granting short- term and long-term loans and guarantees to the local municipalities, corporate customers, private individuals and other credit institutions dealing with finance lease and foreign exchange transactions;
4. money market activities;
5. performing local and international payments;
6. foreign currency exchange and other banking-related activities;
7. providing banking services through an extensive branch network in Bosnia and Herzegovina.

The registered address of the Bank is Zmaja od Bosne bb, Sarajevo. As at 31 December 2019 the Bank had 1,341 employees (31 December 2018: 1,389 employees).

The Supervisory Board, Management Board and Audit Committee

During 2019 and on the date of this report, the members of the Supervisory Board were:

Supervisory Board

Hannes Moesenbacher	Chairman until 25 February 2019
Peter Jacenko	Chairman since 25 February 2019
Peter Lennkh	Deputy Chairman until 25 February 2019
Sabine Zucker	Deputy Chairman since 25 February 2019
Johannes Kellner	Member
Elisabeth Geyer-Schall	Member since 25 February 2019
Markus Kirchmair	Member
Zinka Grbo	Member
Jasmina Selimović	Member

During 2019 and on the date of this report, the members of the Audit Committee were:

Audit Committee

Renate Kattinger	Chairman
Nedžad Madžak	Member
Abid Jusić	Member
Vojislav Puškarević	Member
Benina Veledar	Member since 30 August, 2018

During 2019 and on the date of this report Management Board consists of directors and executive directors. The following persons performed these functions during the year and on the day of this report:

Management Board

Karlheinz Dobnigg	Chairman of the Board
Heribert Fernau	Executive Director
Mirha Hasanbegović	Executive Director
Maida Zahirović Salom	Executive Director
Ante Odak	Executive Director

2. Basis of presentation

2.1. Statement of compliance

These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements represent separate financial statements of the Bank. As explained in Note 23 the Bank is the parent company within the Raiffeisen Bank BH Group. The Bank did not prepare consolidated financial statements as it uses the exemption in accordance with IFRS 10 "Consolidated Financial Statements" based on which the ultimate parent company, Raiffeisen Bank International AG, a company founded in Austria, presents and prepares the consolidated financial statements in accordance with IFRSs that are available for public use.

These separate financial statements were authorised by the Management Board on 11 May 2020 for submission to the Supervisory Board.

2.2. Basis for measurement

These separate financial statements have been prepared on the historical or amortised cost basis, except for financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income.

2.3. Functional and presentation currency

These separate financial statements are presented in thousands of Bosnian marks ('000 BAM) which is the functional currency of the Bank. Bosnian Mark is pegged to Euro (1 EUR = 1.95583 BAM).

2.4. Use of estimates and judgements

The preparation of separate financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised 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 areas with significant uncertainty in the estimates and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these financial statements are disclosed in Note 4.

2.5. Changes in significant accounting policies

International Financial Reporting Standard 16 "Leases" ("IFRS 16) has been published in January 2016 which replaces International Financial Reporting Standard 17 "Leases" (IFRS 17). The standard eliminates an existing model of dual accounting for lases and instead it requires from business entities to report most of the leases in the statement of financial position using the unique model, eliminating the differences between operating and financial leases.

The Bank has adopted IFRS 16 since 1 January 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information is not restated and is presented as previously reported, under the requirements of IAS 17 and related interpretations. At initial recognition at 1 January 2019 the amount of right-of-use asset equals to the amount of the lease liability, reduced for any prepayed leases, so there was no one-off effect on the initial balance of retained earning. The details of the changes in accounting policies are disclosed below.

The adoption of IFRS 16 had no significant implications on lessee's accounting.

I. Definition of lease

Previously, the Bank determined at contract inception whether an arrangement was or contained a lease based on the previous requirements of the standard. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease, as it is disclosed below and in Note 3.7.On transition to IFRS 16, the Bank elected to apply allowed simplifications in assessment of the leases and therefore it used the possibility of keeping the lease definition on transition to the new standard. This means that Bank has applied IFRS 16 on contracts which have already been previously identified as leases in accordance to IAS 17 and IFRIC 4 and has not performend reassessment on whether those are recognized as leases under IFRS 16.

II. As a lessee

As a lessee, the Bank leases assets such as business premises and vehicles. The Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are recognized in the balance sheet.

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

i. Leases classified as operating leases under IAS 17

Previously, the Bank classified leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Bank has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired. The Bank has used many practical exemptions in adoption of new requirements of the standard in connection with leases that were classified as operating leases per the requirements of the previous standard.

Bank has used the following exempions:
- Not recognizing the right-of-use assets and liabilities for the leases of insignificant value;
- Not recognizing the right-of-use assets and liabilities for the leases up to 12 months;
- Excluding the initial direct costs from the measurement of right-of-use assets on the initial adoption date;
- Used subsequent knowledge in determination of the contract term.

III. As a lessor

The Bank leases investment properties which refers to the business premises. The Bank has classified these leases as operating leases. There has not been significant changes on these contracts in adoption of IFRS 16 compared to the IAS 17.

IV. Impact on financial statements

i. Impact on transition

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities. Right-of-use assets have been recognized in the amount equal to the lease liabilities, reduced for prepaid leases, and thererefore, the application of IFRS 16 had no effect on the opening balance value of retained earnings as at 1 January 2019. Effects of the transition on the right-of-use assets have been shown in Note 28 *Property, plant and equipment*, and for lease liabilities in Note 34 Lease liabilities.

Effects of the transition are presented in the table below:

All amounts are expressed in thousands of BAM	**As at 1 January 2019**
Right-of-use assets	13,254
Lease liabilities	12,583

When measuring lease liabilitie for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate of 2 per cent at 1 January 2019.

Operating lease commitments as at 31 December 2018	18,369
Discounted using the incemental borrowing rate at 1 January 2019	16,845
Recognition exemption for leases of low value assets	2,610
Recognition exemption for lease with less than 12 months of lease term at transition	1,652
Reported lease liabilities as of 1 January 2019	**12,583**

3. Significant accounting policies

Except for the previously described changes in Note 2.5, the Bank has consistently applied the accounting policies further described below to all periods disclosed in these separate financial statements.

3.1. Foreign currency transactions

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

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

31 December 2019	EUR 1 = BAM 1.95583	USD 1 = BAM 1.74799
31 December 2018	EUR 1 = BAM 1.95583	USD 1 = BAM 1.70755

3.2. Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest rate method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- gross carrying amount of the financial asset; or
- the amortized costs of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instruments, but not expected credit loss ("ECL"). For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

Amortised cost and gross carrying value

The amortised cost of a financial asset or a financial liability is the amount at which the financial assets or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance (or impairment).

"Gross carrying amount of financial assets" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

Effective interest rate on a financial asset or financial liability is calculated on initial recognition of a financial asset or liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect the movements in market rates of interest.

However, for financial assets that have been credit-impaired sustainably to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of financial assets. If the asset is no longer credit-impaired, the calculation of interest income returns to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate on the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income and expense is recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounted estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms, but not future credit losses.

Calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs included incremental costs that are directly attributed to the acquisition or issue of a financial asset or financial liability.

3.3. Fee and commission income and expenses

Fee and commission income and expenses that are integral part of the effective interest rate on a financial asset or liability are included in the effective interest rate, and are recognised in interest income and expense.

Fee and commission income and expenses, reported as such, comprise mainly fees related to credit card transactions, the issuance of guarantees and letters of credit, domestic and foreign payment transactions and other services and are recognised in the profit and loss statement upon performance of the relevant service.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers controls over a service to a customer.

The table below shows the nature and timing of the satisfaction of performance obligation, including significant payment terms and related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

3.4. Net trading income

"Net trading income" comprises gains less losses, related to trading assets and liabilities, and includes all fair value changes, interest, dividends and exchange rate differences.

3.5. Net income from other financial instruments at fair value through profit and loss

Net income from other financial instruments at fair value through profit and loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at fair value through profit and loss and, from 1 January 2018, also non-trading assets mandatorily measured at fair value through profit and loss. This line item includes fair value changes, interest, dividends and foreign exchange differences.

3.6. Dividend income

Dividend income is recognised in the income statement when the right to receive income is established and when the amount of dividends can be reliably measured.

3.7. Leases

The Bank initially applied IFRS 16 using the modified retrospective approach. Under this approach, comparative information is not restated and are presented as previously reported under IAS 17. The details of accounting policies under IAS 17 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contact is, or contains, a lease. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definiton of a lease in accordance with IFRS 16.

This policy is applied to the contracts entered into on or after 1 January 2019.

i) As a lessee

Bank recognizes right-of-use asset and a lease liabiliy from the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlzing asset or the site on which it is located, less any lease incentives recevied. The liability for the mentioned costs occurs with the first day of lease term or as a consequence of the use of underlying asset during the certain period.

When calculatin the initial value of the right-of-use asset and a corresponding lease liability, the Bank does not take into account valued added tax inlcuded in the lease price.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, or over the period for which the lease is expected to be active. In addition, right-of-use asset is periodicaly reduced by impairment losses, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. The Bank determines the incremental borrowing rate as an interest rate paid to borrow funds.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments; less any prepayments received in connection with the lease;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets and lease liabilities as a separate lines in the statement of financial position.

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets (limited amount of assets are 5,000 EUR) and short-term leases.

Gains or losses arising on the disposal or disposition of an asset are determined as the difference between the sales proceeds and the carrying amount of the asset and are recognized in the income statement and other comprehensive income in the period in which they arise, to the benefit or at the expense of income.

Policy applicable before 1 January 2019

ii) As a lessor

Generally, accounting policies of the Bank as a lessor do not differ significantly from the requirements of IFRS 16.

The Bank recognises lease payments received under operating leases as income on a straightline basis over the lease term and are only being recognized at the statement of financial position in case of time difference between the period of payment and the period to which this costs relates to.

iii) As a lessee

In the comparative period, as a lessee, the Bank classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease.

3.8. Income tax

Tax expense, on income tax base, is the sum of current tax liabilities and deferred taxes.

Current income tax

Net income differs from taxable income of the period reported in income statement and statement of comprehensive income, as it includes items of income and expense that are taxable or non-taxable in other years, as well as items that are never taxable or are deductible. The Bank's current tax liabilities are calculated by applying tax rates that are in effect or in the process of being adopted at the reporting 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 separate 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 book value of deferred tax assets is reviewed at each reporting 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.

3.9. Investments in subsidiaries

A subsidiary is an entity which is controlled by the Bank. Control is achieved in such a way that the Bank is exposed, or has rights, to variable returns from its involvement with the subsidiary entity and has the ability to affect those returns through its power over the subsidiary entity.

Investments in subsidiaries in these separate financial statements are stated at cost less any impairment, if needed.

3.10. Investments in associates and joint ventures

An associate is an entity, including an unincorporated entity such as a partnership, 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.

A joint ventures refers to the investment into jointly controlled entity. A joint venture is an arrangement in which the Bank has joint control, whereby the Bank has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures in these separate financial statements are stated at cost of acquisition less any impairment, if they exist.

3.11. Financial assets and liabilities

Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus any transaction costs that are directly attributable to its acquisition or issue, except for financial assets and liabilities at fair value through profit and loss.

3.11.1. Financial assets

(i) Classification and subsequent measurement

During initial recognition, Bank classifies its financial assets in the following measurement categories:
- Financial assets measured at amortised cost;
- Financial assets measured at fair value through other comprehensive income (FVOCI);
- Financial assets at fair value through profit and loss (FVPL).

The classification requirements for debt and equity instruments are described below:

1. Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, bonds and receivables.

Classification and subsequent measurement of debt instruments depend on:
- The purpose of managing financial assets (business model);
- The contractual characteristics of cash flows ("Solely Payments of Principle and Interest", further "SPPI test" or "SPPI").

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- **Financial assets at amortised cost**

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at fair value through profit and loss, are measured at amortized cost. After initial recognition, the carrying amount of these assets is adjusted by any expected credit loss (ECL) allowance recognised and measured as described in Note 3.11.1 (iv).

Interest income is calculated using the effective interest rate and it is included in the line "Interest income calculated using the effective interest rate method".

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables occur when the Bank grants cash to customers without the intent to trade these receivables and includes placements and loans to banks, given loans and receivables from customers and assets with the Central Bank.

- **Financial assets through other comprehensive income**

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at fair value through profit and loss, are measured at fair value through other comprehensive income.

Measurements in fair value of a financial asset measured through other comprehensive income are recognised through other comprehensive income except for recognition of gains or losses on impairment, interest income and foreign exchange differences that are recognised in profit or loss, except in case of equity investments where unrealised gains/losses are never reclassified to profit or loss.

When the financial asset through other comprehensive income is derecognised, the cumulative gain or loss previously recognised through other comprehensive income is reclassified from equity to income statement. Interest income is calculated using the effective interest rate method.

- **Financial assets at fair value through profit and loss**

Financial assets are subsequently measured at fair value through profit or loss unless subsequently measured at amortised cost or at fair value through other comprehensive income. Gains and losses arising from changes in the fair value of a financial asset at fair value through profit or loss are recognised in the income statement.

In addition, the Bank has the option to designate, on initial recognition, financial assets that otherwise meet the requirements to be measured at amortised cost or at FVOCI at fair value through profit and loss, if doing so significantly reduces the accounting mismatch that would otherwise arise.

Purpose of managing financial assets (Business model)

All financial assets, except for equity securities that fall into the category of investments in associates and subsidiaries, joint investments and associates, are grouped into business models that indicate the way in which a group of financial assets are jointly managed as a whole to achieve a particular business objective and define the way in which financial assets are expected to generate cash flows.

Business models of the Bank are:

- Business model whose objective is to hold assets for the collection of contractual cash flows – it includes all financial assets held for the purpose of collection of contractual cash flows over the lifetime of the financial instrument. For the purpose of classification in this business model, financial assets go through the SPPI test, and the following financial assets are allocated to this model:
  - cash on transaction accounts with other banks,
  - placements with other banks,
  - loans to customers,
  - other receivables.

Credit risk is the underlying risk that is managed under this business model.

- Business model aimed to collect the contractual cash flows and sale of financial assets – it includes financial assets held for the purpose of collecting the agreed cash flows and sale of financial assets. The following financial assets are allocated to the business model for collection and sale:
  - debt securities (pass SPPI test),
  - equity securities (fail SPPI test),

Liquidity risk is the underlying risk that is managed under this business model.

- The business model within which financial assets are measured at fair value through profit and loss (fail SPPI test) – combines all financial assets that are not held under the two previously mentioned business models. Financial assets in this business model are managed in order to realise cash flows by selling assets and making short-term profits.

Contractual cash flow characteristics (SPPI)

Test of features of contractual cash flows from the point of view of solely payment of principal and interest is one of the criteria for the classification of financial assets in an individual category of measurement. SPPI test is implemented for the purpose of establishing whether the interest rate on unsettled principle reflects the fee for time value of money, credit risk and other basic risks of borrowing, lending costs and profit margin.

SPPI test is performed:
- for each financial asset, allocated to a business model whose purpose is to hold financial assets for the payment of contractual cash flows and a business model for the purpose of collecting contractual cash flows and selling financial asset on the date of its initial recognition,
- for each financial asset in cases where the original asset has been significantly modified and therefore re-recognised as new assets,
- when introducing new models and/or loan programs to determine in advance the eligibility of the considered loan term and conditions in relation to the need to subsequently monitor the value of any financial assets that would arise from them.

2. Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as at fair value through other comprehensive income when those investments are held for purposes other than to generate investment returns. When this choice is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including disposals. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments at fair value through profit and loss are included in the "Net trading income" line in the statement of profit or loss.

(ii) Derecognition of financial assets

The Bank derecognizes financial assets (in whole or in part) when the contractual rights to receive the cash flows from the financial instrument expire or when it loses control over contractual rights over that financial asset. This occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when rights have been realized, transferred or expired.

When the financial assets is derecognised, the difference between the carrying amount (or the carrying amount allocated to the portion of the assets that is derecognised) and the amount received (including any new assets less any new liabilities) and any cumulative gain or loss previously recognized through comprehensive income is recognised in the income statement.

From 1 January 2018 any cumulative gain or loss recognised through other comprehensive income in respect of equity investment securities designated as at fair value through other comprehensive income is not recognised in profit or loss on derecognition of such securities, but are directly recognised in retained earnings.

(iii) Modification of financial assets

Modification of financial assets is a process where the terms of the original contract are modified as a result of:
1) caused by current borrowers' needs (for example a reduction in the effective interest rate due to market changes, collateral substitution) and not caused by financial difficulties of the borrower,
2) caused by the current financial difficulties of the borrower or the difficulties that will arise soon, or by deteriorating the borrowers creditworthiness.

Modification of financial assets occurs when changes to some or all of the contract's provisions have been made.

In the case of a financial asset that represents a debt instrument (securities and loans and receivables), the Bank determines whether the modification is significant or whether the difference between the present value of the remaining modified cash flows discounted using the original effective interest rate and the current value of the modified cash flows discounted using the original effective interest rate is more than 10 per cent.

If the modification is significant, the Bank ceases to recognize the original financial asset and begins to recognize new financial assets at fair value plus transaction costs and recalculates the new effective interest rate for the asset. The modification date is consequently considered to be the date of initial recognition for the purpose of calculating the impairment, including the purpose of determining whether a significant increase in credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the modification was driven by the debtor being unable to meet the originally agreed payments. The differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the modification of the financial asset is not significant and the modification did not result in derecognition of the financial asset, then the Bank recalculates the gross carrying amount of the asset based on the revised cash flows of the financial asset and recognizes the modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting modified cash flows at the original effective interest rate (or using an effective interest rate adjusted for credit risk in the case of POCI assets).

If the modification occurs because of the financial difficulties of the debtor, the gain or loss is recorded together with the impairment loss. In other cases, it is recorded as interest income calculated using the effective interest rate method.

(iv) Impairment

IFRS 9 outlines a "three-stage" model for impairment of financial assets based on changes in credit quality since initial recognition of financial assets.

Impairment of financial assets is recognized on the basis of the expected credit loss model (ECL) for assets subsequently measured at amortized cost and assets subsequently measured at fair value through other comprehensive income (other than equity instruments).

IFRS 9 requires companies to enter the expected losses at the level of losses expected in the next 12 months (Stage 1) from the initial entry of the financial instrument. The time period for calculating the expected loss becomes the entire remaining life of the asset that is the subject of the valuation where the credit quality of the financial instrument has experienced a "significant" deterioration in relation to the initial measurement (Stage 2) or in case the asset is partially or fully non-performing (Stage 3). More specifically, the introduction of new impairment provisions includes:

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

Measurement of ECL

Expected credit losses are measured as follows:

- *financial assets that are not credit impaired on the reporting date:* as the present value of all cash short falls (i.e. the difference between the cash flows incurred by the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit impaired at the reporting date*: as the difference between the gross carrying amount and the present value of expected future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee agreements:* the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

See Note 5.1.4.

Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at fair value through other comprehensive income, and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is impaired include the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:
- *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts:* generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

See also Note 5.1.4.

POCI assets – purchased or originated credit-impaired assets

Purchased or originated credit-impaired financial asset is an asset where there is objective evidence of impairment (default) at initial recognition.

Such assets are identified in the following cases:
- bank repurchases at a significant discount an asset for which there is objective evidence of impairment, or
- there is a significant modification of the instrument which is already in default, or
- the significant modification of the instrument is a reason for default, or
- bank grants a new loan to a customer whose significant portion of the portfolio is already in default.

The Bank does not purchase any impaired assets (bad debts), therefore POCI assets are instruments that are initially recognised, or, subsequently recognised due to a significant modification, which were in default at recognition.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in impairement losses on financial instrument in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Banks's procedures.

The Bank writes off a loan or an investment in debt security, either partially or in full, and any related allowance for impairment losses, when Bank's Credit Board determines that there are no realistic prospect of recovery.

3.11.2. Financial liabilities

(i) Classification

The Bank classifies financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. The classification depends on the intention for which the financial instruments have been acquired. The Management determines the classification of financial instruments at initial recognition and reviews that classification at each reporting date.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss have two sub-categories: financial instruments held for trading (including derivatives) and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified in this category only if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term for the purpose of short-term profit taking or designated as such by management at initial recognition. The Bank has no financial liabilities classified at fair value through profit or loss.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not at fair value through profit and loss and include due to customers, due to banks and other financial institutions and subordinated debt.

(ii) Initial and subsequent measurement

Financial liabilities at fair value through profit or loss are initially recognised at fair value, while transaction costs are immediately expensed. Subsequent measurement is also at fair value.

Gains and losses arising from a change in the fair value of financial liabilities at fair value through profit or loss are recognised in the income statement.

Other financial liabilities are initially measured at fair value including transaction costs. Subsequent to initial recognition the Bank measures other financial liabilities at amortised cost using the effective interest rate.

(iii) Derecognition of financial liabilities

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

(iv) Modification of financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.11.3. Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

3.11.4. Fair value measurement of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis (Level 1 of the fair value hierarchy).

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (Level 2 and Level 3 of the fair value hierarchy). The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustments of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand.

The Bank recognises transfers between levels of the fair value hierarchy as of the reporting period during which the change occurred.

3.11.5. Specific financial instruments

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents inlcude cash, balances with the Central Bank and funds held at the current accounts with other banks and higly liquid financial assets with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

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

Placements with banks and the obligatory reserve with the Central Bank

Placements with banks with maturity over 3 months and the obligatory reserve with the Central Bank are classified as loans and receivables and are carried at amortized cost less impairment losses.

Loans and receivables

Loans to customers are presented at amortised cost net of impairment allowances to reflect the estimated revocable amounts.

“Loans and receivables” captions in the statement of financial position include:
- loans and receivables measured at amortised cost (see Note 3.11.1), thet are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and receivables at fair value through profit or loss, measured at fair value with changes in fair value that are recognized in profit or loss.

Investment securities

The ’financial assets at fair value through profit and loss’ caption in the statement of financial position includes:
- debt investment securities measured at fair value through profit and loss.

The ’financial assets at amortised cost’ caption in the statement of financial position includes
- debt investment securities measured at amortised cost;

The ’financial assets at fair value thru other comprehensive income’ caption in the statement of financial position includes
- equity investments measured at fair value through other comprehensive income; and

The Bank elects to present in other comprehensive income changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

Financial guarantees and loan commitments

’Financial guarantees’ are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. ’Loan commitments’ are firm commitments to provide credit under pre-specified terms and conditions.

Borrowings and subordinated debt

Interest-bearing borrowings and subordinated debt are classified as other financial liabilities and are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, these are stated at amortized cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the profit or loss statement over the period of the borrowings using the effective interest rate method.

Current accounts and deposits from banks and customers

Current accounts and deposits are classified as other liabilities and initially measured at fair value plus transaction costs and subsequently stated at their amortised cost using the effective interest method.

3.12. Property and equipment

Recognition and measurement

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses. The cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent cost is included in net book value or is accounted for as separate assets only if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of day-to-day repairs and maintenance are recognised in the income statement as incurred.

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.

Estimated depreciation rates were as follows:

Building	2%
Furniture and vehicles	10%-14%
Computers	33,3%
Other equipment	7%-15%

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.

3.13. Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment losses. The cost includes all expenditure that is directly attributable to the acquisition of the items.

Estimated depreciation rates were as follows:

Intangible assets	20%

3.14. Investment property

Investment property, which is property held to earn rental income and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost, less accumulated depreciation and any recognized accumulated impairment losses. Depreciation commences when the assets are ready for their intended use and is calculated in the basis of the estimated useful life of the asset, using the straight-line method as follows:

Buildings	2%

3.15. Assets repossessed from disbursement of loans

The Bank may recover assets that were originally received as collateral for the loan after exercising contractual rights or undertaking specific legal actions. When both of the following conditions are satisfied, the relevant assets shall be included in the Bank's balance sheet:

- The recovery activity has been completed;
- The Bank has become owner of the asset.

Classification and measurement of these assets depend on the scope for holding the property. More specifically, the asset may be classified according to IAS 16 (if the assets becomes instrumental), IAS 40 (if the property is held to earn rentals or for capital appreciation), IAS 2 (when the property has been acquired, in the ordinary course of business, exclusively with the intent to dispose of the asset in the reasonably short period of time). Classification under IFRS 5 is also possible when the conditions are met.

Following their initial recognition in the balance sheet at their fair value, the repossessed assets classified according to IAS 16, excluding property assets, shall be measured at cost (amortised and periodically tested for impairment). Assets classified under IAS 2 shall be measured at the lower between cost and the net realizable value and shall not be amortised but only subject to the impairment test. Assets classified under IFRS 5 are valued at lower of between book value and fair value less costs to sell.

3.16. Assets held for sale

Non-current assets are classified as assets held for sale if it is highly probable that they will be offset primarily by sale rather than by continuous use.

These assets are usually measured at lower between book value and fair value less costs of sale. Impairment losses in the initial classification of assets held for sale, as well as subsequent gains and losses arising from re-measurement are recognised through the income statement.

Once classified as property for sale, intangible assets, real estates, plant and equipment are no longer amortised, and any investment measured by the equity method is no longer recognised.

3.17. Impairment of non-financial assets

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 recognised as an expense in profit or loss.

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

3.18. Provisions for liabilities and charges

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions for liabilities and charges are maintained at the level that the Bank's management considers sufficient for absorption of incurred losses. Management determines the sufficiency of provisions on the basis of insight into specific items; current economic circumstances risk characteristics of certain transaction categories, as well as other relevant factors.

Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

3.19. 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 those tax and contributions in the favour of the institutions of the Federation of Bosnia and Herzegovina (on federal and cantonal levels), Republika Srpska and Brčko District.

In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recognised in the statement of profit or loss and other 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 3 average net salaries of the employee disbursed by the Bank or 3 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 is recognised when earned.

3.20. Equity and reserves

Share capital

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

Regulatory reserves for credit losses

The regulatory reserve for credit losses represents the surplus of impairment allowances calculated in accordance with regulations as prescribed by the Federal Banking Agency ("FBA") over impairment allowances recognised in accordance with IFRS. The reserve is presented directly within equity (as a non-distributable reserve) and until 2012 any increase of the surplus was covered by transfers from retained earnings, after approval by shareholders.

Prior to 2012, the need for transfers from retained earnings to an earmarked reserve within equity (regulatory reserve for credit losses) was calculated for the whole credit-risk portfolio on a net basis, thereby taking into account both instances where application of FBA regulations would have resulted in a higher provision and instances where the application of FBA regulations would have resulted in a lower provision. However, from 2012, banks are required to calculate the requirement for regulatory reserves for credit losses taking into account only instances where higher provisions would have resulted from the application of the FBA rules. Retroactive application of this change in FBA rules is not required.

Based on the Decision of Minimum Standards for Capital Management and Asset Classification issued by the FBA in February 2013 any increase of the surplus of regulatory provisions no longer needs to be presented as a reserve movement within equity but will be exclusively computed as a deduction of regulatory capital for the purpose of capital adequacy calculations. Accordingly, the balance of the regulatory reserve presented in the financial statements as of 31 December 2012 has been carried forward unchanged to 31 December 2018.

During 2019, based on the Decison on terms for inclusion of regulatory reserves for credit losses in issued share capital of the Bank published by Banking Agency of FBiH on 8 November 2018, the Bank's Assembly issued a Decision to trasfer the total amount regulatory reserves for credit losses as at 31 December 2018 in the amount of BAM 102,443 to Common Equity Tier 1 of the Bank i.e. allocated to retained earnings of the Bank.

Retained earnings

Profit for the period after appropriations to owners is allocated to retained earnings.

Fair value reserves

Fair value reserves comprises changes in fair value of financial assets available-for-sale (from 1 January financial assets at fair value through other comprehensive income).

Dividends

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

3.21. 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. The Bank does not have preference shares.

3.22. Standards issued but not yet adopted and interpretation

Several new standards and accompanying additions are in place for the accounting period starting on 1 January 2019. The Bank believes that the new standards and amendments to the standards will not have a significant impact on the separate financial statements in the period of first application.

However, new regulatory framework which takes place from 1 January 2020 is expected to have significant effects on the Bank's financial statements from the moment of adoption as explained bellow:

3.22.1 New regulatory requirements that take the effect in the accounting periods starting on or after 1 January 2020

The banking Agency of Federation of BiH has published a new Decision on managing credit risk and establishing expected credit losses on 20 June 2019 (Official Gazette of FBiH No 44/19 from 26.06.2019), whose implementation is mandatory for all banks from 1 January 2020.

Decision on managing credit risks and establishing expected credit losses states:
a) Guidance on managing the credit risks
b) Exposure allocation method into credit risk levels and establishment of expected credit losses
c) Acceptable collateral for the purposes of establishing expected credit losses
d) Acceptable collateral for the purposes of limitation of maximum allowable exposure compared to the issued equity,
e) Treatment of assets acquired in the collection of receivables process
f) Reporting method to the Banking Agency of FBiH

The new Decision's requirements in the area of impairment are based on the model of expected credit losses under IFRS 9 but there are certain specifics (for example specification of minimum rates of expected credit losses for credit risk levels). In accordance to the aforementioned statements, banks were held responsible to calculate the effects of the initial application of new Decision as at 31 December 2019 i.e. opening balances as at 1 January 2020, and record them on the equity accounts i.e. present them as a part of CET 1 capita as at that day.

The effects of the initial application represent the difference between the expected credit losses established in relation with the requirements of this Decision and those which the Bank has determined and recorded in accordance with its internal methodology that is complementary with the requirements of IFRS 9. Requirements of the new Decision are summurised bellow:

Exposure allocation method into credit risk levels and establishment of expected credit losses

The Bank is obliged to allocate each exposure at amortized cost and fair value through other comprehensive income into one of the following categories:
a) Stage 1 – performing
b) Stage 2 – underperforming
c) Stage 3 – non-performing

In accordance with the exposure allocation into the credit risk levels, the Bank is responsible to apply following minimum rates of expected credit losses:

1. Stage 1:
a) For exposures with low credit risks – 0.1 per cent of exposure
b) For other exposures – 0.5 per cent of exposure.

If the Bank in accordance with its internal methodology determines higher amount of expected credit losses than the amount arising from the requirements of this Decision, the Bank is obliged to irecognise the higher amount.

2. Stage 2:
For exposures included in stage 2 the Bank is responsible to determine and record the expected credit losses by the choosing higher of the two:
a) 5 per cent of exposure
b) Amount determined as per internal methodology of the Bank.

3. Stage 3:
Minimum rates of the expected credit losses classified in Stage 3 depend on the fact whether the exposure is secured by acceptable collateral or not, in relation to that, minimum rates are as follows:
a) Exposures secured with acceptable collateral

Days overdue	Minimum expected credit loss
to 180 days	15%
from 181 to 270 days	25%
from 271 to 365 days	40%
from 366 to 730 days	60%
from 731 to 1460 days	80%
over 1460 days	100%

b) Exposures which are not secured with acceptable collaretal

Days overdue	Minimum expected credit loss
to 180 days	15%
from 181 to 270 days	45%
from 271 to 365 days	75%
from 366 to 456 days	85%
over 456 days	100%

The FBA's Decision defines the types of acceptable collateral in the form of real estates and equipment and minimum corrective factors for such collaterals.

Minimum rates of expected credit losses for receivables from customers, receivables on the basis of factoring and finance leasing and other receivables are listed in the following table:

Days overdue	Minimum expected credit loss
no delays in the materially significant amounts	0.5%
to 30 days	2%
from 31 to 60 days	5%
from 61 to 90 days	10%
from 91 to 120 days	15%
from 121 to 180 days	50%
from 181 to 365 days	75%
over 365 days	100%

In addition, Decision defines the requirements for "accounting write-off" based on which the Bank must write-off balance sheet exposure two years after the Bank has recorded the expected credit losses in the amount of 100 per cent of gross value of total exposure and declared it fully due.

The Decision also defines the treatment of assets acquired in the process of collection of receivables by which the Bank recognizes forseclosed assets at the lower of:

a) Net book value of the Bank's receivables. If the net book value of recorded expected credit losses equals the receivables amount, the Bank will record repossessed assets at technical value in the amount of BAM 1.
b) Estimated fair value by independent valuer reduced by expected costs to sell.

If the Bank does not sell the repossessed assets its valude must be reduced to BAM 1 within the period of next three years from the date of initial recognition, and for the assets recorded before 1 January 2019 the Bank is obliged to reduce their value to BAM 1 in the period of two years from the date of initial implementation of the Decision.

Effects of initial adoption

Effects of the initial adoption are presented in the table bellow:

All amounts are expressed in thousands of BAM	Balance as at 31 December 2019	Revaluation per FBA Decision	1 January 2020
ASSETS			
Cash and cash equivalents	1.473.344	(1.913)	**1.471.431**
Obligatory reserves at the Central Bank of BiH	398.999	-	**398.999**
Loans and receivables to customers	2.490.432	(20.173)	**2.470.259**
Financial assets measrued at amortized cost	143.178	-	**143.178**
Other assets and receivables	36.444	(1.288)	**35.156**
LIABILITIES			
Provisions for gurantees and loan commitments	6.623	9.142	**15.765**
EQUITY			
Retained earnings	310.590	(32.516)	**278.074**

Due to the fact that the effects have significant impact on the total equity, and for the compliance purposes with the capital regulatory requirements in the following period, the Bank has calculated the rate of CET 1 capital, which amounts to 15.32 per cent as at 1 January 2020, Tier 1 capital rate that amounts to 15.32 per cent as well as the total capital rate which amounts to 17.45 per cent (including 1.25 per cent risk weighted assets) and they are all above the prescribed minimum rates.

4. Critical accounting judgements and key sources of estimation uncertainty

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated and are based on historical experience and other factors such as the expected flow of future events that can be reasonably assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on and off-balance sheet exposure to credit risk is assessed on a monthly basis.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

- Note 3.11.1 (i): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding;
- Note 5.1.4 (i): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 and 31 December 2018 are included in the following notes.

- Note 5.1.4: impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information;
- Note 3.11.4: determination of the fair value of financial instruments with significant unobservable inputs;
- Note 3.11.1.(iv): impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Federation of Bosnia and Herzegovina. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of taxpayers' records.

Regulatory requirements

The Agency is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

In addition to impairment allowances calculated and recognised in accordance with IFRS, the Bank also calculates impairment losses in accordance with the FBA regulations for capital adequacy calculation purposes. New methodology for impairment allowances calculation in accordance with the FBA regulations is explained in Note 3.20.

Litigation and claims

The total amount of legal proceedings is BAM 55,960 thousand (2018: BAM 39,748 thousand). The Bank performs an individual assessment of all court cases and creates provisions in accordance with the assessment. The assessment of risks and proposal for provisions for legal cases is performed by the Legal Affairs Department and Finance Division, and a decision on the creation of provisions is made by the Bank's management.

As stated in Note 33, the Bank provided BAM 14,734 thousand (2018: BAM 15,931 thousand), which management estimates as sufficient. Since the estimate is made considering the specifics of each individual case, it is not practicable for management to evaluate the financial impact of changes to the assumptions based on which provisions are quantified as at the reporting date.

Provisions for serverance payments

In calculating provisions for severance payments, the Bank discounts expected future cash flows on those payments, using discount rates that, according to the management's judgment, best reflect the time value of money.

5. Financial risk management

The Bank's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate and other price risk.

The Bank has established an integrated system of risk management by introducing a set of policies and procedures for analysis, evaluation, acceptance and risk management. Taking risk is core to the financial services business and the operational risks are an inevitable consequence of being in business.

The Management Board has overall responsibility for the establishment and oversight of the Bank's risk management framework.

Risk management is carried out by the Risk Management Division whose main purpose is to support financial operations, coordinate access to domestic and international financial markets, and oversee and manage financial risk through internal risk reports including analysis by size and level of the risk.

5.1. Credit risk

Risk limit control and mitigation policies

The Bank takes on exposure to credit risk which is the risk that the counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest payment and capital repayment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transaction, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approvals from Bank Risk.

The Supervisory Board of the Bank makes a decision on the composition and authorizations of the Credit Committee and the Credit Committee for problematic loans. The Credit Committee, within its authority, may delegate credit approvals to lower levels of decision making and appoint credit decision-makers. Credentials and procedures of the Credit Committee and the Credit Committee for Problematic Loans are defined in the Rulebook on the Work of these Bodies.

Off-balance-sheet credit instruments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letter of credits carry the same risk as loans and are secured with similar collateral as are loans.

5.1 1. Maximum exposure to credit risk before collateral held or other credit enhancement

The following table shows the information on credit quality of financial assets measured at amortized cost. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranted.

Explanation of terms "Stage 1", "Stage 2" and "Stage 3" is included in Note 3.11.1.

All amounts are expressed in thousands of BAM	Stage 1	Stage 2	Stage 3	POCI	2019 Total
Loans and advances to banks at amortised cost					
Excellent	-	-	-	-	-
Strong	336,660	-	-	-	336,660
Good	76,946	-	-	-	76,946
Satisfactory	-	-	-	-	-
Substandard	-	-	-	-	-
Credit impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross amount	**452,606**	**-**	**-**	**-**	**452,606**
Less: loss allowance	**(1)**	**-**	**-**	**-**	**(1)**
Net carrying amount	**452,605**	**-**	**-**	**-**	**452,605**

All amounts are expressed in thousands of BAM	Stage 1	Stage 2	Stage 3	POCI	2018 Total
Loans and advances to banks at amortised cost					
Excellent	233,195	-	-	-	233,195
Strong	83,913	-	-	-	83,913
Good	-	-	-	-	-
Satisfactory	-	-	-	-	-
Substandard	-	-	-	-	-
Credit impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross amount	**317,108**	**-**	**-**	**-**	**317,108**
Less: loss allowance	**(1)**	**-**	**-**	**-**	**(1)**
Net carrying amount	**317,107**	**-**	**-**	**-**	**317,107**

All amounts are expressed in thousands of BAM	Stage 1	Stage 2	Stage 3	POCI	2019 Total
Loans and advances to customers at amortised cost					
Excellent	6,377	16	-	-	6,393
Strong	1,426,634	34,948	-	261	1,461,843
Good	191,981	33,307	-	-	225,288
Satisfactory	510,467	181,677	-	55	692,199
Substandard	10,415	84,221	-	257	94,893
Credit impaired	4	(4)	177,720	20,120	197,840
Unrated	63	1,276	-	2,939	4,278
Total gross amount	**2,145,941**	**335,441**	**177,720**	**23,632**	**2,682,734**
Less: loss allowance	**(13,740)**	**(15,951)**	**(146,906)**	**(16,420)**	**(193,017)**
Net carrying amount	**2,132,201**	**319,490**	**30,814**	**7,212**	**2,489,717**

All amounts are expressed in thousands of BAM	Stage 1	Stage 2	Stage 3	POCI	2018 Total
Loans and advances to customers at amortised cost					
Excellent	35,880	1,208	-	-	37,088
Strong	1,322,753	91,623	-	164	1,414,540
Good	147,994	39,173	-	-	187,167
Satisfactory	531,810	175,787	-	28	707,625
Substandard	11,181	52,179	-	253	63,613
Credit impaired	1	(1)	159,034	26,828	185,862
Unrated	1,118	2,367	-	32	3,517
Total gross amount	**2,050,737**	**362,336**	**159,034**	**27,305**	**2,599,412**
Less: loss allowance	**(10,735)**	**(15,912)**	**(137,613)**	**(20,437)**	**(184,697)**
Net carrying amount	**2,040,002**	**346,424**	**21,421**	**6,868**	**2,414,715**

All amounts are expressed in thousands of BAM	Stage 1	Stage 2	Stage 3	POCI	2019 Total
Financial instruments at amortised cost					
Excellent	80,832	-	-	-	80,832
Strong	-	-	-	-	-
Good	32,362	7,115	-	-	39,477
Satisfactory	23,285	-	-	-	23,285
Substandard	-	-	-	-	-
Credit impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross amount	**136,479**	**7,115**	**-**	**-**	**143,594**
Less: loss allowance	**(371)**	**(45)**	**-**	**-**	**(416)**
Net carrying amount	**136,108**	**7,070**	**-**	**-**	**143,178**

All amounts are expressed in thousands of BAM	Stage 1	Stage 2	Stage 3	POCI	2018 Total
Financial instruments at amortised cost					
Excellent	96,368	-	-	-	96,368
Strong	-	-	-	-	-
Good	17,163	14,213	-	-	31,376
Satisfactory	19,568	-	-	-	19,568
Substandard	-	-	-	-	-
Credit impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross amount	**133,099**	**14,213**	**-**	**-**	**147,312**
Less: loss allowance	**(347)**	**(193)**	**-**	**-**	**(540)**
Net carrying amount	**132,752**	**14,020**	**-**	**-**	**146,772**

All amounts are expressed in thousands of BAM	Stage 1	Stage 2	Stage 3	2019 Total
Credit commitments				
Excellent	29,505	877	-	30,382
Strong	231,175	12,851	-	244,026
Good	150,229	39,745	-	189,974
Satisfactory	149,351	36,741	-	187,092
Substandard	1,851	6,461	-	8,312
Credit impaired	-	-	232	232
Unrated	1,564	822	-	2,386
Total gross amount	**564,675**	**97,497**	**232**	**662,404**
Less: loss allowance	**(2,200)**	**(2,057)**	**(49)**	**(4,306)**
Net carrying amount	**562,475**	**95,440**	**183**	**658,098**

All amounts are expressed in thousands of BAM	Stage 1	Stage 2	Stage 3	2018 Total
Credit commitments				
Excellent	32,796	664	-	33,460
Strong	165,001	15,907	-	180,908
Good	151,027	34,437	-	185,464
Satisfactory	195,055	47,723	-	242,778
Substandard	2,309	4,624	-	6,933
Credit impaired	-	-	42	42
Unrated	2,482	2,055	-	4,537
Total gross amount	**548,670**	**105,410**	**42**	**654,122**
Less: loss allowance	**(1,798)**	**(1,670)**	**(31)**	**(3,499)**
Net carrying amount	**546,872**	**103,740**	**11**	**650,623**

All amounts are expressed in thousands of BAM	Stage 1	Stage 2	Stage 3	2019 Total
Financial guarantees				
Excellent	1,788	25	-	1,813
Strong	33,603	1,298	-	34,901
Good	66,296	35,184	-	101,480
Satisfactory	113,959	48,982	-	162,941
Substandard	4,824	9,994	-	14,818
Credit impaired	-	-	877	877
Unrated	-	657	-	657
Total gross amount	**220,470**	**96,140**	**877**	**317,487**
Less: loss allowance	**(1,015)**	**(592)**	**(710)**	**(2,317)**
Net carrying amount	**219,455**	**95,548**	**167**	**315,170**

All amounts are expressed in thousands of BAM	Stage 1	Stage 2	Stage 3	2018 Total
Financial guarantees				
Excellent	360	200	-	560
Strong	25,707	6,085	-	31,792
Good	69,559	28,459	-	98,018
Satisfactory	113,144	28,563	-	141,707
Substandard	9,805	13,799	-	23,604
Credit impaired	-	-	497	497
Unrated	450	608	-	1,058
Total gross amount	**219,025**	**77,714**	**497**	**297,236**
Less: loss allowance	**(266)**	**(164)**	**(411)**	**(841)**
Net carrying amount	**218,759**	**77,550**	**86**	**296,395**

All amounts are expressed in thousands of BAM	2019	2018
Loans and receivables to customers at fair value		
Excellent	-	64
Strong	447	773
Good	-	-
Satisfactory	169	53
Substandard	33	-
Credit impaired	66	3
Unrated	-	-
Total	**715**	**893**

All amounts are expressed in thousands of BAM	2019	2018
Financial assets at fair value through profit and loss		
Excellent	-	-
Strong	6,966	81,560
Good	-	-
Satisfactory	-	-
Substandard	-	-
Credit impaired	-	-
Unrated	-	-
Total	**6,966**	**81,560**

Following table presents information on the loan balance and customer advances which were received in stages 1, 2 and 3.

All amounts are expressed in thousands of BAM	Stage 1	Stage 2	Stage 3	2019 Total
Loans and reviewable to customers at amortised cost – gross carrying amount				
Current	2,067,403	266,774	17,004	2,351,181
Overdue < 30 days	78,530	56,021	8,166	142,717
Overdue > 30 days < 90 days	8	12,646	5,373	18,027
Overdue > 90 days	-	-	147,177	147,177
Total:	**2,145,941**	**335,441**	**177,720**	**2,659,102**

All amounts are expressed in thousands of BAM	Stage 1	Stage 2	Stage 3	2018 Total
Loans and reviewable to customers at amortised cost – gross carrying amount				
Current	1,956,390	265,254	6,630	2,228,274
Overdue < 30 days	93,358	72,776	4,316	170,450
Overdue > 30 days < 90 days	988	24,306	7,622	32,916
Overdue > 90 days	-	-	140,467	140,467
Total:	**2,050,736**	**362,336**	**159,035**	**2,572,107**

5.1.2. Credit quality analysis

Cash and cash equivalents

Within cash and cash equivalents the Bank held BAM 61,530 thousand at 31 December 2019 (2018: BAM 37,234 thousand) with other banks that are rated, based on S&P's at least AA- to BBB-.

5.1.3. Collateral held and other credit enhancements

During the year the Bank obtains financial and non-financial assets by taking possession of collaterals it holds as security or calling on other credit enhancements, in case of failure by the debtors to repay their due amounts. Such process of foreclosure involves mainly real estate, equipment, vehicles and deposits. Repossessed items are presented as such in the statement of financial position once they meet the criteria for recognition according to IFRS and local law. The policy of the Bank is to sell repossessed assets; during the period of possession and pending their final sale to third parties, the assets can be temporarily used if they are functional to the Bank's standard operations, or leased operationally to third parties.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

Residential mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

All amounts are expressed in thousands of BAM	31/12/2019	31/12/2018
LTV ratio		
Less than 50%	42,562	41,330
51–70%	56,680	47,560
71–90%	78,062	58,421
91–100%	11,956	12,289
More than 100%	13,995	13,107
Total	**203,255**	**172,707**

All amounts are expressed in thousands of BAM	2019
Credit-impaired loans	
Less than 50%	1,667
51–70%	18
91–100%	3,643
More than 100%	4,208
Total	**9,536**

Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances and held at the year-end are shown below.

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Property	-	71
Total	**-**	**71**

5.1.4. Amounts arising from ECL

(i) Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the quantitative or qualitative criteria have been met. Criteria for determining a significant increase in credit risk are defined for the proper allocation of exposure in Stage 1 or Stage.

Quantitative criteria

For corporate clients, the quantitative criteria assesses whether the risk of default on liabilities has increased significantly from the initial recognition through the threshold of 250 per cent increase in the likelihood of default. Quantitative criteria are set individually for each product. No grouping of exposure is carried out, i.e. measuring a significant increase in credit risk on a collective basis.

As a quantitative measure in case of retail clients, a comparison is made of the remaining probability of default on the reporting date with the corresponding expected conditional PD from the original vintage curve (ie consideration of the PD at the beginning, given the condition that the observed risk party survives, i.e., fully repayable or defaulted, until the reporting date). This increase in credit risk is measured through a relative approach and compared to a fixed threshold value (SICR threshold). Threshold levels are calculated at the portfolio level, for all portfolios that are included in a life-based PD models based on estimates.

Qualitative criteria

Elements that will be the main determinants which need to be considered for the purpose of assessing the steps between the various stages are the following:

- Eventual presence of due amount which remains overdue over 30 days. In the event of such case the credit risk of such exposure is considered "significantly increased" and is classified to Stage 2;
- Existence of "forbearance" measures;
- Qualitative information on credit quality deterioration due to which the client is included in the monitoring list;
- Certain indicators of the internal credit risk monitoring system and early warning system.

Determining the existence of any of the above mentioned guidlines represents a condition for change of credit risk level.

(ii) Credit risk grades

The Bank uses internal credti risk gradings that reflect its assessment of the probability of default of individual counteparties. The Bank uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of loan application is fed into this rating model. In addition, the model enables expert judgement form the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

The following are additional considerations for each type of portfolio held by the Bank.

Retail clients

After the date of initial recognition, for retail business, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score. Any other known information about the borrower which impacts their creditworthiness – such as unemployment and previous delinquency history – is also incorporated into the behavioral score. This score is mapped to a PD.

Corporate clients

For corporate business, the rating is determined at the borrower level. An underwriter will incorporate any updated or new infromation/credit assessments into the credit system on an ongoing basis. In addition the Underwriter will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating and PD.

Clients that meet a definition of a corporate client are treated through Corporate rating model that includes: the Large Corporate Rating Model and the Regular Corporate Rating Model. According to the general concept, borrower rating scale within corporate clients includes 25 rating grades for non-default clients and 1 grade for default clients.

In addition, for the category of small and medium-sized businesses, the Bank uses the SMB rating model. According to the general concept, the SMB client ranking scale includes a total of 25 rating grades for non-default clients in order to obtain all of the foreseen risk categories according to the internal rating system and 1 grade for default clients.

Local and regional governments

For local and regional government, the Bank uses the Local and Regional Governments rating model. According to the general concept of the LRG ranking scale, clients include 9 rating ratings for non-default clients and one rating for default clients.

Project financing

For project financing purposes, the Bank uses the Project finance rating model. According to the general concept of rating scale PF clients include 4 rating ratings for non-default clients and one rating for default clients.

Financial institutions

For financial institutions, the Bank uses the following rating models: FI (Bank) Rating Model, Insurance Rating Model, Sovereigns Rating Model and Funds Rating Model. In the process of ranking clients in the category of financial institutions, the final rating is determined at the level of the RBI Responsible Unit. According to the general concept, the client rating scale for the given rating model has 9 grades for non-defalted clients, and one grade for default clients, with the exception of FI Rating model that includes 25 grades for non-default and 1 for default.

(iii) Definition of default

The default of the Bank's exposures is determined on the basis of the regulatory requirements defined in Article 178 of Regulation (EU) 575/2013, EBA Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013, EBA Regulatory Technical Standards on materiality threshold of credit obligations past due under Art.178 EU Regulation 575/2013 and CNB Decision amending the decision implementing Regulation (EU) no. 575/2013 in the valuation of assets and off-balance sheet items and the calculation of regulatory capital and capital requirements.

In the retail segment, the default is determined on the facility level for private individuals, whereas, for all legal entities (including Micro and SME customers), the default status is determined on the obligor level.

Non-retail portfolio

Staging criteria are selected in line with IFRS 9, and based on risk parameters available in the Bank. By assigning a default status, the client moves to the individual estimate of potential losses (ILLP), thus obtaining the Stage 3 status under IFRS 9 methodology, which at that moment represents an non-performing asset.

The default status, i.e. individual loan loss provision, is granted for all debt placements of the borrower or to a group of debtors who:

- have not paid their liabilities towards the Bank for more than 90 days, taking into account the materiality threshold of EUR 250 and 2.5 per cent until 30 November 2019, and EUR 500 and 1.0 per cent after 30 November 2019 (see bellow for more details) of the value of total contracted loan placements (quantitative criteria),
- or that obligations towards the Bank are most likely not to be settled from the borrowers primary sources of funding (qualitative criterion).

The Bank (or RBI Group) has defined qualitative indicators that are currently being used to identify the likelihood that a client will not be able to settle his liabilities to the Bank (e.g. initiated bankruptcy proceedings, write-off part of the receivables, interest payments, cross-default etc.)

In non-retail segment, the Bank implemented a new default definition for non-retail customers as of 30 November 2019. The major change is the change in the materiality threshold which is used to calculate days past due as one of the default indicators (overdue payment) as explained above.

IFRS 9 requires the use of several scenarios (minimum 2) within ILLP calculation, taking into account the following principles:
- The certainty of scenarios,
- Possibility of documenting those scenarios,
- Historical parameters / indicators.

A scenario that is likely to happen/will be realized in the next period will be given a weight of 90 per cent probability, while scenarios whose probability is less realistic will be given the weight of 10 per cent probability, as a unified rule for all clients. The weights will be revised annually. In the case of a client who is going concern as a second scenario, it is possible to use collateral through a legal case where on the basis of historical observations it is concluded that a weighting of 10 per cent should be used (analysis based on historical changes in the last 5 years, the transfer of clients from the early stage to the late stage – analysis will be revised annually).

IFRS 9 distinguishes loans valued at fair value and amortized cost.

Retail portfolio

As a rule, in the Retail segment of business by assigning default status, the client is moved to Stage 3 according to IFRS 9 methodology, which at that moment represents a non-performing asset.

Provisions for loan losses must be granted to all placements of a debtor or group of debtors who:
- are over 90 days late with liability payments towards the Bank considering the materiality threshold of EUR 10 until 30 November 2019, and EUR 100 and 1 per cent of the value of total contracted loan placements from 30 November 2019 (quantitative criteria);
- or are most likely not to settle their liabilities towards the Bank (qualitative criterion).

In its internal procedures, the Bank has defined qualitative criteria for which credit exposure of a client is given a status of high probability of not meeting liabilities towards the Bank (e.g. bankruptcy of the debtor, cross-default, poor restructuring, etc.)

The Bank also implemented the new default definition in the retail segment as of 30 November 2019 by conducting a retrospective calculation of historical daily default data for the past 10 years (5 years for the Micro segment). On the basis of such retrospective calculation, the Bank determined default data as at 30 November 2019 and related detailed information on default events.

The biggest methodological change in the default definition in the retail segment relates to:
1. Change in days past due counter:
    - Materiality threshold of past due amount for the calculation of days past due (DPD) is EUR 100 and 1 per cent of balance-sheet exposure, instead of the previous EUR 10 and no threshold,
    - the logic of counting of days past due (DPD) has changed, and, rather than considering the actual age of the amount past due, the counter counts how many days the debt exceeds the materiality threshold. This change is reflected in the fact that, when partial payment is made on an obligation, the number of days past due cannot be reduced, that is, the new counter can only be reset to zero when the debt due falls below one of the materiality thresholds (absolute or relative);
2. Introduction of the pulling effect – if a private individual's exposure in default exceeds 20 per cent of this obligor's total exposure, all other exposures of that individual should be also considered defaulted;
3. Change of distressed restructuring rules and introduction of additional unlikeliness to pay indicators, such as significant indebtedness and the loss of sufficient recurring income.

Furthermore, the rules for fulfilment of the criteria for exiting the status of un-fulfilled obligations are also changed.

(iv) Inclusion of forward looking element

Multiple macroeconomic scenarios are also included in ECL calculation. The Bank applies three perspective global economic scenarios (baseline, upside and downside) and this approach is considered sufficient for the calculation of unbiased expected loss in most economic environments. In calculating the expected credit loss, the Bank allocates weights of 50%: 25%: 25% for each of the three macroeconomic scenarios (baseline, upside and downside).

The Probability of Default (PD) is, where relevant, adapted to the macroeconomic status. The macroeconomic model also includes information about the future. The baseline macroeconomic forecasts with a two year horizont are reviewed and updated at least once every quorter and are submitted to the responsible units within the RBI Group.

Forward-looking information is considered in the credit risk assessment. This means that lifelong PD, historical rating and its accompanying PD include information about the future.

Adjustment is made using macroeconomic perspectives in the observed period.

The basic scenario with the prescribed addendum are aimed at reflecting the effects of the possibility of realization of alternative macroeconomic scenarios.

(v) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3.11.1. (iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3.11.1). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

(vi) Expected Credit Loss Measurement

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. In general, the Bank calculates ECL using three main components: a probability of default (PD); a loss given default (LGD); and the exposure at default (EAD).

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities.

(vii) Loss allowance

The following table shows reconciliation from the opening to the closing balance of the loss allowance per categories of financial instruments.

All amounts are expressed in thousands of BAM	Stage 1	Stage 2	Stage 3	POCI	2019 Total
Loans and receivables to customers at amortised cost					
Balance at 1 January 2019	10,735	15,912	137,613	20,437	184,697
First time adoption of IFRS 9	-	-	-	-	-
Transfer to stage 1	5,561	(4,292)	(1,269)	-	-
Transfer to stage 2	(773)	3,283	(2,510)	-	-
Transfer to stage 3	(235)	(4,554)	4,789	-	-
Net change in loss allowance	(1,548)	5,602	25,932	(3,366)	26,620
Write-offs and other changes	-	-	(17,649)	(651)	(18,300)
Balance at 31 December 2019	**13,740**	**15,951**	**146,906**	**16,420**	**193,017**

All amounts are expressed in thousands of BAM	Stage 1	Stage 2	Stage 3	POCI	2018 Total
Loans and receivables to customers at amortised cost					
Balance at 1 January 2018	8,672	9,758	159,471	19,150	197,051
First time adoption of IFRS 9	2,531	4,416	(779)	-	6,168
Transfer to stage 1	1,887	(1,416)	(471)	-	-
Transfer to stage 2	(1,009)	2,210	(1,201)	-	-
Transfer to stage 3	(186)	(1,598)	1,784	-	-
Net change in loss allowance	(1,160)	2,542	4,728	1,287	7,397
Write-offs and other changes	-	-	(25,919)	-	(25,919)
Balance at 31 December 2018	**10,735**	**15,912**	**137,613**	**20,437**	**184,697**

Change in methodology of establishing the status of default

Retail

In 2019, the Bank implemented changes in methodology for determining the default status (for details please see Note 5.1.4.*iii*), where the most signifficant change by its materiality level in retail segment relates to:

- The new past due counter which is used to determine default: materiality threshold of past due amount exceeds 100 EUR and 1 per cent of the balance-sheet exposure on a facility level in case of private individuals or obligr level in case of Micro business segment. Unlike the previous DPD counter, in the new methodology the number of days past due cannot be reduced when partial payments are made, and the counter can only be reset to zero when one of the materiality thresholds is not met;
- The new methodology has introduced a pulling effect, which is relevant for the private individual segment, where default is determined on a facility level –if the client's exposure in default exceeds 20 per cent of this obligor's total exposure, all other exposures of that individual should be also considered defaulted;
- Change of rules for exiting from default status.

The one-time effect of the change in the definition of default in retail segment is an increase in non-performing portfolio by BAM 26.8 million with one-off increase in loss allowance of BAM 8.13 million.

Non-retail:

On 30 November 2019, the Bank has implemented new definition of default for non-retail segment.

The major change is in counting the days past due as one of defult indicators – D8 indicator (overdue payment). The materiality threshold is the debt past due amount of over EUR 500 and more than 1 per cent of total balance-sheet exposure of the client.

Adoption of new definition of default did not have a significant financial effect in non-retail segment.

5.1.5. Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location.

Geographic concentration in net carrying amounts of credit exposure is as follows:

All amounts are expressed in thousands of BAM	Bosnia and Herzego-vina	EU countries	Non-EU countries	Total
31 December 2019				
Accounts with the Central Bank of BiH and other banks	520,574	486,296	27,756	1,034,626
Obligatory reserves at the Central Bank of BiH	398,999	-	-	398,999
Loans and receivables to customers	2,490,432	-	-	2,490,432
Financial assets at fair value through other comprehensive income	363	182	-	545
Financial assets at amortised cost	43,115	80,830	19,233	143,178
	3,453,483	**567,308**	**46,989**	**4,067,780**
31 December 2018				
Accounts with the Central Bank of BiH and other banks	409,295	350,511	3,830	763,636
Obligatory reserves at the Central Bank of BiH	376,261	-	-	376,261
Loans and receivables to customers	2,415,608	-	-	2,415,608
Financial assets available for sale	355	182	-	537
Financial assets held to maturity	96,366	50,406	-	146,772
	3,297,885	**401,099**	**3,830**	**3,702,814**

Economic sector risk concentration in presented in Note 19.

5.2. Liquidity risk management

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the Banking Agency.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following tables show the remaining contractual maturities of the Bank's assets and liabilities as at 31 December 2018 and 31 December 2017, except for financial assets at fair value through other comprehensive income which have been classified in accordance with their secondary liquidity characteristic as maturing within one month and obligatory reserves which have been classified in the maturity period within one month.

All amounts are expressed in thousands of BAM	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2019						
Assets						
Cash and cash equivalents	1,473,344	-	-	-	-	1,473,344
Obligatory reserves at the Central Bank of BiH	398,999	-	-	-	-	398,999
Loans and receivables to customers	235,967	146,850	626,693	1,011,065	469,857	2,490,432
Financial assets at fair value through other comprehensive income	545	-	-	-	-	545
Financial assets at fair value through profit and loss	6,966	-	-	-	-	6,966
Financial assets at amortised cost	3,619	-	29,916	109,643	-	143,178
Total financial assets	**2,119,440**	**146,850**	**656,609**	**1,120,708**	**469,857**	**4,513,464**
Liabilities						
Due to banks and other financial institutions	56,569	65,234	73,392	130,061	12,409	337,665
Due to customers	2,596,382	68,327	301,442	659,140	57,133	3,682,424
Subordinated debt	-	-	-	61,804	-	61,804
Lease liabilities	260	520	2,438	6,000	1,768	10,986
Total financial liabilities	**2,653,211**	**134,081**	**377,272**	**857,005**	**671,310**	**4,092,879**

All amounts are expressed in thousands of BAM	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2018						
Assets						
Cash and cash equivalents	1,159,893	-	-	-	-	1,159,893
Obligatory reserves at the Central Bank of BiH	376,261	-	-	-	-	376,261
Loans and receivables to customers	266,399	130,188	544,665	1,040,055	434,301	2,415,608
Financial assets at fair value through other comprehensive income	537	-	-	-	-	537
Financial assets at fair value through profit and loss	81,560	-	-	-	-	81,560
Financial assets at amortised cost	9,909	-	24,303	112,560	-	146,772
Total financial assets	**1,894,559**	**130,188**	**568,968**	**1,152,615**	**434,301**	**4,180,631**
Liabilities						
Due to banks and other financial institutions	32,654	41,385	16,738	72,957	13,004	176,738
Due to customers	2,377,411	77,857	438,424	581,474	53,041	3,528,207
Subordinated debt	-	-	-	-	61,800	61,800
Total financial liabilities	**2,410,065**	**119,242**	**455,162**	**654,431**	**127,845**	**3,766,745**

The following table details the Bank's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities in accordance with the earliest date on which Bank may have the liability to make the payment. Tabel includes the payment of interest rates and principal:

Maturity for non-derivative financial liabilities

All amounts are expressed in thousands of BAM	Carrying amount	Less than 1 month	2 to 3 months	4 months to 1 year	1 to 5 years	Over 5 years	Gross nominal outflow
31 December 2019							
Due to banks and other financial institutions	337,665	56,922	65,455	75,937	133,767	12,691	344,772
Due to customers	3,682,424	2,596,442	68,432	303,538	690,785	62,750	3,721,947
Subordinated debt	61,804	-	1,144	3,374	79,510	-	84,028
Lease liabilities	10,986	320	640	2,960	5,747	4,451	14,118
		2,653,684	**135,671**	**385,809**	**909,809**	**79,892**	**4,164,865**

All amounts are expressed in thousands of BAM	Carrying amount	Less than 1 month	2 to 3 months	4 months to 1 year	1 to 5 years	Over 5 years	Gross nominal outflow
31 December 2018							
Due to banks and other financial institutions	176,738	32,655	41,391	16,890	77,461	14,659	183,056
Due to customers	3,528,207	2,378,658	77,939	440,535	600,312	56,534	3,553,978
Subordinated debt	61,800	-	-	4,834	19,336	66,634	90,804
		2,411,313	**119,330**	**462,259**	**697,109**	**137,827**	**3,827,838**

The following table shows the components of the Bank's liquidity reserves:

All amounts are expressed in thousands of BAM	2019	2018
Balance with the Central Bank	520,574	409,295
Current accounts with other banks	61,530	37,234
Cash and cash equivalents	438,718	396,257
Loans and receivables to banks (MM placements)	452,522	317,107
	1,473,344	**1,159,893**

5.3. Market risk

Market risks are defined as risks of possible losses due to changes in market prices of trading and banking book positions. Market risk estimates are based on changes in currency exchange rates, interest rates, credit spreads, the cost of equity and goods and other market parameters.

The Bank's market risk management is conducted in accordance with local law and the decisions and instructions of local regulators and in accordance with RBI Group standards (RBI Group regulatory framework and the decision of the RBI Board) and is defined in the internal rules, procedures and policies that are subject to regular internal audits with the aim of complying with regulatory changes, as well as improving the process of (market) risk management due to changes in market conditions, defined strategies and business goals. The process of managing market risk in itself includes mitigation, assessing and limiting exposure before taking risk, and the assessment and control of underwritten risk of the entire bank portfolio i.e. trading and banking book. Despite the existence of restrictions imposed by the regulator, the Bank limits the exposure to market risks in accordance with its business strategies harmonised at the level of RBI, the approval process of the product and a limit system on market risk positions, i.e. establishing limits on the open positions of market risk, limits on the Bank's portfolio sensitivity in accordance to changes of risk factors and establishing a system of limits on Value at Risk ("VaR") at the level of the book (trading and banking), at the level of segments (Assets and Liabilities management and Capital Markets) and at the level of the entire portfolio. In addition, for financial instruments carried at fair value, a limit is established on the reduction of their market value, so-called Stop loss limits.

Another important part in the process of managing market risk is stress testing of the Bank's portfolio on extreme changes of market conditions and the calculation of portfolio sensitivity towards crisis scenarios, as well as the impact it has on the financial results. Stress testing of extreme changes in market conditions is performed by RBI on a daily basis.

Bank is exposed to financial results of foreign exchange, change of interest rates, and change of securities prices in its portfolio.

5.3.1. Foreign exchange risk

Foreign exchange risk is the risk that changes in currency exchange rates affecting the Bank's portfolio exists to the extent that assets and liabilities in one currency are not matched in value or maturity. Given that local currency BAM is pegged to EUR foreign exchange risk is limited.

In addition to the VaR limit system, the Bank limits its exposure with the use of foreign exchange limits on open positions for each currency, a limit on the entire long or short position of the Bank, as well as stop loss limits.

The carrying amounts of the Bank's monetary assets and liabilities per currency at the reporting period date were as follows:

All amounts are expressed in thousands of BAM	BAM	EUR*	USD	Other currencies	Total
As at 31 December 2019					
ASSETS					
Cash and cash equivalents	846,966	415,976	111,164	99,238	1,473,344
Obligatory reserves at the Central Bank of BiH	398,999	-	-	-	398,999
Loans and receivables to customers	1,224,722	1,265,710	-	-	2,490,432
Financial assets at fair value through other comprehensive income	355	190	-	-	545
Financial assets at fair value through profit and loss	-	6,966	-	-	6,966
Financial assets at amortised cost	23,494	104,645	15,039	-	143,178
	2,494,536	**1,793,487**	**126,203**	**99,238**	**4,513,464**
LIABILITIES					
Due to banks and other financial institutions	305,046	12	32,607	-	337,665
Due to customers	2,114,570	1,248,038	123,534	96,282	3,682,424
Subordinated debt	-	61,804	-	-	61,804
Lease liabilities	10,986	-	-	-	10,986
	2,430,602	**1,309,854**	**156,141**	**96,282**	**4,092,879**

* The Bank has a number of agreements governed by a foreign currency clause. Tha BAM value of principal in such agreements is determined by the movement in foreign exchange rates. The principal balance of the related exposure is included in the table above in the column "EURO".

All amounts are expressed in thousands of BAM	BAM	EUR*	USD	Other currencies	Total
As at 31 December 2018					
ASSETS					
Cash and cash equivalents	715,720	265,224	95,889	83,060	1,159,893
Obligatory reserves at the Central Bank of BiH	376,261	-	-	-	376,261
Loans and receivables to customers	1,151,747	1,263,861	-	-	2,415,608
Financial assets at fair value through other comprehensive income	355	182	-	-	537
Financial assets at fair value through profit and loss	-	81,560	-	-	81,560
Financial assets at amortised cost	22,420	93,660	30,692	-	146,772
	2,266,503	**1,704,487**	**126,581**	**83,060**	**4,180,631**
LIABILITIES					
Due to banks and other financial institutions	28,525	148,213	-	-	176,738
Due to customers	1,885,446	1,436,372	124,301	82,088	3,528,207
Subordinated debt	-	61,800	-	-	61,800
	1,913,971	**1,646,385**	**124,301**	**82,088**	**3,766,745**

* The Bank has a number of agreements governed by a foreign currency clause. Tha BAM value of principal in such agreements is determined by the movement in foreign exchange rates. The principal balance of the related exposure is included in the table above in the column "EURO".

5.3.1.1. Foreign currency sensitivity analysis

The following table outlines five greatest Values-at-Risk (VaR) recorded as at 31 December 2019 and their values as at 31 December 2018. VaR is a calculation based on 99 per cent reliability statistical model and under presumption that portfolio is constant during 1 day.

All amounts are expressed in thousands of BAM			**VaR**
Currency	**31/12/ 2019**	**Currency**	**31/12/ 2018**
JPY	1	USD	1
TRY	<1	TRY	<1
CHF	<1	JPY	<1
CNY	<1	CNY	<1
CZK	<1	AUD	<1

The following table details the Bank's sensitivity to a 10 per cent increase or decrease in foreign currency rates against the relevant local currencies. The sensitivity rate of 10 per cent is 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.

All amounts are expressed in thousands of BAM	**USD effect**		**TRY effect**	
	2019	**2018**	**2019**	**2018**
Profit or loss	(83)	53	2	4

5.3.2. Interest rate risk

Interest rate risk reflects the possibility of loss of profit and/or erosion of capital due to a change in interest rates. It relates to all products and balances that are sensitive to changes in interest rates. This risk comprises two components: income component and investment component.

The income component arises from a lack of harmonization between the active and passive interest rates of the Bank (interest on placements is fixed, interest for liabilities is variable, and vice versa).

The investment component is a consequence of the inverted relationship between price and interest rate fluctuations of securities. The Bank strives to protect itself from interest rate risk by harmonizing the type of interest rate (fixed, floating and variable), currency, related interest rate and the date of interest rate change for all products for which it concludes contracts (which are sensitive to interest rate changes). Any incongruity among the abovementioned elements results in exposure of the Bank to interest rate risk.

5.3.2.1. BPV interest rate sensitivity analysis

For positions of interest rate risk, on daily basis, sensitivity analysis is made for one base point during parallel movement of yield curve (Basis point value, 1 BPV), which gives values of gains and losses of portfolio for a particular day.

In the table below, changes of present value of portfolio with interest rate growth for 1 base point as at 31 December 2018 and 31 December 2017 are presented, expressed in thousands of BAM for following currencies: BAM, EUR and USD, while for other currencies changes of present values are immaterial.

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Currency		
BAM	(24)	(28)
EUR	48	42
USD	0.1	(2)
Total BPV	**24.1**	**12**

In the instance of a change (increase) of interest rates by 1 Basis Points (parallel movement of yield curve for +0.01 per cent), the effects on the present value of Bank's portfolio as at 31 December 2019 would be the following:

- for BAM – It is not possible to determine considering that there have been changes in the scenario for BAM currency, therefore comparison of two results would not be relevant.
- for EUR – present value of portfolio growth in the amount of BAM 336 thousand, incurring profit.
- for USD – present value of portfolio growth in the amount of BAM 92 thousand, incurring profit.

In the instance of a change of yield curve by 50 Basis, effects on present value of portfolio for 31 December 2019 and 31 December 2018 are shown in the table below for currencies with material exposure:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Currency		
BAM	(1,414)	(1,414)
EUR	2,419	2,083
USD	3	(89)
Total BPV	**1,008**	**580**

In the instance of a change (increase) of interest rates by 50 Basis Points (parallel movement of yield curve for 0.05 per cent), the Bank would realize:

- for BAM – present value of portfolio decrease in the amount of BAM 7,773 thousand as at 31 December 2019.
- for EUR – present value of portfolio increased in the amount of BAM 2,419 thousand as at 31 December 2019.
- for USD – present value of portfolio decrease in the amount of BAM 3 thousand as at 31 December 2019.

5.4. Capital risk management

In compliance with laws, regulations and internal acts the Bank monitors and reports quarterly to regulators on its capital, risk-weighted exposures and capital adequacy ratios.

Through its management reporting the Bank also regularly monitors capital movements, capital adequacy ratios as well as all changes in methodology which will have an impact on its capital.

During 2019, the Bank has been in compliance with all regulatory capital requirements and according to the local regulations in line with Basel III methodology had a capital adequacy ratio of 16,72 per cent.

The regulatory capital of the Bank consists of Tier 1 and Tier 2 capital. The Tier 1 capital consists of Common equity CET 1 capital and Additional Tier 1 capital AT 1. The Tier 1 capital of the Bank (fully equal to Common equity Tier 1) consists of issued share capital, share premium, retained earnings and other reserves formed from profit after taxation on the basis of the decision of the Bank's General Assembly, net revaluation reserves based on changes in fair value of assets (accumulated comprehensive income), reduced for intangible assets and deferred tax assets.

Tier 2 capital consists of subordinated debt, general credit risk adjustments for credit losses, calculated as 1.25 per cent of the risk-weighted exposure amount, minus the missing loan loss provisions for credit losses under regulatory requirements (please see Note 3.20).

As at 31 December 2018, total FBA credit loan loss provisions (allowance for credit losses under regulatory requirements) calculated by the Bank, have exceeded the impairment calculated in accordance with IFRS 9, for BAM 96,782 thousand which is lower than BAM 102,443 thousand, that have already been recognised as regulatory reserve for credit losses within capital as at 31 December 2018. Consequently, reduction in regulatory capital for the purpose of calculating capital adequacy has not been recorded at 31 December 2018.

As as explained in Note 3.20, following on the transfer of the regulatory reserves for credit losses in the amount of BAM 102,443 thousand to CET 1 i.e. retained earnings of the Bank, the total amount of missing allowances for credit losses under regulatory requirements calculated as at 31 December 2019 in the amount of BAM 91,912 thousand are shown as missing loan loss provisions in the Tier 2 capital of the Bank. As of 1 January 2020, the new regulatory requirements will be enforced (please see Note 3.22.1) thus the Bank will no longer be obliged to calculate regulatory reserves for credit losses for capital adequacy calculation purposes.

The minimum capital requirements are as follows:
- Common Equity Tier 1 capital ratio 6.75 per cent
- Tier 1 capital ratio 9 per cent
- Total capital ratio 12 per cent.

In addition to the statutory minimum adequacy rate, the Bank is also required to provide a protection buffer for capital preservation that is to be maintained in the form of Tier 1 capital in the amount of 2.5 per cent of the total exposure amount.

The total risk weighted exposure amounts used to calculate capital adequacy includes:
- the risk of weighted assets and credit equivalents,
- position, currency, commodity risk and
- operational risk.

As at 31 December 2018, the Bank's capital adequacy ratio of the Bank, as at 31 December 2019 and 31 December 2018 is above the prescribed limit of 12 per cent. Following table presents the structure of equity and capital requirements of the Bank on 31 December 2019 and 31 December 2018:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Common equity Tier 1 (CET 1)		
Issued share capital – ordinary shares	247,167	247,167
Share premium	4,473	4,473
Retained earnings and other reserves	253,689	151,238
Accumulated comprehensive income	315	307
Common Equity Tier 1 – regulatory adjustments:		
Intangible assets	(12,595)	(13,635)
Deferred tax assets	(107)	(159)
Significant incestments in financial sector entities	(14,895)	(11,052)
Common equity Tier 1 (CET 1)	**478,047**	**378,339**
Additional Tier 1 equity (AT 1)	**-**	**-**
TOTAL TIER 1 EQUITY	**478,047**	**378,339**
Tier 2 Capital (T2)		
Subordinated debt	61,804	61,804
General credit risk adjustments for credit losses	30,629	29,440
Missing loan losses provisions	(91,912)	-
TOTAL TIER 2 CAPITAL (T 2)	**521**	**91,244**
TOTAL REGULATORY CAPITAL (unaudited)	**478,568**	**469,583**
Risk weighted exposure amounts (unaudited)	**2,862,378**	**2,780,225**
Common Equity Tier 1 capital ratio	**16.70%**	**13.61%**
Tier 1 capital ratio	**16.70%**	**13.61%**
Total capital ratio	**16.72%**	**16.89%**

The Bank is obligated to ensure and maintain financial leverage rate as an additional security and simple capital hedge, in the amount of at least 6 per cent.

The Bank's financial leverage ratio is the ratio of the amount of the Tier 1 capital to the total risk weighted exposure of the Bank as at the reporting date, presented as a percentage, and as at 31 December 2019 it is significantly above the stated minimum, amounting to 9.59 per cent.

6. Fair value of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

6.1. Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign exchange rates, equity prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank determines the fair value of debt securities (treasury bills and bonds) using an internal valuation model which considers their remaining maturity and the latest available auction prices of equivalent instruments.

Fair value of available-for-sale equity securities and securities at fair value through profit or loss traded on an active market is measured using the price of these instruments at the reporting date at closing bid prices.

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

The following table analyses financial instruments measured at fair value at the reporting date distributed according to the fair value hierarchy. The amounts are based on the values recognized in the statement of financial position.

All amounts are expressed in thousands of BAM	Note	Level 1	Level 2	Level 3	Total
31 December 2019					
Financial assets at fair value through other comprehensive income	20				
Equity securities issued by non-resident legal entities		512	-	33	545
Financial assets at fair value through profit and loss	21				
Debt instruments		6,966	-	-	6,966
Loans to customers		-	-	715	715
Total		**7,478**	**-**	**748**	**8,226**

All amounts are expressed in thousands of BAM	Note	Level 1	Level 2	Level 3	Total
31 December 2018					
Financial assets at fair value through other comprehensive income	20				
Equity securities issued by non-resident legal entities		504	-	33	537
Financial assets at fair value through profit and loss	21				
Debt instruments		81,560	-	-	81,560
Loans to customers		-	-	893	893
Total		**82,064**	**-**	**926**	**82,990**

6.3. Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

All amounts are expressed in thousands of BAM	Level 1	Level 2	Level 3	Total fair value	Carrying value
31 December 2019					
Assets					
Cash and cash equivalents	-	-	1,473,344	1,473,344	1,473,344
Obligatory reserves with the Central Bank of BiH	-	-	398,999	398,999	398,999
Loans and receivables from customers	-	-	2,490,432	2,490,432	2,490,432
Financial assets at amortised cost	121,532	22,706	-	144,238	143,178
Total	**121,532**	**22,706**	**4,362,775**	**4,507,013**	**4,505,593**
Liabilities					
Due to banks and other financial institutions	-	-	337,665	337,665	337,665
Due to customers	-	-	3,682,424	3,682,424	3,682,424
Subordinated debt	-	-	61,804	61,804	61,804
Lease liabilities	-	-	10,986	10,986	10,986
Total	**-**	**-**	**4,092,879**	**4,092,879**	**4,092,879**

All amounts are expressed in thousands of BAM	Level 1	Level 2	Level 3	Total fair value	Carrying value
31 December 2018					
Assets					
Cash and cash equivalents	-	-	1,159,893	1,159,893	1,159,893
Obligatory reserves with the Central Bank of BiH	-	-	376,261	376,261	376,261
Loans and receivables from customers	-	-	2,475,695	2,475,695	2,415,608
Financial assets at amortised cost	146,105	4,693	-	150,798	146,772
Total	**146,105**	**4,693**	**4,011,849**	**4,162,647**	**4,098,534**
Liabilities					
Due to banks and other financial institutions	-	-	176,738	176,738	176,738
Due to customers	-	-	3,528,207	3,528,207	3,528,207
Subordinated debt	-	-	61,800	61,800	61,800
Total	**-**	**-**	**3,766,745**	**3,766,745**	**3,766,745**

In estimating the fair value of the Bank's financial instruments and in assigning the instruments to the relevant level of fair value hierarchy, the following methods, assumptions and limitations described below were applied by the Bank in accordance with the Group:

Cash and cash equivalents

The carrying values of cash, balances with banks and with the Central Bank are generally deemed to approximate their fair value due to the short term maturity. Loans and receivables to banks are mostly represented by overnight and short term deposits; therefore, there is no significant difference between fair value of those deposits and their book value.

Loans and receivables from customers

Fair value is estimated through discounted cash flow method in case of positions with residual medium-long term maturities, while it is approximated with the book value, reduced for group impairment/individual adjustment in case of short-term loans, loans payable on demand or with an indefinite maturity for impaired loans.

Amounts due to customers

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the date of reporting. The estimated fair value of fixed-maturity deposits is based on disounted cash flows using rate currently offered for deposits of similar remaining maturities.

Amounts due to banks and other financial institutions

Most of the banks borrowings are short-term and carryies variable interest rate, and thus Management estimates that its carrying amount reflect their fair value.

Subordinated loan carries variable interest rate and thus its carrying value reflects its fair value.

Lease liabilities

The carrying value of lease liabilities approximately equals to its fair value as there is no signifficant difference between incremental borrowing rate and market rate.

7. Interest income

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Interest income calculated using the effective interest rate method		
Financial assets at amortised cost	3,578	3,112
Loans and receivables:		
Retail clients	110,172	109,401
Corporate clients	35,283	36,339
Foreign banks	2,285	1,807
Other interest income	3,612	3,926
Total interest income	**154,930**	**154,585**

8. Interest expense

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Retail clients	11,499	14,108
Corporate clients	6,519	7,308
Foreign banks	6,831	5,807
Domestic banks	-	7
Interest for leasing contracts	237	-
Other	1,998	1,474
	27,084	**28,704**

9. Fee and commision income

All amounts are expressed in thousands of BAM	31/12/2019	31/12/2018
Main service lines:		
Credit card business	33,829	31,436
Accout maintenance for non-residents	2,219	2,770
Payment transactions	26,464	26,470
FX transactions	7,748	7,641
Account maintenance for residents	9,605	8,360
Other	9,618	6,949
Income from fees and commissions from contract with customers	**89,483**	**83,626**
Financial guarantee contracts and loan commitments	6,555	6,677
	96,038	**90,303**

10. Fee and commission expense

All amounts are expressed in thousands of BAM	31/12/2019	31/12/2018
Credit card operations	17,754	14,422
Central Bank services	1,833	1,884
Guarantees fee	1,237	1,236
S.W.I.F.T. services	691	598
Correspondent accounts	542	345
SMS services	500	430
Domestic payment transactions	46	51
Other	292	509
	22,895	**19,475**

11. Net income from foreign currency trading

All amounts are expressed in thousands of BAM	31/12/2019	31/12/2018
Positive exchange rate differences from FX transactions, net	12,481	11,649
Exchange rate differences on the basis of settlement with the Central Bank of BiH, net	(36)	11
	12,445	**11,660**

12. Net income/loss from other financial instruments at fair value through profit and loss

All amounts are expressed in thousands of BAM	31/12/2019	31/12/2018
Interest income on bonds at fair value through profit and loss (*Note 21*)	441	2,874
Fair value adjustment of bonds at fair value through profit and loss (*Note 21*)	(293)	(2,739)
Loss on sale of bonds at fair value through profit and loss, net	(115)	(167)
Fair value adjustment of loans measured at fair value (*Note 19*)	(24)	5
	9	**(27)**

13. Other operating income

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Dividend income	3,921	4,131
Lease income	1,434	1,496
Release of accrued expenses from the previous year	553	690
Income from tangible assets and investment property, sold	-	605
Revenue from written-off liabilities	63	36
Petty cash surplus	27	30
Other income	1,667	725
	7,665	**7,713**

14. Administrative expenses

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Gross salaries	39,783	39,430
Other employee expenses	11,078	11,634
Savings and debt insurance premiums	9,186	8,644
Maintenance cost	8,868	8,062
Services	4,413	5,134
Lease	1,895	4,880
Costs of representation and marketing	5,084	4,222
Advisory services	4,453	3,836
Telecommunications	3,245	3,260
Release of provisions for other employee benefits under IAS 19, net (*Note 33*)	(1,260)	(1,772)
Property insurance premiums	2,815	2,635
Supervisory fee – FBA	2,773	2,545
Cost of energy	1,915	1,929
Material costs	1,187	1,547
Taxes and administrative expenses	727	759
Education	694	643
Last instalment cost – gratis	250	366
Donations	297	329
Costs of professional services	311	296
Transportation expenses	323	285
Utilities	230	221
Loss from sale of tangible assets and investment properties	405	-
(Decrease) in provisions for legal proceedings (*Note 33*)	(1,197)	(190)
Other administrative expenses	4,080	3,722
	101,555	**102,417**

15. Impairment losses, net

The charge to income statement in respect of impairment losses is analysed as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Impairment of loans and receivables to customers (*Note 19*)	26,620	7,397
Impairment/(release) of impairment of loans and receivables from banks (*Note 17*)	82	(1)
Impairment of other assets and receivables (*Note 25*)	2,189	2,918
(Release) / impairment of financial assets at amortized cost (*Note 22*)	(124)	265
(Release) / impairment from off-balance exposures (*Note 33*)	2,283	(256)
	31,050	**10,323**

16. Income tax

Total tax recognized in the income statement and other comprehensive income can be shown as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Current income tax	17,768	9,520
Deferred tax assets	52	132
Deferred tax liabilities	514	-
	18,334	**9,652**

Reconciliation of effective tax rate may be presented as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Profit before income tax	**75,235**	**94,111**
Income tax at a rate of 10%	7,523	9,411
Capital gains	10,244	-
Effects of unrecognized expenditures	1,819	1,837
Effects of unrecognized revenue	(1,252)	(1,596)
Income tax	**18,334**	**9,652**
Effective tax rate	**24.37%**	**10.25%**

The Bank calculates its income tax liability in accordance with the regulations adopted by the tax authorities in Bosnia and Herzegovina.

Capital gains relates to tax effect of transfer of regulatory reserves for credit losses in Common Equity Tier 1 of the Bank (as explained in Note 5.4), i.e. retained earingins, in the amount of BAM 102,442 thousand (in accordance with Decision of Bank Assembly from 17 December 2019).

Unrecognized expenditures are including unrecognized expenditures for representation, provisions for risks and liabilities and expenditures for impairmend of receivables.

Unrecognized revenues are including revenues for share capital, provisions for risks and liabilities which were previously recognized as tax unrecognized expenditures.

The change in deferred tax assets may be presented as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Balance at the beginning of period	**159**	**291**
Disposed deferred tax assets	(52)	(132)
Balance at the end of the period	**107**	**159**

The change in deferred tax liabilities may be presented as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Balance at the beginning of period	**-**	**-**
Recognized deferred tax liabilities	514	-
Balance at the end of the period	**514**	**-**

In 2019, the Bank recognized a deferred tax liability due to a temporary differences arising from the application of tax allowable depreciation rates which are higher compared to those recognized in accounting records.

17. Cash and cash equivalents

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Current account in domestic currency at CBBH	520,574	409,295
Cash in hand in local currency	326,392	306,424
Cash in hand in foreign currency	112,326	89,833
Accounts with other banks in foreign currency	61,530	37,234
Loans and receivables to banks (MM placements)	452,606	317,108
Less: impairment	(84)	(1)
	1,473,344	**1,159,893**

The interest rate on MM placements in EUR was from -1.00 per cent to -0.44 per cent per annum during 2019, or from -0.65 per cent to -0.02 per cent per annum during 2018 and on placements in USD from 0.5 per cent to 2.5 per cent per annum during 2019, or from 1.37 per cent to 2.45 per cent per annum during 2018. The interest rate on placements in other currencies ranged from -1.70 per cent to 1.85 per cent per annum during 2019 or from -1.30 per cent to 2.35 per cent per annum during 2018.

Changes in provisions for expected losses may be presented as follows:

All amounts are expressed in thousands of BAM		
As at 1 January	**1**	**-**
Net changes through profit or loss (Note 15)	82	(1)
Exchange rate differences	1	2
Balance at the end of period	**84**	**1**

18. Obligatory reserves at the central bank of Bosnia and Herzegovina

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Obligatory reserves	398,999	376,261
	398,999	**376,261**

The minimum reserve requirement is calculated as a percentage of the average amount of total deposits and borrowed funds for each business day during 10 calendar days after the mandatory reserve maintenance period.

From 1 July 2016, a single interest rate of 10 per cent of total short-term and long-term deposits and borrowed funds is applied.

Cash held as a compulsory reserve in the CBBH account is not available for use without the special approval of CBBH and FBA.

19. Loans and receivables to customers

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Loans and receivables to customers at amortized cost	2,682,734	2,599,412
Less impairment	(193,017)	(184,697)
	2,489,717	**2,414,715**
Loans and receivables to customers at fair value	769	923
Fair value adjustment	(54)	(30)
	715	**893**
	2,490,432	**2,415,608**

Changes in the impairment of the loans granted at amortized cost can be shown as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Balance at the beginning of the period	**184,697**	**203,219**
Net changes through profit and loss (Note 15)	26,620	7,397
Write-offs and other changes	(18,300)	(25,919)
Balance at the end of the period	**193,017**	**184,697**

The fair value changes of loans that are measured at fair value can be shown as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Balance at 1 January	**30**	**35**
Net change in fair value through profit and loss (Note 12)	24	(5)
Balance at the end of the period	**54**	**30**

The analysis of loans and receivables according to the original maturity is as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Short-term loans:		
Short-term loans in domestic currency	590,449	582,354
Short-term loans in foreign currency	61	1,115
	590,510	**583,469**
Long term loans:		
Long-term loans in domestic currency	827,344	754,152
Long-term loans in foreign currency	1,265,649	1,262,714
	2,092,993	**2,016,866**
Total loans before impairment	**2,683,503**	**2,600,335**
Less impairment	(193,071)	(184,727)
	2,490,432	**2,415,608**

Short-term loans were approved for a period of 30 to 365 days. The majority of short-term domestic currency loans are granted to working capital clients. Long-term loans are mostly granted to individuals for housing and vehicle purchases.

Economic sector risk concentration in the gross amount of loans and receivables is as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Retail	1.606.301	1.515.830
Trade	535.231	541.649
Agriculture, forestry, mining and energy	306.215	326.275
Transport, telecommunications and communications	63.835	52.283
Services, finances, sports, tourism	35.004	49.595
Construction industry	67.757	48.375
Administrative and other public institutions	33.544	24.924
Other	35.616	41.404
	2.683.503	**2.600.335**

Interest rates on loans as at 31 December 2019 and 31 December 2018 may be as follows:

All amounts are expressed in thousands of BAM	31 December 2019		31 December 2018	
		Annual interest rate		**Annual interest rate**
Domestic currency				
Corporate	1,077,141	2.35%-18.00%	1,081,230	2.35%-18.00%
Retail	1,606,302	2.99%-18.00%	1,515,826	2.95%-18.00%
Foreign currency				
Corporate	60	2.35%-8.15%	3,275	2.35%-11.50%
Retail	-	-	4	2.95%-16.19%
	2,683,503		**2,600,335**	

In line with intenal policy on interest rates, in the table above, loans with foreign currency caluse are presented under domestic currency.

20. Financial assets at fair value through other comprehensive income

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Equity securities quoted:		
S.W.I.F.T. Belgium	190	182
Sarajevo Stock Exchange	322	322
Equity securities not quoted:		
Securities' Register of the Federation of BiH	32	32
Velprom d.d. Sanski Most	1	1
	545	**537**

Movements in the fair value of these assets were as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Balance at the beginning of the year	**537**	**294**
Changes in fair value, net	8	82
Purchases during the period	-	161
Balance at the end of the year	**545**	**537**

21. Financial assets at fair value through profit and loss

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Government bonds	6,966	81,560
	6,966	**81,560**

Government bonds

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Romania	6,966	81,560
	6,966	**81,560**

Changes in bonds at fair value through profit and loss were as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Balance as at the beginning of the year	**81,560**	**112,438**
Change during the year, net	(74,742)	(31,013)
Fair value decrease (*Note 12*)	(293)	(2,739)
Interest income (*Note 12*)	441	2,874
Balance at the end of the year	**6,966**	**81,560**

22. Financial assets measured at amortized cost

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
State bonds	126,717	130,696
Corporate bonds	16,877	16,616
	143,594	**147,312**
Less: impairment	**(416)**	**(540)**
	143,178	**146,772**

Changes in impairment of financial assets measured at amortized cost can be shown as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Balance at the beginning of the year	**540**	**275**
Increase in impairment allowance (*Note 15*)	(124)	265
Balance at the end of the year	**416**	**540**

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
State bonds:		
Poland	19,062	30,407
France	34,660	24,072
Republic of Srpska	19,356	19,356
Federation of Bosnia and Herzegovina	11,093	18,463
Austria	15,724	15,746
Belgium	3,522	8,585
Government of Sarajevo Canton	3,684	3,670
Netherlands	-	9,899
North Macedonia	19,233	-
Corporate bonds:		
European Bank for Reconstruction and Development	7,862	7,657
JP Autoceste Mostar	8,982	8,917
	143,178	**146,772**

23. Investments in subsidiaries

Subsidiary	**Industry**	**% of share**	**31/12/ 2019**	**31/12/ 2018**
All amounts are expressed in thousands of BAM				
Raiffeisen Leasing d.o.o. Sarajevo	Leasing	100%	10,051	10,051
Raiffeisen Invest društvo za upravljanje fondovima d.o.o. Sarajevo	Fund management company	100%	946	946
Raiffeisen Capital a.d. Banja Luka	Agent for securities trading Financial advisory services	100%	53	53
			11,050	**11,050**

Changes in the investments in subsidiaries are summarized as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Balance as at the beginning of year		**11,050**
Decrease of value of investment in Raiffeisen Special Assets Company d.o.o. Sarajevo	-	-
Balance at the end of the period	**11,050**	**11,050**

Financial information about the Bank's subsidiaries for period from 1 January 2018 to 31 December 2019 was as follows:

All amounts are expressed in thousands of BAM	Total assets	Registered capital	Total equity	Revenue	Profit / (loss) for the period
Raiffeisen Invest d.d.	2,881	671	2,737	3,521	1,717
Raiffeisen Capital a.d. Banja Luka	269	355	260	159	51
Raiffeisen Leasing d.o.o. Sarajevo	121,356	11,450	13,983	11,491	2,062

24. Investments in associates and joint ventures

Associate	Industry	% of share	31/12/ 2019	31/12/ 2018
All amounts are expressed in thousands of BAM				
Raiffeisen Assistance d.o.o. Sarajevo	Insurance brokerage	50.00%	2	2
Joint venture				
ESP BH d.o.o. Sarajevo	Informational and other services	45.00%	3,825	-
			3,827	**2**

The company ESP BH d.o.o. has been founded in 2019, with the purpose of developing and implementing a unique platform that will allow connection between legal entities and private individuals in terms of payment of products and services, overheads as well as sending money to the other users through special mobile application. The Company has been founded as joint venture between the Bank (45 per cent of share), BH Telecom d.o.o. Sarajevo (45 per cent of share) and Comtrade d.o.o. & QSS d.o.o. with share of 10 per cent.

Financial information about the Bank's associate for the year ended 31 December 2019 was as follows:

All amounts are expressed in thousands of BAM	Total assets	Registered capital	Total equity	Revenue	Profit / (loss) for the period
Raiffeisen Assistance d.o.o. Sarajevo	6,383	4	6,301	2,662	1,834
ESP BH d.o.o. Sarajevo	8,802	8,500	8,347	-	(153)

25. Other assets and receivables

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Receivables from spot and arbitrage FX transactions	10,317	21,976
Receivables from credit card operations	11,041	12,238
Fee receivables	2,705	2,402
Prepaid expenses	1,349	2,245
Other deferrals	2,356	2,038
Other advances paid	103	22
Prepaid other taxes	9	9
Other assets	13,479	12,152
	41,359	**53,082**
Less: impairment	(4,915)	(3,995)
	36,444	**49,087**

Changes in allowance for impairment losses on other assets and receivables are summarized as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Balance as at the beginning of year	**3,995**	**4,143**
Increase in allowance for impairment (*Note 15*)	2,189	2,918
Write-offs	(1,269)	(3,066)
Balance as at the end of the period	**4,915**	**3.995**

26. Investment property

All amounts are expressed in thousands of BAM	
COST	
Balance at 1 January 2018	**39,560**
Additions	372
Disposals	(2,936)
Balance at 31 December 2018	**36,996**
Disposals	(1,646)
Balance at 31 December 2019	**35,350**
ACCUMULATED DEPRECIATION	
Balance at 1 January 2018	**4,293**
Depreciation	742
Disposals	(726)
Balance at 31 December 2017	**4,309**
Depreciation	721
Disposals	(336)
Balance at 31 December 2019	**4,694**
NET BOOK VALUE	
Balance at 31 December 2018	**32,687**
Balance at 31 December 2019	**30,656**

Bank's investment property at fair value was as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Buildings	36,572	36,572
	36,572	**36,572**

The fair value of investment properties at 31 December 2019 for was performed by the internal appraisers employed by the Bank who have appropriate qualifications and recent experience in estimating assets at fair value at relevant locations.

The fair value of investment property was determined using the market value method which reflects current value on the market, taking into consideration object's construction value and other factors (location, usability, quality and other factors). There were no changes in technique of value measurement during the year.

27. Property and equipment

All amounts are expressed in thousands of BAM	Buildings and Land	Vehicles	Office equipment	Assets in the course of constrution	Total
COST					
At 1January 2018	**98,109**	**1,678**	**55,360**	**2,272**	**157,419**
Additions	-	-	-	7,273	7,273
Transfers	2,577	-	4,070	(6,647)	-
Write offs	(17)	(311)	(1,746)	-	(2,074)
At 31 December 2018	**100,669**	**1,367**	**57,684**	**2,898**	**162,618**
Additions	-	-	-	6,303	6,303
Transfers	39	-	5,434	(5,473)	-
Write offs	-	(364)	(7,554)	-	(7,918)
At 31 December 2019	**100,708**	**1,003**	**55,564**	**3,728**	**161,003**
ACCUMULATED DEPRECIATION					
At 1 January 2018	**10,838**	**837**	**42,669**	**-**	**54,344**
Charge for the year	1,852	186	3,485	-	5,523
Write offs	-	(255)	(1,736)	-	(1,991)
At 31 December 2018	**12,690**	**768**	**44,418**	**-**	**57,876**
Charge for the year	1,881	137	3,483	-	5,501
Write offs	-	(282)	(7,536)	-	(7,818)
At 31 December 2019	**14,571**	**623**	**40,365**	**-**	**55,559**
NET BOOK VALUE:					
Balance at 31 December 2018	**87,979**	**599**	**13,266**	**2,898**	**104,742**
Balance at 31 December 2019	**86,137**	**380**	**15,199**	**3,728**	**105,444**

28. Right-of-use assets

All amounts are expressed in thousands of BAM	Building	Vehicles	Total
COST			
Balance as at 1 January 2019 (as previously published)	**-**	**-**	**-**
Initial adoption of IFRS 16	12,425	830	13,255
Balance as at 1 January 2019 (modified)	**12,425**	**830**	**13,255**
Increase (new lease contracts)	1,433	735	2,168
Decrease (premature contract termination)	(931)	-	(931)
Decrease due to modifications	(104)	-	(104)
Balance as at 31 December 2019	**12,823**	**1,565**	**14,388**
ACCUMULATED DEPRECIATION			
Balance as at 1 January 2019	**-**	**-**	**-**
Depreciation	2,965	380	3,345
Decrease (premature contract termination)	(87)	-	(87)
Decrease (derecognition due to modifications)	(85)	-	(85)
Balance as at 31 December 2019	**2,793**	**380**	**3,173**
NET BOOK VALUE			
Balance as at 1 January 2018	**-**	**-**	**-**
Balance as at 31 December 2019	**10.030**	**1.185**	**11.215**

29. Intangible assets

All amounts are expressed in thousands of BAM	Lease hold improve-ments	Other intangible assets	Assets in the course of con-struction	Total
COST				
Balance at 1 January 2018	**3,068**	**26,921**	**5,002**	**34,991**
Additions	-	-	6,326	6,326
Transfers	949	4,547	(5,496)	-
Disposals	-	(3)	-	(3)
Balance at 31 December 2018	**4,017**	**31,465**	**5,832**	**41,314**
Additions	-	-	4,610	4,610
Transfers	2,628	2,963	(5,591)	-
Disposals	(200)	(49)	-	(249)
Balance at 31 December 2019	**6,445**	**34,379**	**4,851**	**45,675**
ACCUMULATE AMORTIZATION				
Balance at 1 January 2018	**2,190**	**20,385**	**-**	**22,575**
Charge for the year	333	2,606	-	2,939
Disposals	-	(3)	-	(3)
Balance at 31 December 2018	**2,523**	**22,988**	**-**	**25,511**
Charge for the year	603	3,098	-	3,701
Disposals	(200)	(47)	-	(247)
Balance at 31 December 2019	**2,926**	**26,039**	**-**	**28,965**
NET BOOK VALUE				
Balance at 31 December 2018	**1,494**	**8,477**	**5,832**	**15,803**
Balance at 31 December 2019	**3,519**	**8,340**	**4,851**	**16,710**

30. Due to other banks and financial institutions

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Long-term borrowings:		
Long-term borrowings from foreign banks and financial institutions	163,746	105,037
Less: Current portion of long-term borrowings	(21,276)	(19,076)
	142,470	**85,961**
Short-term borrowings:		
Add: Current portion of long-term borrowings	**21,276**	**19,076**
Short-term deposits:		
Short-term deposits from other banks in BAM	20,041	20,290
Short-term deposits from other banks in foreign currencies	141,292	43,172
	161,333	**63,462**
Current accounts:		
Current accounts in BAM	12,566	8,235
Current accounts in foreign currencies	20	4
	12,586	**8,239**
	337,665	**176,738**

Long-term borrowings from foreign banks and non-banking financial institutions are obtained from supranational and development banks.

Interest rates on whole portfolio of long-term borrowings from banks and other non-banking financial institutions as at 31 December 2019 interest rates were in the range from 0.40 per cent to 2.28 per cent p.a. (fixed rates), and 6M EURIBOR + 1.45 per cent to 6M EURIBOR + 2.60 per cent (variable rates). Interest rates as at 31 December 2018 were in the range from 0.50 per cent to 2.28 per cent annualy (fixed rates) and 6M EURIBOR + 1.75 per cent to 6M EURIBOR + 2.60 per cent (variable rates).

31. Due to customers

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Demand deposits:		
Citizens:		
In BAM	817,290	718,976
In foreign currencies	619,258	568,164
	1,436,548	**1,287,140**
Legal entities:		
In BAM	848,732	749,996
In foreign currencies	232,854	203,327
	1,081,586	**953,323**
	2,518,134	**2,240,463**
Term deposits:		
Citizens:		
In BAM	216,962	227,508
In foreign currencies	589,669	624,161
	806,631	**851,669**
Legal entities:		
In BAM	231,586	188,996
In foreign currencies	126,073	247,079
	357,659	**436,075**
	1,164,290	**1,287,744**
	3,682,424	**3,528,207**

During 2019, interest rates were as follows:
- demand deposits in BAM – 0.00 per cent p.a. (2018: 0.00 per cent p.a.),
- demand deposits in foreign currencies – 0.00 per cent p.a. (2018: 0.00 per cent p.a.),
- short-term deposits – 0.01 per cent to 0.71 per cent p.a. (2018: from 0.01 per cent to 0.20 per cent p.a.),
- long-term deposits – 0.01 per cent to 3.39 per cent p.a. (2018: from 0.01 per cent to 1.10 per cent p.a.).

32. Subordinated debt

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Commercial banks – related parties	61,804	61,800
	61,804	**61,800**

There is one active borrowing, approved at 27 September 2013, in total amount of BAM 61,804 thousand. Maturity date for this borrowing is as of 31 December 2024. The repayment will be one-time, in full amount, as at the defined repayment date.

In case of liquidation or bankruptcy of the Bank the liabilities under the subordinated loan are subordinated to the other liabilities of the Bank.

Subject to the approval of FBA, subordinated debt may be used as additional capital for regulatory purpose.

33. Provisions for liabilities and charges

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Provisions for legal proceedings	14,734	15,931
Provisions for employee benefits	2,885	4,145
Provisions for gurantees and loan commitments	6,623	4,340
	24,242	**24,416**

Provisions for gurantees and loan commitments

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

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Loan commitments		
Unused approved loans	485,593	462,167
Framework agreements	176,811	191,955
	662,404	**654,122**
Guarantees		
Performance guarantees	189,409	177,032
Payment guarantees	108,375	104,287
Letters of credit	19,703	15,917
	317,487	**297,236**
Total gurantees and loan commitments	**979,891**	**951,358**

Other, non credit related provisions recorded in off-balance sheet accounts relates to:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Other commtiments		
Forward operations	140	684
Advance guarantees	1	45
Total	**141**	**729**

Movements in provision for gurantees and loan commitments were as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Balance as at the beginning of year	**4,340**	**4,601**
Increase/(release) of provisions (*Note 15*)	2,283	(256)
Decrease due to payments / Foreign exchange differences	-	(5)
Balance as at the end of the period	**6,623**	**4,340**

Other employee benefits

Changes in provisions for other employee benefits were as follows:

All amounts are expressed in thousands of BAM	Retirement severance payments	Vacation allowances	Total
Balance as at 1 January 2018	**3,289**	**2,628**	**5,917**
Reductions resulting from re-measurement or settlement without cost (Note 14)	(429)	(1,343)	(1,772)
Balance as at 31 December 2018	**2,860**	**1,285**	**4,145**
Reductions resulting from re-measurement or settlement without cost (Note 14)	(733)	(527)	(1,260)
Balance as at 31 December 2019	**2,127**	**758**	**2,885**

Legal proceedings

Movements in provision for legal proceedings were as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Balance as at the beginning of year	**15,931**	**16,211**
(Decrease) in provisions (*Note 14*)	(1,197)	(190)
Reductions arising from payments	-	(90)
Balance as at the end date	**14,734**	**15,931**

34. Lease liabilities

The Bank applied the new requirements IFRS 16 using the modified retrospective approach based on which the comparative information for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17.

	Currency	Nominal interest rate	Agreed/ expected maturity	Present value as at 31.12.2019
Lease liability – business premises	BAM	2%	2020-2029	9,852
Lease liability – vehicles	BAM	2%	2021-2023	1,134
				10,986

Amounts recognised in profit and loss

All amounts are expressed in thousands of BAM	2019
Leases under new requirements of IFRS 16	
Interest on lease liabilities (*Note 8*)	237
Depreciation of right-of-use assets (*Note 28*)	3,345
Expenses relating to low value assets and short-term leases (*Note 14*)	1,895
	2018
Operating lease under earlier requirements of IAS 17	
Rent expense (*Note 14*)	4,880

35. Other liabilities and payables

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Principal and interest paid upfront	9,534	7,881
Employee payables	5,298	6,431
Liabilities toward suppliers	5,626	5,182
Liabilities for other taxes	9,428	4,910
Deferred income	2,885	2,854
Liabilities from credit card operations	3,870	2,001
Liabilities to banks from foreign exchange	10,114	3,990
Other liabilities	2,327	1,649
Liabilities for dividends towards shareholders	14	13
	49,096	**34,911**

36. Share capital

Capital is made up of 988,668 ordinary shares at nominal value of BAM 250. Equity instruments of the Bank are not traded in a public market.

The shareholding structure is as follows:

Shareholders	No. of Shares	'000 BAM	%
Raiffeisen SEE Region Holding GmbH, Vienna, Austria	988,668	247,167	100.00

37. Basic 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.

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Income attributable to ordinary shareholders	56,901	84,459
Weighted average number of regular shares outstanding	988,668	988,668
	57.55	**85.43**

Diluted earnings per share are not presented as the Bank has not issued dilutive equity instruments.

38. Managed funds

The Bank manages assets on behalf of third parties. These assets are recorded separately from the Bank's assets. For its services, the Bank charges a fee amounting to 1 per cent of the total amount contributed.

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Liabilities		
Citizens	77	77
Government	4,168	4,338
Companies	3,609	3,797
Other	77	77
	7,931	**8,289**
Assets		
Loans to companies	3,623	3,623
Loans to citizens	4,308	4,666
	7,931	**8,289**

The Bank has issued no guarantees related to managed funds. Credit risk stays with the owners of funds.

39. Related-party transactions

Balances with related parties can be summarized as follows:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Receivables		
Loans and receivables to banks:		
Raiffeisen Landensbank Tirol AG, Insbruk, Austria	58,578	57,203
Raiffeisen Bank International AG, Vienna, Austria	52,310	21,796
Raiffeisenbank Austria d.d. Zagreb, Croatia	950	1,534
Raiffeisenbank a.d. Belgrade, Serbia	36	130
Loans and receivables to customers:		
Raiffeisen Leasing d.o.o. Sarajevo	1,667	3,333
Raiffeisen Assistance d.o.o. Sarajevo	-	1
Other receivables:		
Raiffeisen Bank International AG, Vienna, Austria	276	18,789
Raiffeisen Invest d.o.o. Sarajevo	16	14
Raiffeisen Assistance d.o.o. Sarajevo	6	-
Centralised Raiffeisen International Services & Payments	-	63
ESP BH d.o.o. Sarajevo	1	-
Raiffeisenbank Austria d.d. Zagreb, Croatia	2	2
Raiffeisen Leasing d.o.o. Sarajevo	1	8
	113,843	**102,873**

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Liabilities		
Subordinated debt:		
Raiffeisen Bank International AG, Vienna, Austria	61,804	61,800
Long term loans to banks:		
AO Raiffeisen Bank Russia	54,781	-
Bank and customer deposits:		
Raiffeisen Bank Zrt. Budapest	98,295	-
Raiffeisen Bank International AG, Vienna, Austria	51,175	47,223
Raiffeisen Leasing d.o.o. Sarajevo	11,820	14,591
ESP BH d.o.o.	7,807	-
Raiffeisen Assistance d.o.o. Sarajevo	5,506	5,831
Raiffeisen Invest d.o.o. Sarajevo	2,071	1,815
Raiffeisen Capital a.d. Banja Luka	677	465
Raiffeisenbank Austria d.d. Zagreb, Croatia	50	2
Lease liabilities:		
Raiffeisen Leasing d.o.o. Sarajevo	1,134	-
Other liabilities		
Raiffeisen Bank International AG, Vienna, Austria	2,103	704
Raiffeisenbank a.d. Belgrade, Serbia	-	1
Centralised Raiffeisen International Services & Payments	19	-
Raiffeisen Leasing d.o.o. Sarajevo	2	-
	297,244	**132,432**

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

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Revenue		
Interest income:		
Raiffeisen Landensbank Tirol AG, Insbruk, Austria	1,269	910
Raiffeisen Bank International AG, Vienna, Austria	283	335
Raiffeisen Leasing d.o.o. Sarajevo	59	94
Fee income:		
Raiffeisen Invest d.o.o. Sarajevo	859	689
Raiffeisen Bank International AG, Vienna, Austria	402	391
Raiffeisen Leasing d.o.o. Sarajevo	29	37
Raiffeisenbank Austria d.d. Zagreb, Croatia	29	28
Raiffeisen Assistance d.o.o. Sarajevo	2	1
Raiffeisen Capital a.d. Banja Luka	2	2
Other income:		
Raiffeisen Invest d.o.o. Sarajevo	1,108	870
Raiffeisen Leasing d.o.o. Sarajevo	1,170	2,107
ESP BH d.o.o.	415	-
Raiffeisen Bank International AG, Vienna, Austria	208	64
Raiffeisen Assistance d.o.o. Sarajevo	1,920	1,548
Raiffeisen Capital a.d Banja Luka	10	4
	7,765	**7,080**

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Expenses		
Interest expense:		
Raiffeisen Bank International AG, Vienna, Austria	5,154	5,282
Raiffeisen Leasing d.o.o. Sarajevo	407	198
Raiffeisen Invest d.o.o. Sarajevo	13	26
Raiffeisen Assistance d.o.o. Sarajevo	41	68
Fee expense:		
Centralised Raiffeisen International Services & Payments	601	506
Raiffeisen Bank International AG, Vienna, Austria	200	196
Raiffeisenbank Austria d.d. Zagreb, Croatia	1	1
Advisory services:		
Raiffeisen Bank International AG, Vienna, Austria	3,953	3,601
Other administrative expenses:		
Raiffeisen Bank International AG, Vienna, Austria	1,706	1,653
Centralised Raiffeisen International Services & Payments	376	326
Raiffeisen Leasing d.o.o. Sarajevo	77	242
Raiffeisen Assistance d.o.o. Sarajevo	18	23
Raiffeisenbank a.d. Belgrade, Serbia	1	-
Raiffeisenbank Austria d.d. Zagreb, Croatia	-	1
	12,548	**12,123**

Fees to the Management and other members of the management:

The following fees were paid to the Management Board members during the period:

All amounts are expressed in thousands of BAM	31/12/ 2019	31/12/ 2018
Net salaries	1,067	1,012
Taxes and contributions on salaries	839	796
Other benefits	656	621
Taxes and contributions for other benefits	510	476
	3,072	**2,905**

40. Events after the reporting date

On 11 March 2020 the World Health Organization declared the coronavirus outbreak a pandemic, and the Federation of Bosnia and Herzegovina government declared a state of emergency on 16 March 2020. Responding to the potentially serious threat the COVID – 19 presents to public health, the Bosnia and Herzegovina government authorities have taken measures to contain the outbreak, including introducing restrictions on the cross-borders movement of people, entry restrictions on foreign visitors and the 'lock-down' of certain industries, pending further developments. In particular, airlines and railways limited international transport of people, schools, universities, restaurants, cinemas, theaters and museums and sport facilities, retailers excluding food retailers, grocery stores and pharmacies were closed. Some businesses in Bosnia and Herzegovina have also instructed employees to remain at home and have curtailed or temporarily suspended business operations.

The wider economic impacts of these events include:
- disruption to business operations and economic activity in Bosnia and Herzegovina, with a cascading impact on both upstream and downstream supply chains;
- significant disruption to businesses in certain sectors, both within Bosnia and Herzegovina and in markets with high dependence on a foreign supply chain as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector;
- significant decrease in demand for non-essential goods and services;
- an increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

Following the declaration of state of emergency, the government of Federation of Bosnia and Herzegovina has announced a State aid program to counter the negative effects of the outbreak of COVID -19 on the economy. The details of the program and its eligibility criteria are yet to be announced.

Based on publicly available information, on the day these financial statements were authorized for issue, the Management considered the potential epidemic development, the expected impact on the Bank and the economic environment in which the Bank operates, including measures taken by the Government of Federation of Bosnia and Herzegovina. Furthermore, based on the Decision on temporary measures of banks to mitigate negative economic consequences caused by COVID-19 issued by FBA, the Management of the Bank is considering temporary measures that could be offered to clients and the impact of these measures on portfolio quality.

With purpose of saving the working and liquidity position of the Bank, the Management has undertaken several measures, which among other include:
- continuous communication with the Group, monitoring of the situation and regular reporting on quality status of portfolio, liquidity and equity position;
- active approach to corporate clients that are negatively affected by the outbreak of the epidemic, and who may need or require refinancing of the exposure;
- retail clients affected by the outbreak are offered solutions to mitigate their payment obligations;
- establishment of work in shift rotations and remote working for significant number of administrative and background jobs;
- abidance to the very strict standards of precausion, including social distance in customer service jobs;
- active cooperation and communication with the Agency in order to implement the requirements of the Decision;
- daily monitoring of all positions that are relevant to liquidity and submission of reports to the Liquidity Board;
- establishing a Contingency Committee (CoCo), and reporting to the Committee;
- Establishment of regular weekly Treasury / Risk meetings at the Group level, where data and information related to the COVID crisis are monitored, including information on LCR reports, loans and deposits developments, and a general overview of developments in the country;
- regular monitoring and assessment of potential effects on the financial performance, risk-weighted assets and capital of the bank.

In accordance with the Decision on temporary measures of banks to mitigate negative economic consequences caused by "COVID-19" issued by the FBA, the Bank has already prepared a Program containing special measures for clients affected by adverse consequences of the pandemic outbreak of COVID-19. In order to select the most favourable and appropriate measures for the client and the Bank, the Bank will be guided by a defined level of client risk, which is mainly reflected through the industry in which the client operates and, in the case of private individuals, job loss and income reduction.

The industries that first felt the negative impact of the pandemic were those providing accommodation, food preparation and services (Entertainment – Hotels & leisure), transportation (Transportation & Infrastructure), trade (Food & Drug Retailing, Household Durables & Specialty Retail, Textiles & Apparels, Luxury Goods) and the automotive industry, as evidenced by the number of requests submitted by legal entities for approval of temporary measures in the Bank. In the non retail segment, Corporate and SE portfolio, the largest share of submitted applications refers to the wholesale and retail industry (including repair of motor vehicles) 47.4 per cent, manufacturing industry 34.4 per cent, transportation 5.7 per cent and hotel industry and catering 4.1 per cent, which are also marked as high and medium risk industries, but currently there is no significant concentration in any of these industries in the total portfolio.

The Bank grants reliefs to its clients with the aim of overcoming the difficulties they face and facilitating clients to settle their obligations to the Bank in the following period. According to the Agency's Decision, reliefs can be granted to clients who on 29 February 2020 were in arrears for less than 90 days or were categorised as stage 1 or 2. If the client was classified in stage 3, and has days past due less than 90 days, and submits a request to the Bank for a moratorium, the request will also be taken into consideration. As a rule, the exposure will not be treated as a restructuring, except in the case of clients who are stage 3 and are in areas less than 90 days.

The number of approved requests for temporary measures, according to the latest available data on 29 April 2020, amounts to 17.26 per cent of the total volume of the portfolio of private individuals. The number of approved applications in the part of the portfolio of legal entities (Corporate, SE and Micro portfolio) according to the latest available data on the same date is 9.3 per cent.

The outbreak of the COVID-19 pandemic has caused a number of negative economic consequences that threaten the decline in gross domestic product (GDP), employment, public revenues, investment and exports, which in turn affects the entire domestic economy and, in this context, the banking sector.

The Bank estimated that the spread of COVID-19 virus infection during 2020 would have a negative impact on operating income and increase impairment losses for the same year.

The introduction of special measures by the FBA, such as a moratorium, i.e. a delay in loan repayment, and other measures aimed at facilitating the settlement of the client's loan obligations and maintaining the client's business, is expected to have a negative impact on the Bank's liquidity.

On the other hand, the fall in GDP, i.e. employment, will result in lower demand for loans, and consequently reflect on profitability, as well as on the quality of assets, because some clients will have difficulty repaying their loan obligations due to poorer liquidity, reduced income or salaries, although the stated negative consequences will be somewhat mitigated by temporary measures prescribed by the regulator.

We note that at this time the potential negative effects of COVID-19 cannot yet be quantified due to:
- Relatively short period from the introduction of measures to prevent the spread of infection at the level of B&H to the moment of issuance of this financial statements (the measures were implemented at the beginning of March and at the report issuance date the Bank has only data available as at 31 March 2020),
- Uncertain emergency situation duration in the country (negative consequences are increased in proportion to the time flow).

In order to maintain the capital adequacy rate, the Bank has undertaken the following measures and activities:
- capital adequacy monitoring on a monthly basis,
- launching activities for securing Tier I and/Tier II capital.

The Bank has a stable liquidity position and no significant deposit outflows are recorded. The Bank regularly monitors liquidity indicators compliance with regulators' requirements and internally sets limits and therefore, it does not expect a negative impact on liquidity.

The Bank has set up a liquidity board and Contingency Committee in order to monitor and manage liquidity positions efficiently. All necessary reports are prepared on a daily basis (a vista account monitoring, transaction accounts, demand and term deposits, premature cancellation of term deposits, overdrafts, loans, cash register, daily excess liquidity report), as well as simulations showing expected coefficients' movements in the future (so-called forward looking principle), both related to LCR report and maturity compliance.

Furthermore, regular weekly meetings were established at the Group level regarding the liquidity positions (LCR, local standards), and development of the situation regarding the COVID crisis.

A cooperation with the Banking Agency of FBiH (via the Association of Banks) is also established, and the Bank actively communicates with the regulator regarding liquidity and possible upcoming decisions by the Banking Agency.

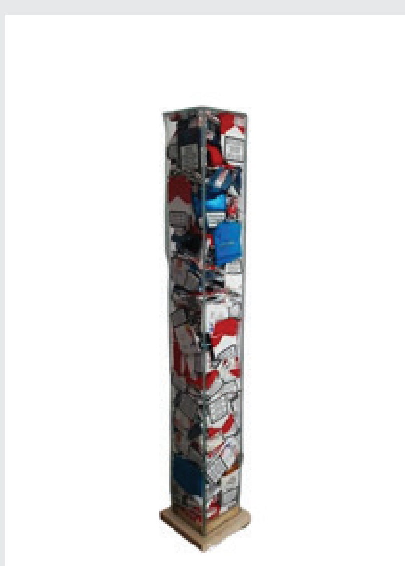
Based on the currently available information, the Bank's current KPIs and in view of the actions initiated by the Management, we do not anticipate a direct immediate and significant adverse impact of the COVID-19 outbreak on the Bank's ability to continue with its operations on a going concern basis.

We cannot however preclude the possibility that extended lock-down periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment we operate in will not have an adverse effect on the Bank, and its financial position and operating results, in the medium and longer term. We continue to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

Dolores Mrnjavac

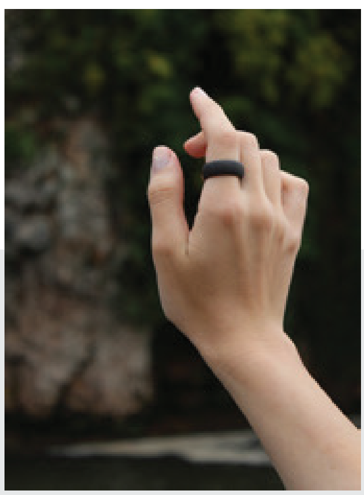
- Dolores was born in Kiseljak in 1996. She graduated from the Academy of Fine Arts in Sarajevo with a degree in Product Design.

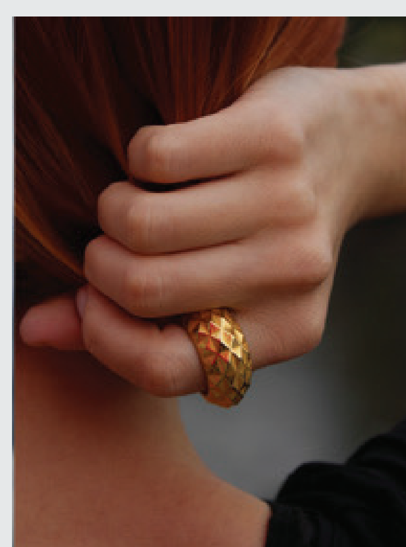
- The theme of her work is consumerism.



Damir Ćatibović

- Damir was born in Sarajevo in 1996. He graduated from the Academy of Fine Arts in Sarajevo with a degree in Product Design.
- His main fields of interest are industrial design and furniture design.





Service

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Zmaja od Bosne bb
71 000 Sarajevo

Branch Skenderija
Valtera Perića 20
71 000 Sarajevo

Branch Novo Sarajevo
Kolodvorska 12
71 000 Sarajevo

Branch Ilidža
Rustempašina bb
71 210 Ilidža

Branch Pale
4. juni 17
71 420 Pale

Branch Goražde
Titova bb
73 000 Goražde

MB Banja Luka and Branch Banja Luka
Vase Pelagića 2
78 000 Banja Luka

Branch Banja Luka 2
Vojvode S. Stepanovića bb
78 000 Banja Luka

Branch Prijedor
Majora Milana Tepića bb
79 101 Prijedor

Branch Gradiška
Vidovdanska bb
78 400 Gradiška

Branch Doboj
Svetog Save 2
74 000 Doboj

MB Zenica and Branch Zenica
Maršala Tita bb
72 000 Zenica

Branch Kakanj
Alije Izetbegovića bb
72 240 Kakanj

Branch Vitez
Poslovni centar PC 96-2
72 250 Vitez

Branch Visoko
Alije Izetbegovića 1
71 300 Visoko

Branch Tešanj
Titova 2
74 260 Tešanj

Branch Travnik
Konatur bb
72 270 Travnik

MB Tuzla and Branch Tuzla
15. Maja bb
75 000 Tuzla

Branch Tuzla 2
RK Omega – Univerzitetska 16
75 000 Tuzla

Branch Bijeljina
Karađorđeva bb
76 300 Bijeljina

Branch Brčko
Reisa Džemaludina Čauševića 10
76 100 Brčko

MB Bihać and Branch Bihać
Pape Ivana Pavla II 4
77 000 Bihać

Branch Cazin
Generala Izeta Nanića bb
77 220 Cazin

Branch Velika Kladuša
Maršala Tita "Diletacija C"
77 230 Velika Kladuša

Branch Sanski Most
Muse Ćazima Ćatića 24
79 260 Sanski Most

Branch Bosanska Krupa
Trg Alije Izetbegovića bb
77 240 Bosanska Krupa

MB Mostar and Branch Mostar
Kneza Domagoja bb
88 000 Mostar

Branch Konjic
Suhi do bb
88 400 Konjic

Branch Čitluk
Kralja Tomislava 43
88 260 Čitluk

Branch Široki Brijeg
Ulica pobijenih franjevaca 3
88 220 Široki Brijeg

Branch Trebinje
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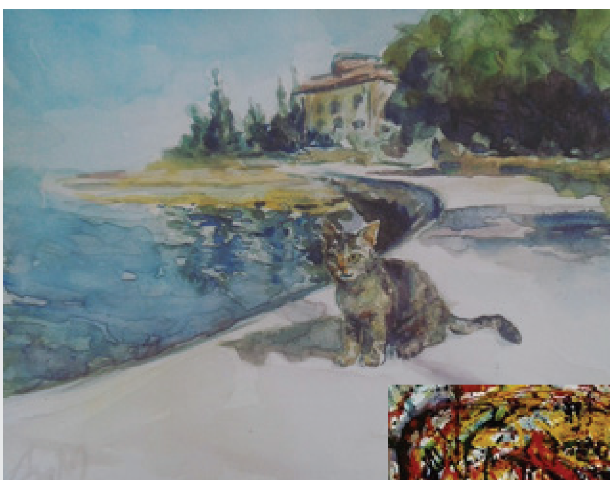
Safet Begić

- Safet was born in Sarajevo in 1984. He is a final year student at the Academy of Fine Arts in Sarajevo.
- He won the international photography award "Small format" in Novi Sad for 2014.

Ana Matić

- Ana was born in Sokolac in 1996.
- She graduated from the Academy of Fine Arts in Sarajevo with a degree in Painting.



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Concept, design: Communis d.o.o. Sarajevo

DTP: Boriša Gavrilović

Photos: Srđan Dunđerović

The forecasts, plans and forward-looking statements contained in this annual report are based on the state of knowledge and assessments of Raiffeisen *BANK* d.d. Bosna i Hercegovina at the time of its preparation. Like all statements about the future, they are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. No guarantee can be provided for the accuracy of forecasts, plan values of forward-looking statements.

This annual report has been prepared and the data checked with the greatest possible care. Nonetheless, rounding, transmission, typesetting and printing errors cannot be ruled out. In the summing up of rounded amounts and percentages, rounding-off differences may occur. This annual report was prepared in Bosnian. The annual report in English is a translation of the original Bosnian report. The only authentic version is the Bosnian version.