NLB Banka d.d., Sarajevo

Financial Statements
For the year ended December 31, 2020

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Responsibility for financial statements

The Management Board is responsible for preparing the financial statements that give a true and fair view of the Bank's financial position and financial performance and cash flows in accordance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina, and is responsible for maintaining proper accounting records that allow the financial statements to be prepared at all times. The Management Board is also responsible for taking steps reasonably available to safeguard the assets of the Bank and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is responsible for selecting appropriate accounting policies that comply with applicable accounting standards and for applying them consistently, making reasonable and prudent assumptions and estimates, and preparing financial statements on the going concern basis unless the assumption that the Bank will continue as a going concern is inappropriate.

The Management Board is responsible for submitting the Bank's annual reports to the Supervisory Board together with the annual financial statements, after which the Supervisory Board approves the annual financial statements.

Signed on behalf of the Management Board

Lidija Žigić, President of Management board

NLB Banka d.d., Sarajevo
Koševo 3
71000 Sarajevo
Bosnia and Herzegovina

15 April 2021

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Independent auditor's report

To the Shareholders of NLB Banka d.d., Sarajevo

Opinion

We have audited the financial statements of NLB Banka d.d., Sarajevo (the Bank), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina.

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 2 Corrections of financial statements for prior periods, which state that the Bank restated its financial statements for 2019 during 2020, in accordance with International Accounting Standard 8: "Accounting Policies, Changes in Accounting Estimates and Errors". The restatements are related to the correction of error in valuating equity instruments presented within the financial assets at fair value through other comprehensive income position.

Our opinion is not modified in respect of this matter.

Other Matters

The financial statements of the Bank for the year ended 31 December 2019 were audited by another auditor, who expressed an unmodified opinion to those financial statements on 1 April 2020.

Key Audit Matters

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

Key Audit Matters *(continued)*

In its financial statements for the year ended 31 December 2020 the Bank presented loans to customers in the amount of BAM 813,712 thousand and total expected credit loss in the amount of BAM 42,571 thousand.

Allowance for Expected Credit Losses on Loans and Receivables	How the Key Audit Matter Was Addressed in Our Audit

For accounting policies, see Note 4. For additional information regarding the identified key audit matter see notes 5, 8, 13, 14 and 16.

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

In determining both the timing and the amount of loss allowance for expected credit losses on loan to customers, the Management exercises significant judgement in relation to the following areas:

- Use of historic data in the process of determining risk parameters
- Estimation of the credit risk related to the exposure
- Assessment of stage allocation
- Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses
- Assessment of the forward-looking information, including the impact of the "COVID-19" pandemic
- Expected future cash flows from operations
- Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures.

In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion.

We performed the following audit procedures with respect to area of loans:

- Review and check the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 relevant regulations of the Federation of Bosnia and Herzegovina;
- Obtain understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses, including the used applications and information technology tools and the corresponding internal controls;
- Evaluate the adequacy of the design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses;
- Test the operating effectiveness of identified relevant controls;
- Performing substantive tests over recognition and measurement of allowance for expected credit losses on sample of loans and receivables allocated to Stage 1 and Stage 2 that are collectively assessed, focusing on:
  i. Models applied in credit risk stage allocation and transitions between credit risk stages;
  ii. Assumptions used by the Management in the expected credit loss measurement models;
  iii. Criteria used for determination of significant increase in credit risk, including the impact of COVID-19;
  iv. Assumptions applied to calculate probability of default;

Key Audit Matters *(continued)*

Since determination of appropriate impairment allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to management bias. This fact led to the determination of impairment allowances for expected credit losses on loans and receivables, recognized in accordance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina as a key audit matter in our audit of the financial statements for the year ended 31 December 2020.

v. Methods applied to calculate loss given default;
vi. Methods applied to incorporate forward-looking information, including the impact of COVID-19;
vii. Recalculation of expected credit losses on a selected sample.

- Performing substantive tests over recognition and measurement of loss allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included:
  i. Assessment of the borrower's financial position and performance following the latest credit reports and available information;
  ii. Assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations, considering the borrower's financial status and performance in the current economic environment affected by COVID-19;
  iii. Reviewing and assessing expected future cash flows from collateral and estimated realization period;

- Analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory transfers;
- Assessment of appropriateness of staging transition and allocation of exposures with granted moratoria.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the statutory accounting regulations applicable to banks in the Federation of Bosnia and Herzegovina, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Deloitte d.o.o. Sarajevo

Yuri Sidorovich, procurator

Sabina Softić, partner and licensed auditor

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Sarajevo, Bosnia and Herzegovina

15 April 2021

NLB BANKA d.d., SARAJEVO
Statement of profit and loss and other comprehensive income
(All amounts are given in thousand BAM unless otherwise stated)

	Note	2020	2019 (restated)
Interest income calculated using the effective interest method	6a	41,845	42,838
Income similar to interest income not calculated using effective interest rate method	6a	135	124
Income from modifications	6a	49	-
Interest expense	6b	(7,263)	(7,532)
Expense from modifications	6b	(181)	-
Net Interest Income	6	**34,585**	**35,430**
Fee and commission income	7a	25,360	26,170
Fee and commission expense	7b	(9,075)	(9,316)
Net Fee and commission income	7	**16,285**	**16,854**
Impairment losses (net)	8	(10,353)	(3,777)
Provisions for litigation (net)	8, 25	31	(485)
Cost of provisions for the missing documentation for managed funds (net)		(64)	-
Gains from financial assets recognized at fair value through P&L (net)		332	710
Foreign exchange gains	9	796	1,117
Other operating income	10b	2,457	1,032
Employees' expenses	10a	(15,894)	(16,386)
General and administrative expenses	10	(13,718)	(12,433)
Other operating expenses		(415)	(988)
Profit before income tax		**14,042**	**21,074**
Income tax	11	(1,155)	(2,520)
Net profit for the year		**12,887**	**18,554**
Other comprehensive income/loss:			
Items that will not be reclassified to profit or loss			
Profit from equity instruments recognized at fair value through OCI[1], after tax		543	2,227
Actuarial gains / (losses) related to severance provision, after tax		169	(122)
Items that can be reclassified to profit or loss			
(Loss) / profit from debt instruments recognized at fair value through OCI, after tax		(1,024)	1,444
Other comprehensive Income for the year		**(312)**	**3,549**
Total comprehensive income for the year		**12,575**	**22,103**
Basic and diluted earnings per Share (in BAM)	26	**33.67**	**48.48**

Notes on pages from 11 to 124 form an integral part of these financial statements.

[1] OCI – Other comprehensive income

(All amounts are given in thousand BAM unless otherwise stated)

	Note	December 31, 2020	December 31, 2019 (restated)	January 1, 2019 (restated)
ASSETS				
Cash and balances with the Central Bank of BiH	12	220,547	228,414	242,299
Placements with banks	13	88,709	100,093	100,114
Loans to customers	14	771,141	772,828	694,733
Financial assets at fair value through PL	15	1,536	1,448	1,719
Debt instruments at fair value through OCI	16	126,393	98,291	76,850
Equity instruments at fair value through OCI	16	7,140	6,540	4,066
Property, Equipment and right-of-use assets	17	35,263	34,261	24,547
Intangible assets	18	1,174	1,082	632
Deferred tax assets	11a	152	-	-
Other assets	19	5,450	4,540	10,499
Total assets		**1,257,505**	**1,247,497**	**1,155,459**
LIABILITIES				
Banks' deposits	20	14,120	16,774	22,752
Customers' deposits	21	1,021,072	1,007,697	923,733
Borrowings	22	27,149	34,338	39,530
Subordinated debt	23	5,996	5,997	-
Deferred tax liabilities	11a	823	645	398
Other liabilities	24	16,459	18,232	11,510
Other provisions	25	4,187	4,897	3,987
Total liabilities		**1,089,806**	**1,088,580**	**1,001,910**
EQUITY				
Share capital	26	53,605	53,605	53,605
Statutory reserves		75,106	78,899	74,260
Fair value reserves		8,073	8,554	4,883
Other reserves		(526)	(695)	(573)
Retained earnings		31,441	18,554	21,374
Total equity		**167,699**	**158,917**	**153,549**
Total equity and liabilities		**1,257,505**	**1,247,497**	**1,155,459**

Notes on pages from 11 to 124 form an integral part of these financial statements.

The Management has authorized these financial statements on March 30, 2021 and signed them accordingly:

Jure Peljhan
MB member

Denis Hasanić
MB member

Lidija Žigić
President of MB

NLB BANKA d.d., SARAJEVO
Statement of changes in equity
(All amounts are given in thousand BAM unless otherwise stated)

	Share capital	Statutory reserves	Fair value reserves	Other reserves	Retained earnings	Total
Balance as of December 31, 2018	**53,605**	**74,260**	**1,303**	**(573)**	**21,374**	**149,969**
Correction of prior period errors (Note 2)	-	-	3,580	-	-	3,580
Balance as of January 1, 2019 (restated)	**53,605**	**74,260**	**4,883**	**(573)**	**21,374**	**153,549**
Allocation of profit for 2018	-	4,639	-	-	(4,638)	1
Dividends paid	-	-	-	-	*(16,736)*	*(16,736)*
Net profit for the year	-	-	-	-	*18,554*	*18,554*
Other comprehensive income	-	-	*3,671*	*(122)*	-	*3,549*
Total comprehensive income	-	-	*3,671*	*(122)*	*18,554*	*22,103*
Balance as of December 31, 2019 (restated)	**53,605**	**78,899**	**8,554**	**(695)**	**18,554**	**158,917**
Effect of first-time adoption of the Decision on credit risk management and determining expected credit losses (Note 4.1)	-	(3,793)	-	-	-	(3,793)
Balance as of January 1, 2020	**53,605**	**75,106**	**8,554**	**(695)**	**18,554**	**155,124**
Net profit for the year	-	-	-	-	*12,887*	*12,887*
Other comprehensive income	-	-	*(481)*	*169*	-	*(312)*
Total comprehensive income	-	-	*(481)*	*169*	*31,441*	*12,575*
Balance as of December 31, 2020	**53,605**	**75,106**	**8,073**	**(526)**	**31,441**	**167,699**

Notes on pages from 11 to 124 form an integral part of these financial statements.

(All amounts are given in thousand BAM unless otherwise stated)

	Note	2020	2019 (restated)
Cash flows from operating activities			
Interest income from loans		38,933	39,224
Fees and commission income from loans and commission from foreign exchange business		31,702	34,011
Interest paid on deposits to customers		(7,742)	(9,702)
Collected written-off receivables		1,764	-
Cash payments to employees and suppliers		(37,710)	(40,686)
Payments per off-balance sheet contracts		(286)	(533)
Incoming and outgoing payments under extraordinary items		81	156
(Increase) in operating assets:			
(Increase) in loans to customers		(3,706)	(81,016)
Increase in operating liabilities:			
Increase in clients' deposits and other liabilities from ordinary business activities		641	90,740
Paid income tax		(2,265)	(2,083)
Net cash from operating activities:		**21,412**	**30,111**
Cash flows from investing activities			
Interest received from placements to financial institutions		1,483	1,403
Dividends received		24	23
(Purchase) of AFS financial assets, net		(27,904)	(18,350)
(Purchase) of intangible assets		(494)	(1,269)
(Purchase) of property and equipment		(3,394)	(5,514)
Disposal of other assets		(4)	(3)
Net cash (used in) investing activities		**(30,289)**	**(23,710)**
Cash flows from financing activities			
Interest on borrowings		(3,564)	(3,488)
Borrowings received		7,823	13,690
Repayment of borrowings		(14,962)	(13,007)
Paid lease for right-of-use assets		(1,196)	(1,125)
Payment of dividends		(1)	(16,541)
Net cash used in financing activities:		**(11,900)**	**(20,471)**
Net increase in cash and cash equivalents:		**(20,777)**	**(14,070)**
Cash and cash equivalents at the beginning of the year:	**12, 13**	**324,140**	**338,201**
Effects of changes in foreign exchange currency rates:		6	9
Cash and cash equivalents at the end of the year:	12, 13	**303,369**	**324,140**

Notes on pages from 11 to 124 form an integral part of these financial statements.

1. General information

NLB Banka d.d., Sarajevo (hereinafter: The Bank) is a bank of universal type, which is organized as separate shareholders' company as of April 1, 1990.

The Bank was initially registered with the Registry of Companies with the Cantonal Court in Tuzla, and following the move of the head office from Tuzla zo Sarajevo in 2015, the Bank is registered with the Registry of Companies with the Municipal Court in Sarajevo, and with the Registry of the Securities Commission of the Federation of BiH, with all relevant data and permissions issued by the Banking Agency of the Federation of BiH (hereinafter: FBA) and other relevant bodies.

The Bank operates directly or through its organizational units in a business network:
a) Branch Office Tuzla with its Business Offices Centar, Slatina, Irac, and Sjenjak and Sub-Branch offices Lukavac, Brčko, Orašje and Čelić,
b) Branch Office Sarajevo with its Business Offices Centar, Pofalići, Ilidža, Markale, Alipašino Polje, Ferhadija and Dobrinja, and Sub-Branches Goražde, Zenica, Travnik, Vitez and Tešanj,
c) Branch Office Mostar with its Business Offices Centar and Rondo, and Sub-Branch Offices in Čapljina, Široki Brijeg and Ljubuški,
d) Branch Office Kalesija with Business Office Centar and Sub-Branch Offices Sapna and Teočak,
e) Branch Office Tuzla 2 with Business Office Centar and Sub-Branch Offices Doboj Istok, Gradačac, Živinice, Srebrenik, Odžak, Banovići and Kladanj
f) Branch Office Bihać with Business Office Centar and Sub-Branch Office Cazin.

Through its Head Office in Sarajevo and well-developed network the Bank is authorized to perform all types of business that Banks can do:
1. Receiving of all types of money deposits and other monetary assets;
2. Granting and taking financial loans;
3. Issuing guarantees and commitments;
4. services in internal and international payments and money transfers, in accordance with special regulations;
5. Buying and selling of foreign currencies and precious metals;
6. Issuing and managing means of payment (including credit cards, travel and bank cheques);
7. Financial leasing;
8. Buying, selling and collecting receivables (factoring, forfeiting and others);
9. Purchase and sale of money market instruments and capital for its own or somebody else's account;
10. Purchase and sale of securities (brokering-dealership);
11. Managing portfolio of securities and other valuables;
12. Securities market support operations, agent operations and issuance of shares, in accordance with regulations governing the securities market;
13. Investment consulting and custody operations;
14. Financial management and consulting services;
15. Data collection services, preparing analysis and providing information on the creditworthiness of legal and natural persons who independently carry out the registered business activity;
16. Safe deposit box lease;
17. Insurance intermediary services in accordance with regulations governing insurance intermediary services, except liability insurance for motor vehicles;
18. other operations that support concrete banking activities.

(All amounts are given in thousand BAM unless otherwise stated)

1. General information *(continued)*

Bank's shareholders

	December 31, 2020		December 31, 2019	
	Amount in BAM	%	Amount in BAM	%
Nova Ljubljanska banka d.d., Ljubljana, Slovenia	52,177,300	97,34	52,177,300	97,34
Others	1,427,860	2,66	1,427,860	2,66
Total	**53,605,160**	**100,00**	**53,605,160**	**100,00**

The headquarters of the Bank is at the address Koševo 3, 71000 Sarajevo, Bosnia and Herzegovina.

The majority owner of the Bank is Nova Ljubljanska banka d.d., Ljubljana, with 97.34% of share capital as of December 31, 2020, which is also ultimate owner of the Bank.

Employees

As of December 31, 2020, NLB Banka d.d., Sarajevo had 444 employees (December 31, 2019: 450 employees).

(All amounts are given in thousand BAM unless otherwise stated)

1. General information *(continued)*

The Supervisory Board		**Term of office:**
December 31, 2020:		
President	Blaž Brodnjak	30.5.2017-29.5.2021
Deputy President	Boštjan Kovač	30.5.2017-29.5.2021
Member	Igor Zalar	6.10.2017-29.5.2021
Independent member	Ayda Šebić	30.5.2017-29.5.2021
Independent member	Dragan Kovačević	30.5.2017-29.5.2021

Audit Committee

December 31, 2020:		
President	Tatjana Jamnik Skubic	2.6.2018-1.6.2022
Member	Suzana Žigon	2.6.2018-1.6.2022
Member	Andreja Golubić	2.6.2018-1.6.2022
Member	Polona Kurtevski	1.7.2019-1.6.2022
Member	Zoran Blagojević	2.6.2018-1.6.2022

Risk Committee

December 31, 2020:		
President	Igor Zalar	1.2.2018-29.5.2021
Deputy President	Boštjan Kovač	1.2.2018-29.5.2021
Member	Dragan Kovačević	1.2.2018-29.5.2021

Appointment board

December 31, 2020:		
President	Boštjan Kovač	24.4.2020-29.5.2021
Deputy President	Blaž Brodnjak	24.4.2020-29.5.2021
Member	Ayda Šebić	24.4.2020-29.5.2021

Management board

December 31, 2020:		
President	Lidija Žigić	1.1.2017-31.12.2020
Member	Denis Hasanić	1.1.2017-31.12.2020
Member	Jure Peljhan	1.1.2017-31.12.2020
		1.1.2017-31.12.2020
Head internal auditor	Elma Spahović	
Secretary of the Bank	Amela Dizdarević-Bulja	

Terms of the Members of the Management Board have been renewed for the period 1.1.2021-31.12.2024.

1. General information *(continued)*

Memberships of members of Supervisory Board and Board of Directors of the Bank in other affiliated and unaffiliated entities

Blaž Brodnjak, President of the Supervisory Board
1. NLB d.d., Ljubljana, CEO
2. NLB Banka a.d., Banja Luka, President of the Supervisory Board
3. NLB Banka a.d., Skopje, President of the Supervisory Board
4. Komercijalna banka a.d. Beograd, member of the Supervisory Board
5. Bank Association of Slovenia, President of the Supervisory Board
6. AmCham Slovenia (American Chaimber of Commerce), Member of the Board of Governers

Boštjan Kovač, Deputy President of the Supervisory Board
1. NLB Banka a.d., Banja Luka, Deputy President of the Supervisory Board

Igor Zalar, Member of the Supervisory Board
1. NLB Banka a.d., Banja Luka, member of the Supervisory Board
2. Komercijalna banka a.d. Beograd, member of the Supervisory Board

Ayda Šebić, Member of the Supervisory Board
1. NLB Banka a.d., Banja Luka, member of the Supervisory Board

Dragan Kovačević, member of the Supervisory Board
1. NLB Banka a.d., Banja Luka, member of the Supervisory Board

1. General information *(continued)*

1.1. Macroeconomic environment

Bosnia and Herzegovina is facing significant disruptions due to the consequences of the COVID-19 viral disease pandemic. According to official forecasts, a significant decline in gross domestic product is expected in 2020 due to declining domestic demand and economic activity. Export-oriented sectors, manufacturing, transport, tourism and catering are particularly vulnerable.

In order to curb the spread of the pandemic, the FBiH government has introduced restrictive measures that have further affected the already affected economy. The measures with the greatest impact on market operations are: curfew (from 20:00 to 5:00, later moved from 23:00 to 5:00) and travel restrictions (including border crossings), part-time work, ban on the operation of shopping centers and various points of sale, ban on work in restaurants, schools, dental practices, etc.

The Government of the Federation of BiH has proposed the adoption of the Law on Mitigation of Negative Economic Consequences Caused by the Corona Virus Pandemic. This law was proposed with the aim of mitigating the negative economic consequences for the economy of the Federation of BiH. The law prescribes subsidizing contributions for compulsory insurance, suspension of calculation and payment of default interest on public revenues, abolition of obligations to pay advance income tax, abolition of obligations to pay advance income tax on self-employment, suspension of all administrative, litigation, non-litigation and enforcement proceedings accidents, suspension of calculation of default interest on late payments in debtor-creditor relations, suspension of forced collection, maintenance of stability of certain payments, postponement of application of regulations, and establishment of the Guarantee Fund.

The Law on Mitigation of Negative Economic Consequences was adopted by the Parliament of the Federation of BiH and the House of Peoples. This law was published on 07.05.2020 in the "Official Gazette of the Federation of BiH", and shall enter into force on the day following the day of its publication, and shall cease to be valid upon the expiration of 60 days from the day of declaring the cessation of the accident.

The leaders of the largest political parties, in the presence of the entity prime ministers, the chairman of the BiH Council of Ministers and the state finance minister, reached an agreement with EU and IMF officials on a 330 million euro loan deal to fight the coronavirus crisis. The funds will be distributed in 62 percent for FBiH and 38 percent for RS, and half of the percentage goes to Brčko (part of FBiH, part of RS).

On 02.07.2020, the Government of the Federation of BiH passed a Decision on determining the criteria for the distribution of funds of the RFI arrangement with the IMF, in the amount of BAM 200,000,000 in the name of allocating financial assistance to the budgets of the cantons in repairing the consequences of the declared “COVID-19” pandemic. The criteria for the distribution of these funds to the cantons are the number of inhabitants according to the Census of Population, Households and Dwellings in Bosnia and Herzegovina from 2013, with the application of weights two for Posavina and Bosnia-Podrinje cantons.

BAM 200 million is available for guarantees to businessmen in FBiH. The Guarantee Fund has been established at the FBiH Development Bank. Funds from the Fund will be focused on the development of small and medium enterprises, and employers hope that the selection will include companies that can maintain employment and increase turnover. The federal government has raised BAM 450 million to repair the economic consequences.[1]

Prior to the start of the “COVID-19” pandemic, the macroeconomic situation in the country was stable and the outlook was favorable. BiH has managed to achieve macroeconomic stabilization and improve internal and external imbalances. However, due to the “COVID-19” pandemic, and especially since the declaration of the state of natural disaster on 16.03.2020 economy of BiH suffers significant consequences. Following an increase in activity during the summer months, when the spread of the virus appeared to be under control, a new wave of viruses in BiH and across Europe has created new uncertainty and forced authorities to reintroduce measures to stem the spread of the infection.

[1] www.fbihvlada.gov.ba

1. General information (*continued*)

1.1. Macroeconomic environment (*continued*)

Complex institutional organization in BiH often involves complicated, untimely and uncoordinated responses to a pandemic. As a consequence, the immunization process is slow, which could have a crucial impact on the expected economic recovery. The net debt of the general government of BiH is expected to increase to 31% of GDP at the end of 2021, which is still considered moderate debt for developing countries.

Analysts further state that during 2020, a smaller decline in economic activities was recorded than previously predicted, with industrial production in December 2020 being 2.8% higher than in December 2019. It is estimated that the decline in economic activity compared to 2019 is 4.8% while previously projected at 6.0%. GDP growth of 2.5% is expected in 2021, with the expectation that Bosnia and Herzegovina's GDP is not expected to return to 2019 levels before 2022.

In previous years, some fiscal space has accumulated, which has helped and enabled the authorities to support citizens and businesses during the crisis. In the financial sector, a moratorium on loan repayments has provided relief to borrowers. The currency board arrangement continues to support the stability of the financial system. However, only after the expiration of the temporary measures, at the end of 2020, will the banks be faced with the economic consequences of the pandemic, and the magnitude of the shock will be able to be estimated only in the coming years. The biggest pressure is expected in the middle of 2021, when a significant part of the loan portfolio, which is under some kind of temporary measures, could be under increased pressure to move to the category of non-performing loans.

The foreign exchange reserves of the Central Bank of Bosnia and Herzegovina (CBBH) in 2020 increased by 10% in gross nominal amount compared to 2019.

The banking system of BiH, despite the evident weak credit activity and significantly weakened profitability of banks, coped well with the effects of the pandemic and despite the extraordinary circumstances, there were no indications of deterioration of the liquidity position of banks.

Domestic deposits grew during 2020, without the conversion of savings deposits from the domestic currency KM to foreign currency.

Inflation trends in BiH are mainly determined by the level of energy prices, i.e. oil, food, utilities, utility prices, etc. Future price movements are subject to great uncertainty arising from the "COVID-19" pandemic.[2]

On 28 August 2020, the international agency **Standard & Poor's confirmed the credit rating** of Bosnia and Herzegovina, which reads **"B with a stable outlook"**.[3]

<u>*Banking sector*</u>

In the period before the pandemic caused by the viral disease "COVID-19", the banking sector in the Federation of BiH recorded moderate growth rates of assets, deposits, loans and capital, while the amount and share of non-performing loans decreased. Regulatory reforms after the last financial crisis have further strengthened the capital position of banks and the resilience of the banking sector to stress.

[2] www.imf.org
[3] www.cbbh.ba

1. General information (*continued*)

1.1. Macroeconomic environment (*continued*)

In order to mitigate the negative economic consequences, the Banking Agency of FBiH (hereinafter: FBA) adopted at the end of March 2020 the Decision on temporary measures applied by the bank to mitigate the negative economic consequences caused by the viral disease "COVID-19" ("Official Gazette of the Federation BiH", No. 22/20). The said Decision gave banks the opportunity to provide clients affected by the negative effects of the pandemic with a sustainable model that will support the orderly settlement of their obligations and maintain the stability of the banking sector. The decision covers a range of measures that banks can offer to customers in order to facilitate the servicing of their obligations, and exposures under special measures are excluded from the definition of non-performing loans. In addition to measures to facilitate repayment for clients affected by the negative effects of the pandemic, the Decision also prescribes measures aimed at preserving the capital of banks and ensuring the continuity of lending activity through the use of a protective layer of capital. Measures to preserve the bank's capital are reflected through the retention of profits made in 2019, postponement and/or cancellation of dividend payments, variable remuneration to members of management bodies in the supervisory and management function and employees whose professional activities have a significant impact on the bank's risk profile for the duration of this Decision.

In the situation of prolonged crisis in August 2020, the FBA adopted a Decision on temporary measures applied by the bank to recover from the negative economic consequences caused by the viral disease "COVID-19" ("Official Gazette of the Federation of BiH", No. 60/20, in hereinafter: the Decision). The mentioned Decision extended the period of duration of special measures, and the deadline for receiving clients' requests for approval of special measures was extended until 31.12.2020. In accordance with the said Decision, banks should without delay and continuously act in accordance with the Decision on temporary measures applied by the bank to recover from the negative economic consequences caused by the viral disease "COVID-19", and above all must allow customers to apply for special measures until 31.12.2020 in accordance with Article 11, paragraph (1) of the Decision, and treat the modified loan liabilities of clients in accordance with the special rules for credit risk management prescribed in Article 6 of the Decision. Consistent and full application of local regulations will enable adequate risk management in the circumstances of the prolonged impact of the pandemic, reduce the risk of deterioration in the quality of the loan portfolio and increase the chances of economic recovery in the coming year. In addition, banks protect their capital by retaining dividends and refraining from paying variable fees, in accordance with FBA decisions and recommendations.[4]

As of 30 September 2020, there were 15 commercial banks operating in the FBiH, with 538 organizational units, which employed a total of 6,534 people.

Total net assets at the level of the banking sector in FBiH as at 30.09.2020 amount to BAM 23.8 billion and is BAM 403.8 million or 1.7% lower compared to 31.12.2019.

On 30.09.2020, loans amounted to BAM 15.1 billion and decreased by BAM 107.6 million or 0.7% compared to the end of 2019. Loans granted to households, with a share in total loans of 48.6%, decreased by 0.8% and amounted to BAM 7.3 billion. Loans to legal entities, with a share in total loans of 51.4%, decreased by 0.6% and amounted to BAM 7.8 billion.

Credit portfolio in credit risk level 3 (NPL) as at 30.09.2020 amounted to BAM 1.1 billion and accounted for 7% of the total loan portfolio, and decreased by BAM 184.9 million or 14.8% compared to the end of the previous year, mostly due to the written write-off, which had an impact on the reduction total loans.

[4] www.fba.ba

1. General information (*continued*)

1.1. Macroeconomic environment (*continued*)

Out of the total loans placed to legal entities, BAM 609.7 million or 7.8% refers to NPLs, which is two percentage points less than at the end of 2019. For the household sector, the NPL amounts to BAM 452.9 million or 6.2%, which is 0.3 percentage points less than at the end of 2019.

As of 30.09.2020, BAM 1.2 billion or 8.2% of the total loans were covered by some of the active special measures. The total amount of the loan portfolio of legal entities under which special measures are active is BAM 998.3 million or 12.8% of the loan portfolio of legal entities, while special measures on the portfolio of the population are active in the amount of BAM 237.7 million or 3.2% retail loan portfolio.

Deposits, as the most significant source of bank financing, amount to BAM 19.2 billion, with a share of 80.6% in total liabilities. Compared to the end of 2019, they were reduced by the amount of BAM 236.8 million or 1.2%. Savings deposits, as the most important and largest segment of banks 'deposit and financial potential, increased by BAM 30.6 million or 0.3% and amounted to BAM 9.6 billion, which is a significant indicator of citizens' trust in the banking system.

The total capital of banks in the FBiH amounts to three billion BAM, which is BAM 98.9 million or 3.2% less than at the end of 2019, of which the share capital is BAM 1.3 billion. The share of total capital in sources at the level of the FBiH banking sector is 12.7%.

Rate of regulatory capital of the banking sector of FBiH as at 30 September 2020 is 18.2% and is 0.3 percentage points higher than at the end of 2019, and 6.2 percentage points higher than the statutory minimum of 12%. Other capital ratios (regular core capital and core capital ratios) at the level of the FBiH banking sector are higher than the prescribed minimums.

Observing the basic liquidity indicators, qualitative and quantitative requirements, as well as other factors that affect the liquidity position of banks, it can be concluded that the liquidity of the banking sector in the FBiH as at 30.09.2020 is satisfactory, despite the negative effects on the economy caused by the pandemic.

At the level of the banking sector in FBiH, according to the reporting data of banks as at 30.09.2020, a positive financial result was reported, which is 39.7% less than reported in the same period last year. Two banks reported operating losses in the first nine months of 2020.[5]

The Bank's Management Board believes that it has taken all necessary measures to support the existence and growth of the Bank's operations in the current circumstances (please see note 4.31).

[5] Information about the banking system of the Federation of Bosnia and Herzegovina as at September 30, 2020

2. Correction of financial statements for prior periods

In accordance with International Accounting Standard 8: "Accounting Policies, Changes in Accounting Estimates and Errors", during 2020, the Bank amended the financial statements for 2019 in relation to the correction of error based on the valuation of equity instruments presented within the financial assets at fair value through other comprehensive income position.

By merging with CBS Bank d.d. Sarajevo in 2006, the Bank acquired the shares of Master Card Incorporated – "MC Class B common stock". Upon obtaining the ownership documentation relevant for accounting recording, the Bank recorded shares in its records for the first time on 30.09.2016, namely 12,460 class B shares at a nominal value of $ 0.0001 per share, i.e. in the total amount of $ 1.246.

The Bank had no intention to trade these shares, hence they were initially classified in accordance with the IAS 39 Financial Instruments: Classification and Measurement as financial assets available for sale. Upon transition to IFRS 9 Financial instruments. All equity securities were classified into the category measured at fair value through other comprehensive income, whereby shares of Master Card Incorporated continued to be measured at their nominal value.

Despite assigning to categories which required fair value measurement the Master Card Incorporated shares were wrongly measured at value of EUR 1 both at initial recognition and subsequently. The error was discovered during 2020 when an initiative was launched to consider the sale of these shares, with additional verifications of their value with other members of the NLB Group, as well as a request to harmonize the valuation approach at the NLB Group level. On that occasion, it was determined that the fair value of these share significantly deviates from their nominal value, and that the Bank should value these shares based on the market value of class A shares, because class B shares can be converted into class A shares at any time in a ratio of 1:1, under the condition to execute sale in a very short time. The Bank has not yet sent a request for the conversion of Class A shares, as internal procedures have not been completed in preparation for the sale of these shares (the process has not been completed by the end of preparation of the financial statements).

The Bank plans to sell the shares in question in the first half of 2021. Upon derecognition, i.e. sale of these shares, the accumulated effects of the fair valuation will be transferred directly from the fair value reserve within equity to retained earnings.

Below are overviews of adjustments made by reporting year.

(All amounts are given in thousand BAM unless otherwise stated)

2. Correction of prior period errors (continued)

	December 31, 2018		January 1, 2019	December 31, 2019			December 31, 2019
	Before restatement	**Restatements**	**Restated**	**Before restatement**	**Restatements**		**Restated**
ASSETS							
Cash and balances with the Central Bank of BiH	242,299	-	242,299	228,414	-		228,414
Placements with banks	100,114	-	100,114	100,093	-		100,093
Loans to customers	694,733	-	694,733	772,828	-		772,828
Financial assets at fair value through PL	1,719	-	1,719	1,448	-		1,448
Debt instruments at fair value through OCI	76,850	-	76,850	98,291	-		98,291
Equity instruments at fair value through OCI	88	3,978	4,066	91	6,449	1)	6,540
Property, Equipment and rights of use assets	24,547	-	24,547	34,261	-		34,261
Intangible assets	632	-	632	1,082	-		1,082
Other assets	10,499	-	10,499	4,540	-		4,540
Total assets	**1,151,481**	**3,978**	**1,155,459**	**1,241,048**	**6,449**		**1,247,497**
LIABILITIES							
Banks' deposits	22,752	-	22,752	16,774	-		16,774
Customers' deposits	923,733	-	923,733	1,007,697	-		1,007,697
Borrowings	39,530	-	39,530	34,338	-		34,338
Subordinated debt	-	-	-	5,997	-		5,997
Deferred tax liabilities	-	398	398	-	645	2)	645
Other liabilities	11,510	-	11,510	18,232	-		18,232
Other provisions	3,987	-	3,987	4,897	-		4,897
Total liabilities	**1,001,512**	**398**	**1,001,910**	**1,087,935**	**645**		**1,088,580**
EQUITY							
Share capital	53,605	-	53,605	53,605	-		53,605
Statutory reserves	74,260	-	74,260	78,899	-		78,899
Fair value reserves	1,303	3,580	4,883	2,750	5,804	3)	8,554
Other reserves	(573)	-	(573)	(695)			(695)
Retained earnings	21,374	-	21,374	18,554	-		18,554
Total equity	**149,969**	**3,580**	**153,549**	**153,113**	**5,804**		**158,917**
Total equity and liabilities	**1,151,481**	**3,978**	**1,155,459**	**1,241,048**	**6,449**		**1,247,497**

1) Fair value of Master Card Incorporated shares
2) Deferred tax liability on calculated fair value of Master Card Incorporated shares
3) Master Card Incorporated shares at fair value through other comprehensive income

(All amounts are given in thousand BAM unless otherwise stated)

2. Correction of prior period errors (continued)

	2019 (before restatements)	Restatements		2019 (restated)
Interest income calculated using the effective interest method	42,838	-		42,838
Income similar to interest income not calculated using effective interest rate method	124	-		124
Income from modifications	-	-		-
Interest expense	(7,532)	-		(7,532)
Income from modifications	-	-		-
Net Interest Income	**35,430**	-		**35,430**
		-		
Fee and commission income	26,170	-		26,170
Fee and commission expense	(9,316)	-		(9,316)
Net Fee and commission income	**16,854**	-		**16,854**
		-		
Impairment losses (net)	(3,777)	-		(3,777)
Provisions for litigation (net)	(485)	-		(485)
Cost of provisions for the missing documentation for managed funds (net)	-	-		-
Gains from financial assets recognized at fair value through P&L (net)	710	-		710
Foreign exchange gains	1,117	-		1,117
Other operating income	1,032	-		1,032
Employees' expenses	(16,386)	-		(16,386)
General and administrative expenses	(12,433)	-		(12,433)
Other operating expenses	(988)	-		(988)
Profit before income tax	**21,074**	-		**21,074**
		-		
Income tax	(2,520)	-		(2,520)
Gains from increase in deferred tax assets and decrease in deferred tax liabilities	-	-		-
		-		
Net profit for the year	**18,554**	-		**18,554**
Other comprehensive income:				
Items that will not be reclassified to profit or loss				
Profit from equity instruments recognized at fair value through OCI[6], after tax	3	2,224	4)	2,227
Actuarial gains/losses related to severance provision, after tax	(122)	-		(122)
Items that can be reclassified to profit or loss				
(Loss) / profit from debt instruments recognized at fair value through OCI, after tax	1,444	-		1,444
Other comprehensive Income for the year	**1,325**	**2,224**		**3,549**
Total comprehensive income for the year	**19,879**	**2,224**		**22,103**
Basic and diluted earnings per Share (in BAM)	**48.48**	-		**48.48**

4) net effect of valuation securities, stocks of Master Card Incorporated, and loss based on increase in deferred tax liabilities

[6] OCI – Other Comprehensive Income

3. Adoption of new and revised standards

3.1. Initial application of new amendments to the existing standards effective for the current reporting period

The following new standards, amendments to the existing standards and interpretation issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 3 "Business Combinations" – Definition of a Business – adopted by the EU on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 16 "Leases" – Covid-19-Related Rent Concessions (adopted by the EU on 9 October 2020 and effective at the latest, as from 1 June 2020 for financial years starting on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Bank's financial statements.

3.2 New standards and amendments to existing standards in issue not yet adopted

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

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 "Insurance Contracts" including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1 "Presentation of Financial Statements" – Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 16 "Property, Plant and Equipment" – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" – Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 3 "Business Combinations" – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),

3. Adoption of new and revised standards (continued)

3.2 New standards and amendments to existing standards in issue not yet adopted (continued)

- Amendments to IFRS 4 "Insurance Contracts" – Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" – Interest Rate Benchmark Reform – Phase 2 (effective for annual periods beginning on or after 1 January 2021),
- Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022).

The Bank has elected not to adopt these new standards, amendments to existing standards and new interpretation in advance of their effective dates. The Bank anticipates that the adoption of these standards, amendments to existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

4. Summary of significant accounting policies

4.1. Statement of compliance

The financial statements of the Bank have been prepared in accordance with the accounting regulations applicable to banks in Federation of Bosnia and Herzegovina (FBiH), which are based on the Law on Accounting and Auditing in FBiH, Law on Banks of FBiH, and bylaws of the Banking Agency of FBiH, passed based on aforementioned laws.

- The Law on Accounting and Auditing in FBiH stipulates preparation of the financial statements in accordance with the International Financial Reporting Standards (IFRS).
- The Law on Banks of FBiH stipulates preparation of annual financial statements in accordance with the aforementioned Law on Accounting and Auditing in FBiH, this law and bylaws passed based on both laws.
- The Banking Agency of FBiH adopted the Decision on Credit Risk Management and Determining Expected Credit Losses (the Decision), which is in force as of 1 January 2020, and which resulted in certain differences arising from calculation of allowances for credit losses due to application of minimum rates stipulated by the Decision, which are not required by IFRS 9: Financial Instruments (IFRS 9). The Decision has an effect on valuation of non-financial assets arising from credit operations (whose valuation is within the scope of other relevant IFRSs).

In accordance with the provisions of the Decision, the Bank created higher allowances for credit losses in the amount of BAM 4,720 thousand compared to the amount calculated by using the Bank's internal model in line with the requirements of IFRS 9. This difference arose from the following reasons:

- application of minimum impairment rates stipulated by the Article 23 of the Decision for exposures in Stage 1 of credit risk in the amount of BAM 705 thousand,
- application of minimum impairment rates stipulated by the Article 24 of the Decision for exposures in Stage 2 of credit risk in the amount of BAM 259 thousand,
- application of minimum impairment rates stipulated by the Article 25 of the Decision for exposures in Stage 3 of credit risk (non-performing assets) in the amount of BAM 3,450 thousand, of which the amount of BAM 3,053 thousand refers to exposures not secured by acceptable collateral, the amount of BAM 397 refers to exposures secured by acceptable collateral, and the amount of BAM 10 thousand refers to presentation of interest calculation for exposures arising solely due to passage of time (unwinding).

In accordance with Article 32 of the Decision, the Bank decreased value of repossessed assets (non-financial asset acquired by the Bank through the settlement of overdue loans) by amount of BAM 306,520 compared to the value of those assets in accordance with IFRS (BAM 306,528). In accordance with the Decision, at the moment of acquiring these assets. Bank recorded them at net carrying amount of receivables so that it does not recognize revenue from acquisition of assets before its actual sale / realisation.

4. Summary of significant accounting policies (continued)

4.1. Statement of compliance (continued)

The aforementioned difference arose based on the assets:

- acquired in the last three years in the amount of BAM 306,520,
- acquired in the period longer than three years in the amount of BAM 0 (the existing properties acquired before 01.01.2019 shall be reduced to BAM 1 at the end of 2021).

First application of the Decision on credit risk management and determination of expected credit losses

The implementation of the adoption of the new regulatory framework was carried out on 1 January 2020 in the following steps:

- Recording provisions calculated taking into account the minimum rates of impairment prescribed by the Decision, in the total amount of BAM 3,793 thousand charged to retained earnings;
- Accounting write-off of balance sheet receivables that meet the conditions set out in the Decision, in the total amount of BAM 28,454 thousand. The conditions for carrying out an accounting write-off are described in Note 4 Summary of significant accounting policies.
- The total effect on the retained earnings position is an additional loss in the amount of BAM 3,793 thousand, of which BAM 617 thousand relates to the calculation of expected credit losses on securities, the effect of which is recognized within other comprehensive income.

Previously described differences between the statutory accounting regulations applicable to banks in FBiH and requirements for recognition and measurement under International Financial Reporting Standards have resulted in the following effects*:

BAM '000	**January 1, 2020**	**December 31, 2020**
Assets	(2,801)	(4,720)
Total assets	**(2,801)**	**(4,720)**
Liabilities	375	283
Equity:		
Regulatory reserves	(3,793)	(3,793)
Revaluation reserves	617	50
Net profit	-	(1,260)
Total liabilities	**(2,801)**	**(4,720)**

	Year ended December 31, 2020
Financial result before taxation	(1,260)

* Note: positive amount represents increase in value, and the negative amount decrease in value of balance sheet positions.

4. Summary of significant accounting policies (continued)

4.2. Going concern basis

The financial statements are based on the going concern basis, which implies that the Bank will be able to continue as a going concern for the foreseeable future and will be capable of collecting receivables and covering liabilities in the ordinary course of business.

4.3. Basis for the preparation and presentation of financial statements

These statements have been prepared using the historical cost basis, except for financial assets and liabilities measured and presented at fair value.
Business activities are recorded on the date of their occurrence.

Fair value is the price which may be achieved by sale of an asset or would be paid for a transfer of a liability in the ordinary transaction between parties on the primary (or on the most favorable) market on the measurement date, regardless of whether the price is directly observed or estimated by application of the other techniques for value measurement. While estimating the fair value of assets or liabilities the Bank takes into consideration characteristics of assets or liabilities that the participants in the market would have taken into account when determining the price of assets or liabilities on the date of measurement. Fair value for measurement and/or for the purpose of disclosure in these financial statements is estimated on such a basis (apart for measurements which have some similarity to fair value measurement i.e. net realizable value according to IAS 2 or value in use according to IAS 36.

Fair value of financial instruments on active market is based on current prices of supply and demand for financial assets or financial liabilities. If the market for some financial instrument is not active, the Bank determines fair value using various valuation techniques. Valuation techniques include using current independent market transactions between informed parties, discounted cash flow analysis and other valuation techniques which participants on the market usually use. Valuation techniques reflects current conditions on the market on the day of valuation which does not have to reflect real conditions on the market before or after valuation.

Furthermore, for the financial reporting purposes fair value indicators are divided into levels 1, 2 or 3, based on the degree to which the measurement of fair value can be viewed according to the importance of evaluating fair value in its entirety, as follows:

- Level 1 inputs are (unadjusted) quoted prices in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- Level 2 inputs are inputs other than quoted market prices included within Level 1 which are observable for assets or liabilities, either directly or indirectly; and
- Level 3 inputs are unobservable input data for assets or liabilities.

The valuation techniques used for the measurement of fair value maximize the use of relevant observable inputs, while the use of unobservable inputs is minimized.
In cases where input data which is used for measurement of fair value of assets or liabilities can be classified in different levels of the fair value hierarchy, the measurement of fair value is classified fully in the appropriate level according to the lowest level inputs which are important for the overall measurement considered.

The Bank performs transfers or reclassifications among different fair value levels of hierarchy when input data used for the determination of the fair value of assets or liabilities are classified in a different level than the level in which the input data used for the previous measurement of fair value of that asset or liability are classified.

4. Summary of significant accounting policies (continued)

4.3. Basis for the preparation and presentation of financial statements (continued)

Reclassification of financial assets from one to another level of hierarchy of fair value is made due to changes in circumstances or input data:

- From level 1 into level 2: when the bond is withdrawn from organized market or when it becomes illiquid (after 6 months without transactions)
- From level 1 into level 3: when the shares are withdrawn from organized market, if company bankruptcy proceeding has been started or when disclosure of value has been terminated
- From level 2 into level 3: when base instrument (share or equity share) of derivative financial instrument is withdrawn from organized market, when it starts bankruptcy proceeding (for shares and bonds)
- From level 2 into level 1: if bonds are actively traded on organized market
- From level 3 into level 1: if shares or bonds are included on an organized market
  From level 3 into level 2: if base instrument (share or equity share) of derivative financial instrument is included on an organized market with no active quotation, but there are identical or similar instruments listed on the market.

Reclassification from one level of hierarchy of fair value to another is required in cases when, during the measurement of fair value, inputs from one level are replaced by inputs from another level.

4.4. Functional and presentation currency

Financial statements are presented in Convertible Marks (BAM), which represents official reporting currency in Bosnia and Herzegovina. The Convertible Mark has a fixed exchange rate linked to the Euro (EUR 1 = BAM 1.95583).

4.5. Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires the Board to use judgements, estimates and assumptions which have influence on the application of accounting policies and disclosed amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and related assumptions are reviewed on a regular basis. Changes in accounting estimates are recognized in the period in which these estimates were changed, and possibly in future periods, if affected by them.
Information on areas of significant uncertainty related to estimates and judgements used in the application of accounting policies, which have a significant influence on amounts disclosed in these financial statements, are disclosed in *Note 4.31.*

Accounting policies listed below were applied consistently to all periods presented in these financial statements.

4.6. Foreign Currencies

Assets and liabilities in foreign currencies are translated into the local currency using the exchange rate set by the Central Bank of Bosnia and Herzegovina on the last day of the reporting period.

Monetary items denominated in foreign currencies are translated at the exchange rate ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial recognition.
Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the year-end translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

(All amounts are given in thousand BAM unless otherwise stated)

4. Summary of significant accounting policies (continued)

4.6. Foreign Currencies (continued)

All foreign exchange gains and losses recognized in the statement of profit or loss are presented in net amount within appropriate items.

Exchange rates used in financial statements are the official rates determined by the Central Bank of Bosnia and Herzegovina. On December 31, the average exchange rates were as follows:

	31.12.2020	31.12.2019
Exchange rate		
	BAM	**BAM**
USD	1.592566	1.747994
EUR	1.95583	1.95583

4.7. Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income for all interest-bearing instruments on an accrual basis. Penalty interest income is accounted for on an accrual basis.

Interest income is calculated using the method of effective interest rate on gross carrying value of on-balance exposure. Exceptions are interest incomes on exposures that were recognized as impaired (non-performing) after initial recognition and exposures initially recognized as impaired (non-performing). Accrued interest income on non-performing loans is excluded from profit or loss and recognized as income upon collection.

Calculation of interest for non-performing loans, i.e. for the loans which are overdue over 90 days in a materially significant amount, is suspended on the date when the loan becomes default, and all further calculations of such positions are recorded in off-balance sheet.

The increase in the recoverable amount of non-performing receivables as a result of time passing by, in case there have been no changes in assessment of future cash flows, is recorded in the statement of comprehensive income as interest income using the effective interest rate method (unwinding – *Note 6)*.

Interest is calculated in accordance with the regulations in force or in accordance with the contract between creditor and debtor. If stipulated by the contract, interest for deposits is added to the principal.

Loan origination fee income is deferred throughout the duration of the loan using the effective interest rate method. Income from loan origination fees is presented within the Interest income position.

Modifications to financial assets that are not significant and are not classified as derecognised are recognized as a separate item of income/expense from the modification of financial assets and are recognized within net interest income.

4.8. Fee and commission income and expense

Fee and commission income is recorded in the statement of profit or loss because the Bank meets the obligation embedded in the contract, in accordance with the rules of "IFRS 15 Revenue from contracts with customers".

The rule is as follows:

- if the performance obligation is met at a particular point in time, the related revenue is recognized in the statement of profit or loss when the service is provided;
- If the obligation to execute is met over time, the related income is recognized in the statement of profit or loss to reflect progress in meeting that obligation.

4. Summary of significant accounting policies (continued)

4.8. Fee and commission income and expense (continued)

Due to the above rules, fees for transactions arising from domestic and foreign payment transaction services are usually recorded at the time the service is provided, while fees related to portfolio management and the like are usually recognized over the life of the contract (input method).

For this second type of fees, it is considered that the input data necessary for the provision of the service built into the performance obligation are evenly distributed throughout the duration of the contract.

If the time is not in line with the way the performance obligation has been fulfilled, the Bank calculates the contractual assets or contractual liabilities for the part of the income generated in the period or for the deferral in the following periods.

The amount of income related to income from fees and commissions and other operating income is measured based on contractual provisions. If the contractual amount is subject to change in whole or in part, revenue must be recorded based on the most probable amount that it expects to receive.

Such an amount is determined based on all the facts and circumstances deemed relevant to the assessment, which depend on the type of service provided, and in particular on the assumption that it is unlikely that the revenue recognized will not be significantly reversed. For services provided by the Bank, such variability is not normally foreseen.

If the contract relates to different goods/services whose performance obligation is not fulfilled at the same time, the income is allocated to different obligations, in proportion to the independent price of the delivered goods/services. Therefore, these amounts will be recorded in the statement of profit or loss, based on the time of fulfilment of each obligation.

This circumstance, which is not significant, can occur in the case of customer loyalty programs that require free provision of goods or services or by redeeming a price that is not under market conditions, if the client reaches a certain amount of fees or in the case of programs to acquire new target customers. form of product or service).

Fee expenses consist of fees paid by the Bank to the CBBH for internal payment operations, SWIFT costs, card operations costs and deposit insurance costs.

Fees and commissions expenses are recognized in the period to which they relate.

4. Summary of significant accounting policies (continued)

4.9. Dividend Income

Dividends are recognized in the statement of comprehensive income within the other income item when the shareholders' rights to receive dividends are established.

4.10. Employee benefits

In its regular operations, the Bank pays taxes and contributions on and from salaries, calculated from the gross salary, as well as meal allowances, transport allowances, and vacation bonuses in accordance with local legislation for its employees. These expenses are recorded in the statement of comprehensive income in the period to which the salaries relate.

The Bank may, in accordance with the business result and individual work success of employees, periodically, by special decisions, award variable rewards for work performance that exceeds the expected or target result by up to 20% of the basic salary of employees. When paying the variable part of the salary for the achieved results above the average (total score over 101%), the starting point is the quota allocated to the organizational unit by the competent manager, which can amount to 8% of the salary. In 2020, there was no payment of variable rewards.

Employee benefits represent amounts the employer has to pay to the employees in accordance with laws, rulebooks and contracts, which also represents a basis for recording provisions in accordance with IAS 19.

The Bank forms provisions for severance payments, based on an actuarial calculation, which is usually made on 30.09 every year.
The effects of provisions for severance payments arising from differences between projected actuarial payments and actual payments and changes in actuarial assumptions (discount rate, employee turnover, increase in average salary, etc.) are recognized in other comprehensive income and are never reclassified to the statement of profit or loss.
Changes in the present value of liabilities arising from the approach of the maturity date are recognized as interest expense.

The Bank has made provisions for unused vacation days in 2020 using the Bank's average gross hourly rate method for each unused vacation day and created additional provisions, which were charged to cost of provisions for unused vacation.

4.11. Taxation

Taxes are calculated in accordance with the regulations of the Federation of Bosnia and Herzegovina and Brčko District.

The starting point in determining the income tax base is the business result reported in the income statement.

Differences between the profit presented in the accounting records and the taxable profit in the tax balance occur due to corrections prescribed by the Corporate Income Tax Act and the accompanying Rulebook, according to which certain expenses shown in the accounting records, although actually incurred, from the aspect of the income tax regulations represent non-deductible expenses, which as such increase the tax base.

4. Summary of significant accounting policies (continued)

4.11. Taxation (continued)

Accordingly, individual expenses, depending on the type, can be treated in the tax balance:
- as non-deductible expenses in their full amount (which increase the corporate income tax base as a whole), or
- as non-deductible expenses in the prescribed percentage (which increase the corporate income tax base only in the non-deductible part).

In addition, certain expenses may be tax deductible permanently (as permanent tax differences that are reflected in the income tax base only once, i.e. only for that tax period), while other expenses may be tax deductible with a certain time lag (as temporary tax differences, which are reflected on the basis of income tax not only in one but in several accounting and tax periods).

Temporary tax differences occur:
- in cases where once unrecognized items (ie items that increased taxable profit in one period) will subsequently be treated as tax deductible items, for which taxable profit may be reduced in some future period
- in cases where pre-tax items (i.e. items used to reduce taxable profit in one period) will subsequently be treated as non-tax deductible, and these amounts will have to be increased by taxable profit in some future period.

In the first case, when it comes to temporary tax differences, such items will in future periods result in deferred tax assets and in the second case deferred tax liabilities.

The current regulations also provide for tax relief as tax incentives, for example through the tax balance, the recognition of double the amount of gross salary for newly hired employees, subject to certain conditions.

The tax rate is 10%.

When it comes to indirect taxes, the Bank is in the VAT system. Given the specificity of the services provided by the Bank, most of such services are exempt from VAT.
There is an obligation to calculate VAT for services that are subject to this obligation and the Bank acts accordingly.

The Bank has no right to deduct input VAT and input VAT is recorded on the expense on which the related service is recorded.

The VAT rate is 17%.

4.12. Earnings per share

The Bank discloses basic earnings per share.

Basic earnings per share are calculated by dividing net profit or loss of the current period attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares for the period.

4. Summary of significant accounting policies (continued)

4.13. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with a maturity of less than 3 months, including cash and non-restricted balances with the Central Bank as well as other eligible securities and loans and advances to banks.

4.14. Due from other banks

Amounts due from other banks encompass placements with other banks that become due for collection on a fixed date.

4.15. Financial Assets

Financial assets originate from lending operations, foreign exchange related operations, deposits, and payments operations; they are also used in securities trading, the purchase and collection of receivables, and they are the result of other banking services.
Financial assets are recognized as of the date of settlement (settlement date) determined for that financial asset.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or decrease in financial instruments. An incremental cost is incurred upon rendering a transaction. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortized cost (AC) is the amount at which the financial instrument was recognized at initial recognition less any principal repayments increased by accrued interest, or the amount at which the financial instrument was recognized less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and amortization of all premiums or discounts up to the maturity date by applying the effective interest rate. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discounts or premiums (including fees deferred at origination, if any), are not presented separately and are included in the carrying values in the statement of financial position (balance sheet).

The effective interest rate method is a method of calculation of the amortized cost of a financial asset or financial liability, and the allocation of interest income or interest expenditures over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, if appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The effective interest rate discounts cash flows of variable interest instruments until the next interest re-pricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the entire expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

4. Summary of significant accounting policies (continued)

4.15. Financial Assets (continued)

Measurement of financial assets

According to IFRS 9 – Financial Instruments, financial assets are measured at:
- Amortized cost,
- Fair value, with valuation effects recognized in other comprehensive income (FVOCI), or
- Fair value, with valuation effects recognized in profit or loss (FVPL).

Criteria that determine classification and valuation of financial assets are:
- business model for financial asset management,
- characteristics of financial instrument's contractual cash flows.

The Bank adopts the business model that reflects how it manages groups of financial assets to achieve its business objectives. Business model is not assessed on an instrument-by-instrument basis, but at their level of aggregated portfolios considering following:
- how the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- the risks that affect the performance of the business model and the way those risks are managed
- how key management personnel is compensated (sales – collection of fair value or collection of contractual cash flows)
- the expected frequency, value and timing of sales.

The decision on selection of business model is based on reasonably expected events without 'stress case' scenarios. If the cash flows are different from the expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing business model for new financial assets. According to the Bank's business model, loans to customers and deposits are classified in business model which has purposes of collecting contractual cash flow. Loans to customers and deposits are valued at amortized cost, except in cases when they don't pass SPPI test.

Conditions for classification of debt instruments in banking book are provided in Policy for operating with financial instruments.

If the contractual cash flows represent Solely Payments of Principal and Interest (SPPI), then debt instruments are valued at their paid value or at fair value through other comprehensive income (FVOCI), depending on the business model.

In case the contractual cash flows do not satisfy SPPI criteria, then financial assets are valued at fair value through profit or loss (FVPL).

For SSPI test, the principal represent fair value of the financial asset at the moment of initial recognition, and interest compensation for:
- Time value of money
- Credit risk, in relation to unpaid principal at a given moment
- Interest rate
- Compensation for other risks (liquidity) and expenses.

4. Summary of significant accounting policies (continued)

4.15. Financial Assets (continued)

For SPPI the Bank uses Manual for Performance of SPPI Test in Accordance with IFRS 9 for Debt Financial Assets. To confirm correctness of SPPI test performance, which was performed by operating sector, the secondary controls are performed as defined by the Manual for SPPI test performance.

Financial assets included in business model whose goal is not to collect contractual cash flows or collect contractual cash flows and sell, are valued at fair value through profit or loss and are not subject of SPPI test (e.g. Financial assets available for sale).

Equity financial instruments and instruments which are combination of debt and equity are not subject to SPPI test and are valued at fair value.

Financial assets valued at amortized cost

Financial assets are valued at amortized cost if the following conditions are met:
- Business model objective is to collect contractual cash flows
- In accordance with contractual terms, cash flows occur on specified date that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial assets valued at amortized cost are initially recognized at fair value increased for direct transaction cost, and subsequently are valued at amortized cost. Interests and exchange differences are recognized directly in profit or loss. Interests are calculated using effective interest rate which includes accrual of direct transaction costs, premiums and discounts which are accrued during the lifetime of financial asset.

Loans and deposits are recognized in the off-balance record at the date of contract, and in balance sheet at the date of contract realization.

Bank places short-term, long-term, frame agreements and commission loans (in own name, for someone else's account) to corporate and retail clients according to business policy of the Bank.

Loans are subsequently recognized in amount of unpaid principal, increased by accrued interests and fees and decreased by impairment.

Loans and placements in foreign currency are recalculated in domicile currency in general ledger, Convertible Mark, using average rate of Central Bank BiH.
Exchange differences are daily calculated and recognized in profit or loss as revenue or expense.

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

Debt instruments within financial assets are valued at fair value through other comprehensive income when both of the following conditions are met:
- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- at specified dates, in accordance with the contractual terms, cash flows occur and the represent solely payment of principal and interest of the financial asset (meet the SPPI test)

4. Summary of significant accounting policies (continued)

4.15. Financial Assets (continued)

Equity instruments which are not held for trading, are measured at fair value through other comprehensive income, if management at initial recognition makes a decision that effects of valuation are recognized in other comprehensive income.

Financial assets classified in group of financial assets valued at fair value through other comprehensive income, initially and subsequently are measured at fair value. Direct expenses occurred at the moment of purchase are added to the fair value. Change of fair value as a result of valuation is recorded in other comprehensive income. At the moment of derecognition (e.g. sales)) the total accumulated amount in other comprehensive income for debt financial instruments is transferred to profit or loss statement, and for equity instruments to retained earnings.

Interests and exchange differences for debt financial instruments are recognized directly in profit or loss. Interests are calculated using effective interest rate which involves accrual of direct transaction costs, premiums and discounts which are accrued during the lifetime of financial asset.

For debt securities the impairment is calculated.
For equity securities impairment is not calculated. Dividend income is recognized in profit or loss.

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

In this group of financial assets are:

- Financial assets held for trading,
- Financial assets which are mandatorily measured at fair value through profit or loss (which do not pass SPPI test and equity securities for which management didn't decide to recognize effects of valuation through other comprehensive income).
- Financial assets classified to be measured at fair value through profit or loss in case that this classification significantly decrease or alleviate imbalance which would have occurred due to different valuation of financial assets or liabilities.

Financial assets which are valued at fair value through profit or loss are valued at fair value at the moment of recognition and subsequently, and effects of valuation are recognized in profit or loss.

Fee for approval of loans to customers and deposits is recognized as current year income and it is not accrued through the period.
Costs occurred during the purchase of debt securities are recognized in profit or loss as fee expense.
Financial assets are valued at fair value on a monthly basis and individually for each financial asset.

Reclassification of financial assets

The Bank can reclassify financial assets when business model for financial assets management is changed. Those changes are very rare and occur based on internal or external factors, they must be significant for business and reasons of change must be proven. Changes of business model can occur in case when Bank starts or ceases to perform activities significant for its business, e.g. if Banks buy or sell business segment.

4. Summary of significant accounting policies (continued)

4.15. Financial Assets (continued)

Reclassification is done prospectively, as of the day of reclassification onwards, where the day of reclassification is the first day of reporting period, which follows change of business model (in case of quarterly reporting, that is first day of quarter after change).

In case the Bank reclassify financial assets from category which is measured at amortized cost into category which is measured at fair value through profit or loss, fair value is measured at the day of reclassification. Possible gain or loss which occurs as difference between previously repaid value and fair value is recognized in profit or loss.

If the Bank reclassifies financial assets from the category measured at fair value through profit or loss into a category measured at amortized cost, the fair value of that financial asset at the date of reclassification becomes their new gross carrying value.

If the Bank reclassifies financial assets from a category measured at amortized cost into a category measured at fair value through other comprehensive income, fair value is calculated at the date of reclassification. Possible gain or loss that arises as the difference between the previous repaid value and fair value is recognized in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not changed.

If the Bank reclassifies financial assets from a category measured at fair value through other comprehensive income into the category measured at amortized cost, the reclassification is carried out at fair value oat the date of reclassification. Cumulative gains or losses from other comprehensive income are removed from equity and adjust the fair value of financial assets at the date of reclassification. Consequently, financial assets at the date of reclassification are measured as if they were always measured at amortized cost. The effective interest rate and the measurement of expected credit losses are not changed.

If the Bank reclassifies financial assets from a category measured at fair value through other comprehensive income into the category measured at fair value through profit or loss, the financial assets are further measured at fair value. Cumulative gains or losses from other comprehensive income are transferred from other comprehensive income to the profit or loss as a reclassification adjustments at the date of reclassification.

Change of contracted cash flows during the lifetime of the financial asset

Modified financial assets are those for which the contractual terms are changed during the lifetime. The contractual terms are changed if the Bank and the borrower conclude a contract for the replacement (payment) of the old financial asset (before the original maturity) with a new financial asset (new contract), but in a way that the bank and the borrower define new contractual terms (annex to the contract). The contract terms are changed as follows:
- As a renewal or extension of the loan maturity, where this is possible for clients that have no financial difficulties and
- As a restructuring of financial assets for clients with financial difficulties.

Renewal or extension of the period of loan

The Bank recognizes a new financial asset when renewing or extending the loan repayment term. The SPPI test is performed at the date of initial recognition of the new financial asset.

4. Summary of significant accounting policies (continued)

4.15.1. *Restructured financial assets*

Restructuring of a loan is carried out in accordance with the Bank's business policy. The aim of the loan restructuring is to provide the borrower with an adequate repayment in accordance with his capabilities and to provide the Bank with more efficient collection of receivables. In this sense, the restructuring includes a proposal to modify the contractual terms agreed when approving the loan. Restructuring is carried out according to the Bank's decision in cases where it is estimated that the client has a problem with the repayment of the loan and when it is estimated that according to the original contract the loan will not be repaid within the agreed deadline.

Possible types of restructuring that are performed individually or in combination are the following:

- prolongation of principal repayment and/or interest or postponing the repayment of principal and/or interest,
- reduction of interest rate and/or other costs,
- reduction of the amount of receivables (principal and/or interest) as a result of the agreed debt write off,
- taking over debtor's receivables from a third party, in the name of partial and full repayment of the loan,
- replacement of the existing loan with a new loan,
- other similar benefits, which facilitate the financial position of the debtor.

If the restructuring contract involves significant changes in cash flows, then a new financial asset is recognized and the existing one is derecognized. For the new asset, it is necessary to perform the SPPI test on the day of recognition and classify it into a particular group depending on the SPPI test result. The effects arising from the change in the previously contracted characteristics (the difference between the repayment value of previously contracted cash flows and new contracted cash flows) are recalculated through the impairment.
A newly recognized asset is treated as a POCI financial asset at the initial recognition.
In accordance with Measures and procedures for placement approval, a restructured asset is classified into the credit rating group C or below.

If the restructuring contract does not result in significant changes in the characteristics of cash flows, the effects are recognized as a gain or loss on the modified financial assets. The effects of the modification are calculated as the difference between the repayable gross carrying value of the asset and the new contracted cash flows discounted at the original effective interest rate.

In the case of a financial asset item that represents a debt financial instrument (securities and loans), the Bank is required to determine whether a modification is significant, i.e. whether the difference between the present value of the remaining cash flows discounted using the original effective interest rate and the present value of the modified cash flow flows discounted using the original effective interest rate of more than 10%, according to local regulations, for individuals and legal entities.
If the modification is significant, the bank derecognizes the original item of financial assets and begins to recognize the new item.

If the modification is not significant, the bank continues to recognize the financial asset. The SPPI test is performed at the recognition day of the originally contracted financial asset. The starting point for assessing whether the credit risk of the financial asset in relation to the initial recognition has significantly changed is the date of recognition of the initiated contractual financial asset.

If the Bank approaches the restructuring of receivables by taking over other assets (tangible assets, securities, etc.), including investments in borrowers' equity acquired through conversion of receivables from debtors, the acquired assets are recognized in the balance sheet at fair value. The difference between the fair value of the acquired asset and the carrying amount of receivables is recognized in the profit or loss as a decrease/release of the impairment of approved loans and receivables.

(All amounts are given in thousand BAM unless otherwise stated)

4. Summary of significant accounting policies (continued)

4.15.1. *Restructured financial assets*

The decision on temporary measures applied by the bank to mitigate the negative economic consequences caused by the viral disease "COVID-19"" stipulates that modifications of loan liabilities that were allocated to credit risk level 1 or 2 on the day of modification, the Bank designates in its information system as modifications caused by current needs of the debtor, and modifications of exposures that are allocated to credit risk level 3 on the day of modification, the Bank designates in its information system as restructured exposures.

4.16. Property and equipment

Property and equipment items are stated at historical cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives. Land and assets in construction are not depreciated. Applied depreciation rates are set for 2020 and 2019 as follows:

	2020	2019
Buildings	1.3%	1.3%
Leasehold improvements	20%	-20%
Computer equipment	14.3-50%	14,3-50%
Vehicles	15%	15%
Furniture and other office equipment	7-15%	7-15%

The period and amortization method is reviewed once a year at the end of each business year. When the expected useful life significantly differs from the previous estimation, the corresponding change in the period of depreciation is required. This represents the change in accounting estimate and such change should be adequately accounted for in the financial statements.

For tangible assets the Bank periodically estimates whether there are indicators of impairment. Within such estimation process the Bank considers a number of indicators from internal and external sources. When the Bank finds that there are indicators of impairment in tangible assets, then the Bank initiates the process of estimation of recoverable value. Recoverable value is the value in use or the fair value reduced by cost of sale, whichever is higher.

During 2020, the Bank made adjustments to the fair value of real estate and recognized impairment in the value of one business premises in which it conducts business activities, in a total net value of BAM 31 thousand.

Overview of tangible assets in 2020 and 2019 is presented in *Note 17*.

Leasehold improvements Leasehold improvements are capitalized and amortized by a straight-line method, during their useful life, or during the lease period depending on what is shorter.

4.16.1 Leases

Leases accounting is in accordance with IFRS 16 Lease.
A contract is a lease contract if it transfers the right to control the use of a particular asset for a specified period in exchange for a consideration.

Bank as a lessee
At the inception of the lease, the Bank recognizes an asset that represents a right to use (i.e. a right-of-use asset) and a liability under the lease. This applies to all leases except short-term and low-value leases. Short-term leases are defined as those that have a maximum lease term of 12 months at the commencement date of the lease, with no option to purchase fixed assets. Leases of property, plant and equipment with a value less than or equal to EUR 5 thousand are defined as low-value leases. In these cases, rents are treated as a cost based on the straight-line method throughout the lease term.

4. Summary of significant accounting policies (continued)

4.16.1 Leases (continued)

The right to use the assets
At the date of commencement of the lease, the Bank measures the right to use the asset at cost less accumulated depreciation, impairment losses and adjusted for each re-measurement of the lease liability. The value of the asset, which constitutes the right to use, includes the amount of the initial measurement of the lease liability, payment of rent made on or before the lease date, less rental incentives received, initial direct costs of tenants and an estimate of costs incurred by the lessee in dismantling or removing the leased property, renovating the location where it is located or returning the leased property to the condition required by the lease terms. After the date of commencement of the lease, the Bank measures the asset that represents the right of use using a cost model and depreciates it on a straight-line basis over the estimated lease term. It also separately recognizes interest on lease obligations. The right to use the asset is presented in the statement of financial position in the line Property, equipment and assets with the right to use

Lease liabilities
On the commencement date of the lease, the Bank measures the lease liability at the present value of the rent, which has not yet been paid at that date. Rents include fixed rents, variable rents, amounts expected to be paid by the lessee under the residual value guarantee, executing the purchase option price, if it is fairly certain that the lessee will exercise this option and paying a penalty for termination of the lease, if the lease duration indicates that the lessee will take the opportunity to cancel the lease.

After the commencement date of the lease, the lessee should measure the lease liability so that:
- increases carrying values to take into account interest on the lease liability,
- decreases carrying values to take into account rentals paid; and
- re-measures carrying values to take account of any changes in used assumptions or contractual characteristics of the lease,
- lease liabilities are presented in the statement of financial position under the line "Other financial liabilities".

Bank as a lessor
The Bank had no portions of assets that it leased as a lessor in 2020.

4.17. Intangible assets

(a) Licences
Acquired licenses for computer software are measured at historical cost.
Amortization is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives.

(b) Computer software
Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Bank are recognized as intangible assets insofar as they are expected to generate economic benefits that exceed costs within the time period beyond one year. Direct costs include the costs of the software development team that has developed the software and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized over their estimated useful lives (5 years).

An overview of the intangible assets in 2020 and 2019 is presented in the *Note 18*.

4. Summary of significant accounting policies (continued)

4.18. Repossessed financial and nonfinancial assets

Repossessed assets represent financial and non-financial assets acquired by the Bank through the settlement of overdue loans. These assets are initially recognized at fair value when acquired (and they are recorded in other assets, other financial assets or inventories within other assets, depending on their nature and the Bank's intention in respect of recovery of these assets), and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

Assets repossessed for overdue loans classified for further sale are held under IFRS 5 if they are non-current assets (mostly real estate), which is available for immediate sale and if the sale in the next 12 months is probable; otherwise, it is classified in accordance with IAS 2.

In accordance with the FBA Decision on minimum standards for credit risk management and the classification of bank's assets, the Bank applies the concept of fair value, or realistic value when assessing repossessed assets received in exchange for full or partial debt repayment. For tangible assets for which a stable and active market exists, the fair value represents a value equal to the market value for such assets.

In the absence of such a market, the fair value has to be established by an independent, formal and professional assessment. When it is not possible to reliably determine the fair value, i.e. uncontested and stable value of the acquired tangible assets, for bookkeeping purposes the Bank will apply only the technical value of BAM 1.
Receivables per repossessed assets remain in the balance sheet until sale proceeds are realized or until a permanent write-off is recorded provided there are no sufficient funds from the sale or other additional security.

The repossessed tangible assets are classified as risk-bearing assets unless they are sold within one year.

The acquired tangible, which are introduced by the decision into the Bank's operations, are recorded as other fixed assets and are depreciated.

Assets acquired through collection of receivables, which are leased to third parties, are first recorded as fixed assets of the Bank and depreciated, and then based on the lease agreements, revenue is generated.

4.19. Liabilities for guarantees

The Bank issues financial guarantees. Financial guarantees represent an irrevocable payment guarantee in case of a customer not being able to meet its liabilities to a third party, and they carry the same credit risk as loans. Financial guarantees are initially recognized at their fair value, which is usually proved by the amount of received fees. This amount is amortized on a straight line basis over the commitment period.

4.20. Deposits of clients, banks and other deposits

At initial recognition, received deposits are valued in accordance with corresponding documents which support the initial receipt of funds. For a vista deposits and deposits without a defined maturity, fair value is the amount payable on the reporting date. Estimated fair value of deposits with a fixed maturity is based on cash flows discounted using the currently offered interest rates on deposits with a similar remaining maturity.

4. Summary of significant accounting policies (continued)

4.21. Liabilities on received loans, subordinated debts and other borrowings

Liabilities on borrowed loans, subordinated debts and other borrowings are initially recognized at the contractual amount, which represents the amount received. These financial liabilities are subsequently recognized at amortized cost using the effective interest rate method, and the transaction costs occurred are recognized in the profit or loss of the current period.

4.22. Impairment of financial assets and off-balance sheet contingent liabilities

4.22.1 Impairment of financial assets and off-balance sheet contingent liabilities – IFRS 9

The model of expected credit losses includes not only credit losses occurred but also losses expected to occur in the future. Allowance for expected credit losses (ECL) is required for all loans and other debt financial assets, except financial assets held at fair value through profit or loss, together with loan liabilities and financial guarantee contracts.

Allowance is based on expected credit losses related to probability of default (PD) in the upcoming 12 months, except in case of a significant increase in credit risk since initial recognition, in case of which the allowance is based on probability of default during the lifetime (LECL). When deciding whether the risk of default has significantly increased since the initial recognition, the Bank takes into consideration reasonable information that is relevant and available without unnecessary costs or efforts. This also includes quantitative and qualitative information and analyses based on historical information, experience and estimates of credit experts, also taking into account future information.

The methodology for the calculation of value adjustments and provisions defines the credit risk level (Stage) classification criteria, criteria for transfer between stages, the calculation of risk indicators and model validation. Financial instruments are classified into Stage 1, Stage 2 and Stage 3, based on the impairment methodology as described below:

- stage 1– performing portfolio: no significant increase in credit risk since initial recognition, impairment is recognized based on 12-month period,
- stage 2 – unsatisfactory portfolio: significant increase of credit risk since initial recognition, impairment is recognized based on lifetime of the assets, and
- stage 3 - poor portfolio: impairment is recognized during the lifetime for this financial asset. The default definition is aligned with the FBA regulation.

A significant increase in credit risk is assumed:

- when credit rating significantly deteriorated at the reporting date compared to the credit rating at initial recognition,
- when financial assets have material delays exceeding 30 days (maturity days are also included in the credit risk assessment),
- if the Bank is expects to approve a postponing to the Borrower or
- if a credit item is on the "watch list".

Expected credit loss (ECL) for stage 1 financial assets is calculated based on 12-month PD (probability of default) or shorter PD period, if the maturity of financial assets is less than 1 year. The 12-month PD already includes the macroeconomic effect. Expected loss is calculated only for 12 months in advance, even if the maturity of the item is longer than one year, but if the exposure time exceeds two years (starts in the first year, it continues in the second year, but not longer than 12 months), the change in PD must be executed in the second calendar year.

4. Summary of significant accounting policies (continued)

4.22. Impairment of financial assets and off-balance sheet contingent liabilities (continued)

4.22.1 Impairment of financial assets and off-balance sheet contingent liabilities – IFRS 9 (continued)

Impairment losses in stage 1 are designed to reflect losses from impairment occurred in the portfolio which are not yet identified.

LECL for stage 2 financial assets is calculated based on PD during the lifetime (LPD), because their credit risk is significantly increased since their initial recognition. This calculation is also based on assessment of future events that considers several economic scenarios to identify probability of losses related to macroeconomic forecasts.

Financial assets in stage 3 are observed in accordance with Methodology of individual allowance and provisions, which has not been changed in relation to the previous period. Exposures below the material threshold have collective impairment using the PD of 100%. The financial instrument will be transferred out of stage 3 if it no longer meets the criteria of decreased value after the probation period.

Impairment – allowance for credit losses

As stated in Note (4.1) Basis of preparation and statement of compliance, the new regulatory decision prescribes minimum rates for calculating allowances for credit losses, i.e. if the Bank, in accordance with its internal methodology, determines higher amounts of allowances for credit losses compared to amounts calculated by applying the Decision, will apply higher amounts of allowances for credit losses.

The minimum rates of expected credit losses prescribed by the Decision are presented below.

Credit risk level 1
For exposures allocated to Credit Risk Level 1, the Bank determines expected credit losses at least as follows:

a) for low-risk exposures referred to in Article 18 Paragraph (2) of this Decision – 0.1% of exposure,
b) for exposures to central governments and central banks outside Bosnia and Herzegovina for which there is a credit assessment by a recognized external credit rating institution. which is assigned to credit quality level 3 and 4 in accordance with Article 69 of the Decision on calculating the bank's capital – 0.1% exposure,
c) for exposures to banks and other financial sector entities for which there is a credit assessment by a recognized external institution for credit rating assessment, which in accordance with Article 69 of the Decision on calculating the bank's capital is assigned to credit quality level 1, 2 or 3 - 0.1 % of exposure,
d) for other exposures – 0.5% of exposure.

Credit risk level 2
For exposures allocated to Credit Risk Level 2, the Bank sets expected credit losses to a minimum of 5% of the exposure.

Credit risk level 3
For exposures allocated to Credit Risk Level 3, the Bank determines expected credit losses at least in the amounts defined in Table 1 or Table 2 below.

(All amounts are given in thousand BAM unless otherwise stated)

4. Summary of significant accounting policies (continued)

4.22. Impairment of financial assets and off-balance sheet contingent liabilities (continued)

4.22.1 Impairment of financial assets and off-balance sheet contingent liabilities – IFRS 9 (continued)

Impairment – allowance for credit losses (continued)

Minimum expected credit loss rates for exposures secured by eligible collateral:

Days overdue	Minimum expected credit loss
less than 180 days	15%
181 – 270 days	25%
271 – 365 days	40%
366 – 730 days	60%
731 – 1460 days	80%
Over 1460 days	100%

Minimum expected credit loss rates for exposures not secured by eligible collateral:

Days overdue	Minimum expected credit loss
less than 180 days	15%
181 – 270 days	45%
271 – 365 days	75%
366 – 456 days	85%
Over 456 days	100%

The Bank measures ECL and recognizes allowance for credit losses for each reporting period. The ECL measurement reflects:

1) an unbiased and probable weighted amount that is determined by assessing the range of possible outcomes;
2) the time value of money;
3) all reasonable and available information that is available at no unnecessary cost at the end of each reporting period on past events, current conditions and forecasts of future conditions.

POCI asset is an exposure that is determined to be credit impaired at the moment of initial recognition due to the existence of significant credit risk.

Collective provisions are calculated by multiplying the EAD (exposure at default) at the end of each month with corresponding PD and LGD (loss given default). Exposure at default (EAD) is defined as the sum of balance exposure and off-balance exposure multiplied by CCF (CCF – The credit conversion factor is the estimate of the proportion of using off-balance in the event of default. It is calculated as the ratio between the increase of on-balance exposure in total exposure over a period of one year before the default until default date, and the value of off-balance one year before the default.). The results obtained for each month are discounted to the present time. For exposures in Stage 1 expected credit loss (ECL) takes only 12-month period into account, while Stage 2 includes all potential losses up to the maturity date.

For the purposes of estimating the LGD parameter, the Bank uses collateral HC (haircut) at each collateral level and URR (unsecured recovery rate) at the level of each segment of the client.

The Bank includes information regarding the future both in the assessment of significant increase in credit risk and in the measurement of expected credit loss (ECL). Information being considered include macroeconomic factors (e.g. unemployment rate, GDP growth, interest rates and housing prices) and economic forecasts.

Recalculation of all parameters is performed once a year or more frequently, if the macro environment changes more than it was included in previous forecasts, in that case, all parameters are recalculated in line with new forecasts.

4. Summary of significant accounting policies (continued)

4.22. Impairment of financial assets and off-balance sheet contingent liabilities (continued)

Derecognition of financial assets

Derecognition of financial assets occur when:
- The contractual right to cash flows is terminated,
- when the transfer of a financial asset is carried out, and the transfer meets the criteria for the derecognition.

Write-off of loans and receivables

The authority for making decisions on write-off and procedures for writing off non-performing loans are prescribed by the provisions of the Standard for writing off overdue receivables and transfer to accounting write-off / off-balance sheet. Write-off of receivables can be accounting write-off and permanent write-off of receivables;

Accounting write-off is the transfer of a balance sheet exposure to off-balance sheet records, whereby the Bank reserves the right to take further measures to collect receivables from debtors. The write-off of exposures in the status of default is applied to receivables according to the criteria:

- Write-off of the balance sheet exposure two years after the Bank has recorded the expected credit losses in the amount of 100% of the gross book value of that exposure, and
- that these receivables are fully due.

Permanent write-off is a write-off of a balance sheet exposure that leads to the cessation of recognition of all or part of the exposure in the bank's business books (on-balance sheet and off-balance sheet records). In order to make a decision on permanent write-off of receivables, if no accounting write-off has been done before, 100% of the value adjustment must be formed.

Accounting write-off is the transfer of a balance sheet exposure to off-balance sheet records, whereby the Bank reserves the right to take further measures to collect receivables from debtors.

In accordance with the provisions of the Decision of the Banking Agency of the FBiH on credit risk management and determination of expected credit losses (Official Gazette of FBiH, no. 44/19 and 37/20), the Bank is obliged to write off exposures in the status of default, two years after that the Bank has recorded expected credit losses in the amount of 100% of the gross carrying amount of that exposure, whereby the receivables must be fully due.

The provisions of the aforementioned Decision do not apply to finance lease exposures.

4. Summary of significant accounting policies (continued)

4.23. Other provisions

Provisions for legal claims are recognized when:
- the Bank has a present legal or constructive obligation as a result of past events,
- it is more likely than not that an outflow of resources will be required to settle the obligation,
- the amount of liability can be reliably estimated.

When there are a number of similar liabilities, the probability that an outflow will be required in a settlement is determined by considering the type of the entire pool of liabilities. A provision is recognized even if there is a low probability of an outflow with respect to the individual item included in the same class of liabilities.

Provisions are measured at the present value of the expected cash outflows required to settle the liability.

When the outflow of assets is not probable anymore, provisions are cancelled.

4.24. Share capital and reserves

Share capital consists of ordinary and preference shares and it is stated in BAM at nominal value. Reserves are being formed based on the decision of the Bank's Assembly on the adoption of an annual calculation and profit distribution.

4.25. Statutory reserves

Statutory reserves have been created in accordance with the Company Law of the FBiH, which requires 10% of the profit for the year to be transferred to this reserve until statutory reserves reach 25% of the issued share capital. If the statutory reserves do not reach 25% of issued share capital within five business years, a public limited company is required to increase its transfer to the statutory reserve to 20% of its annual profit for fifth and subsequent business years until capital reserves reach 25% of issued share capital. The statutory reserve can be used for covering current and prior year losses. The Bank was increasing its share capital by redirecting its earnings into statutory reserves, so that as at December 31, 2020, the statutory reserves of the Bank amounted to 140.11% of the share capital.

The Bank's legal reserves as of December 31, 2020 amounted to BAM 75,106 thousand, out of which BAM 18,777 thousand relate to the legally prescribed 25% of the share capital, and BAM 56,329 thousand relate to the amount exceeding the statutory reserve.

4.26. Fair value reserves and other reserves

Fair value reserves include changes in the fair value of financial assets at fair value through OCI and other reserves which relate to the actuarial gains/losses recognized in accordance with IAS 19 and which are the result of an increase or decrease in the present value of a liability for defined employee benefits, due to changes in actuarial assumptions and adjustments based on experience.

4.27. Off-balance sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in the off- balance-sheet and primarily comprise of guarantees, letters of credit and unused frame agreements. Such financial commitments are recorded in the Bank's balance sheet if and when they become payable.

4. Summary of significant accounting policies (continued)

4.28. Funds managed for and on behalf of third parties

Assets and revenues from operating activities, where the Bank acts as an agent, including holding or keeping assets on behalf of individuals, trustees and other institutions, are included in the Bank's financial statements, in positions Other liabilities (*Note 24*) and Fee and commission income (*Note 7a*).

4.29. Related party transactions

According to the definition of IAS 24, related parties are:
- parties which directly or indirectly through one or more intermediaries control the reporting party or are being controlled or jointly controlled by the reporting entity,
- associates over which the Bank has a significant influence which are neither related parties nor joint investment,
- individuals with direct or indirect voting power in the Bank which gives them significant influence over the Bank's operations, or over any other subject which is influenced by a related party in performing transactions with the Bank,
- members of the key management personnel i.e. individuals with authorizations and responsibility for planning, managing and controlling the Bank's operations, including directors and key management.

While considering transactions with a related party, attention is focused on the substance and basis of relationship, not just on the legal form.

4.30. Impact of the "Covid-19" Pandemic

The outbreak of the "Covid-19" pandemic has triggered a global health crisis and a major impact on the global economy due to massive locking measures, travel restrictions, trade and other measures. In terms of macroeconomic and geopolitical risks, the "Covid-19" pandemic has shifted its focus around the world towards global and national efforts and measures to address this crisis. This has had an impact on accelerating the mass digitization of financial institutions and moving towards a new operational model with more remote / network channels for customer service.

The prospects for the normalization of the pandemic in terms of its time course and further evolution remain very uncertain, as do the magnitudes of the economic downturn.

The global economic downturn may be further affected by potential new rounds of general blockades that some countries could cause around the world, with the risk of further slowing down the expected recovery.

From the very beginning, NLB Banka d.d. Sarajevo established continuity of operations in accordance with the Business continuity management policy in the form of business continuity for human resources, office buildings and information systems in order to protect both clients and employees of the Bank by enabling key functions and services business.

The risk management approach is tailored to current and expected needs during and after the pandemic while avoiding activities that could lead to additional negative consequences for the Bank or economic consequences for the banking system or the economy. Special attention is paid to risk identification and constant monitoring of risk exposure indicators, especially taking into account the effects on capital adequacy and liquidity adequacy.

4. Summary of significant accounting policies (continued)

4.30. Impact of the "Covid-19" Pandemic (continued)

Shortly after the outbreak of the "Covid-19" pandemic, the Banking Agency of FBiH issued a Decision on temporary measures to mitigate the negative economic consequences caused by the Covid-19 viral disease, which relate to:

- granting benefits to the bank's clients who are directly or indirectly affected by negative effects,
- special rules related to credit risk management, which the bank applies in case it approves special measures to the client and
- measures aimed at preserving the bank's capital.

During the risk management during the pandemic, the Bank acted in accordance with the *Program of Special Measures of NLB Banka d.d. Sarajevo for mitigation of the negative economic consequences caused by the "COVID-19" viral disease* created in accordance with the Decision of the Banking of FBiH Agency on temporary measures to mitigate the negative economic consequences caused by the "Covid-19" viral disease.

The Bank approved credit facilities to clients, i.e. special measures or modalities defined by the above-mentioned Program, in order to overcome the difficulties they face and create conditions for subsequent recovery and mitigation of adverse economic consequences caused by the pandemic on the client's sustainability and proper servicing of obligations to the Bank.

In that context, the Bank took into account the systemic risk, so when defining the modalities for legal entities that have exposure in other banks and non-deposit financial institutions, it acted in accordance with them in order to find a common modality taking into account possible consequences for the banking system and economy.

According to the Decision of the Banking Agency, banks could receive requests from clients for the approval of special measures until December 31, 2020.
The Decision on Amendments to the Decision on Temporary Measures Applied by Banks for Recovery from Negative Economic Consequences Caused by the Viral Disease "COVID-19" ("Official Gazette of the Federation of BiH", no. 60/20) was published in the Official Gazette of FBiH no. 21 of March 17, 2021. With this decision, the Banking Agency of FBiH again enables the submission of requests for special measures, limiting the duration of the moratorium measure no later than 30.06.2021, while for measures "grace" and extension of maturity of loans with one-time maturity, including revolving loans and overdrafts on transaction accounts for the period up to 31.12.2021. Accordingly, the Bank updated the Program of Special Measures and provided its clients with the possibility to submit requests for special measures, while fulfilling the conditions for their approval in accordance with the recommendations of the regulator.

The Bank has considered the impact of the COVID-19 epidemic and related market volatility in preparing these financial statements, while the methodologies and assumptions applied in the measurement of various items within the financial statements remained unchanged as compared to those applied in 2019 financial statements. The COVID-19 impact was incorporated into the Bank's economic assumptions used in determining expected credit losses (ECL) and the impairment assessment for other non-financial assets. In determining ECL, the Management judgement is applied, using objective, reasonable and supportable information about current and future economic conditions.

Modifications of credit liabilities that were allocated to credit risk level 1 or 2 on the day of modification, the Bank designates in its information system as modifications caused by current needs of debtors, and modifications of exposures that are allocated to credit risk level 3 on the day of modification, the Bank indicates in its information system as a restructuring of exposures.

(All amounts are given in thousand BAM unless otherwise stated)

4. Summary of significant accounting policies (continued)

4.30. Impact of the "Covid-19" Pandemic (continued)

The most significant effect on the cost of value adjustments that caused the negative consequences of the pandemic of the viral disease "Covid-19" is reflected in the segment of individuals due to the reclassification of clients in Stage 3.

The following table shows the total level of loans for which measures were approved, as at 31 December 2020, broken down by credit risk levels at the reporting date:

DESCRIPTION	Loans in Stage 1 at the date of approval of special measures		Loans in Stage 2 at the date of approval of special measures		Loans in Stage 3 at the date of approval of special measures	
	Gross loan amount	ECL amount	Gross loan amount	ECL amount	Gross loan amount	ECL amount
Total corporate loans	**24,883**	**429**	**18,822**	**2,363**	**699**	**419**
A - Agriculture, forestry, and fishing	-	-	16	1	-	-
B - Mining and quarries	-	-	-	-	-	-
C - Processing industry	10,703	179	2,072	200	-	-
D - Production and supply of electricity, gas, steam, and air conditioning	-	-	-	-	-	-
E - Water supply; sewerage, waste management and remediation activities	-	-	15	1	-	-
F - Construction	4,461	62	-	-	-	-
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	4,869	76	13,053	1,517	-	-
H - Traffic and storage	825	15	1,792	195	-	-
I - Accommodation, food preparation and serving activities; hotel and catering	182	11	-	-	-	-
J - Information and communication	232	4	-	-	699	419
K - Financial and insurance activities	-	-	-	-	-	-
L - Real estate activities	-	-	-	-	-	-
M - Professional, scientific, and technical activities	11	-	1,709	425	-	-
N - Administrative and support service activities	-	-	20	1	-	-
O - Public administration and defence; compulsory social insurance	3,565	82	-	-	-	-
P - Education	-	-	-	-	-	-
Q - Health and social work activities	-	-	-	-	-	-
R - Arts, entertainment, and recreation	2	-	-	-	-	-
S - Other service activities	33	-	145	23	-	-
Total retail loans	**20,952**	**132**	**1,665**	**271**	**1,343**	**1,055**
General consumer	17,987	112	1,327	227	1,205	943
Housing	2,874	20	338	44	106	80
Business operations (entrepreneurs)	91	-	-	-	32	32
Total loans	**45,835**	**561**	**20,487**	**2,634**	**2,042**	**1,474**

As at 31.12.2020, of the total loan portfolio to which special measures were approved, BAM 45,835 thousand gross loans were classified in the level of credit risk 1 (stage 1), BAM 20,487 thousand in the level of credit risk 2 (stage 2), while BAM 2,042 thousand were classified in the level credit risk 3 (stage 3).

4. Summary of significant accounting policies (continued)

4.31. Key accounting estimates and assumptions

The Bank makes estimates and assumptions with respect to effects which influence reported amounts of assets and liabilities in the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events which are considered to be reasonable under the circumstances.

Impairment losses on loans, deposits with other banks and other assets and off-balance sheet items exposed to risk

The Bank reviews its loan portfolio and other assets and off-balance sheet items to assess the level of impairment on a monthly basis. The Bank determines whether a portfolio impairment loss should be recorded in the profit or loss, and assesses whether there is any observable data indicating that there will be a decrease in the estimated future cash flows from a portfolio of loans and guarantees before the decrease can be identified with individual loans in that portfolio.

Severance payments and unused vacation days

Severance payments are a legally established obligation of an employer to pay compensation to an employee upon retirement. The effects of provisions for severance payments arising from differences between projected actuarial payments and actual payments and changes in actuarial assumptions (discount rate, employee turnover, increase in average salary, etc.) are recognized in other comprehensive income and are never reclassified to the balance sheet. The present value of these future liabilities is calculated by applying a discount interest rate. Changes in the present value of liabilities arising from the approach of the maturity date are recognized as interest expense. These provisions are only used to settle expenses for which they have been originally created for. The Bank re-assesses the value of these provisions as at 30 September each year.

As at 30.09.2020, the authorized actuary has made a calculation of provisions for severances for 2020 in accordance with IAS 19 and the Bank has made the required adjustments.

An assessment of short-term provisions for unused vacation days is done in accordance with the number of days of unused annual holidays as of balance sheet date and the Bank's average gross per diem for reporting year.

Litigations

The Bank's management assesses the amount of provisions for outflows of funds based on litigation; the assessment is based on the estimated probability of the future cash outflows, arising from past contractual or legal obligations. More details on ongoing litigations are described in *Note 24*.

Income tax

The Bank is subject to income taxes in the Federation of Bosnia and Herzegovina and in the Brčko District of Bosnia and Herzegovina. The Bank performs income tax assessments every month on the basis of taxable accounts balances, and the final calculation is performed at December 31.

The average effective tax rate of the Bank is disclosed in *Note 11*.

5. Bank's financial risk management

5.1. Risk management and transfer strategy

Risk management strategy represents part of the overall risk management system for risks to which the Bank is exposed in its operations, and is in line with the business policy and general strategy of the Bank.

The Strategy includes guidelines from the Risk Management Strategy of NLB Group. The main purpose of the Strategy is to define key risks while achieving the defined medium-term strategic objectives of the Bank as well as meeting all requests, both of the local regulator - Banking Agency of the Federation of Bosnia and Herzegovina (Agency), and as directed by NLB d.d. Ljubljana including the requirements of the Bank of Slovenia and ECB at the level of the NLB Group.

The Bank places significant emphasis on understanding and competencies in risk management across the organization. A lot of emphasis is also placed on continuous improvement of the risk culture and its awareness throughout the organization. The key objective of the Bank's risk management is to comprehensively assess and monitor risks throughout the Bank. A comprehensive approach to risk management is based on sound and reasonable conservative risk-taking orientations, taking into account relevant professional criteria. At the same time, the Bank carries out development activities in this area by developing methods and models for assessing, monitoring and defining criteria for mitigating all relevant types of risks.

The Strategy defines the kind of risks the Bank is willing to assume, those that are not acceptable to the Bank, as well as the strategic guidelines for taking and managing risks at the Bank (including Risk Appetite, Risk Profile, ICAAP, ILAAP, Recovery Plan, Budgeting and Equity Planning Process).

Basic goals and principles of Risk Taking and Risk Management Strategy are:
- taking into account the criteria set out in the Risk Appetite;
- inclusion of risk analysis in the decision-making process at strategic and operational level;
- focus on diversification to avoid large concentration at portfolio level;
- following the risk standards defined for all members at the NLB Group level;
- rational introduction of new products and their analysis and monitoring;
- optimal use of capital;
- price determination in accordance with appropriate risk;
- full compliance with internal policies / procedures and applicable regulations;
- satisfactory system of internal controls;
- frame of three lines of defense.

Risk Appetite is a comprehensive document that defines the types and risk measures that the Bank is ready to accept or avoid in order to achieve business goals. In that regard, it is a key point of the business strategy, updating and improving the risk management strategy with quantitative measures. It represents the basis for the ICAAP, the ILAAP, the Recovery Plan and other risk-limiting systems and the underlying foundation in multi-year budgeting and capital planning.

ICAAP has key role in Bank's risk management. ICAAP decreases risk uncertainty to which the Bank is exposed or could be exposed in the course of its business while estimating ability of the Bank to maintain required level of capital and effective risk management. ICAAP is a result of relevant business units processes within the Bank, including Management and Supervisory board. The annual statement of the Bank's Management Board on capital adequacy in the Bank gives a clear position of the current and future position of the Bank in the field of capital adequacy management.

ILAAP estimates overall liquidity requirements of the Bank with aim to secure good liquidity risk management. ILAAP is result of relevant business units processes including Management and Supervisory board. The annual Bank's Management board statement on the adequacy of the Bank's liquidity gives clear position of current and future position of the Bank, in the field of liquidity risk management.

5. Bank's financial risk management *(continued)*

5.1. Risk management and transfer strategy *(continued)*

Recovery Plan of NLB Banka d.d. Sarajevo is prepared with aim to secure financial sustainability of the Bank, as well as restoring sustainable business functioning and appropriate Bank's financial position in case of worsening its financial position. The aim of the Recovery Plan is to define procedures that enable the Bank's Management to have timely insight into the potential threat to the Bank's financial stability. For the purpose of crisis preparedness, preliminary plans have been developed on the measures to be taken in the event of different types of emergency.

The Strategy sets out material principles and guidelines for risk assumption in the following business segments:

- lending to legal and natural persons,
- ensuring adequate volume of liquidity and managing liquidity reserves,
- ensuring an adequate source of funding structure, including guidance for retail banking in the part related to savings products,
- management of market risk, that is, foreign exchange and interest rate risk, with the aim of managing the Bank's own positions,
- conclusion of other financial transactions in the treasury business,
- operational risk management

More detailed rules, limits, guidelines and competencies related to risk management are defined by individual internal acts, policies and procedures.

The Bank is exposed to various risks in its operations, of which the following risks are crucial for the Bank's overall operations:

- credit risk,
- market risk,
- liquidity risk,
- operational risk.

In addition, the Bank monitors the exposure to risks from the group of Other risks, defined in the Guidelines for the application of ICAAP and ILAAP in the bank, where the emphasis is on minimizing their possible impact on the Bank's operations. These include non-financial risks, i.e. leverage risk, reputational risk, profitability risk, business risk, strategic risk and other risks from the group of Other risks identified by the Bank. Tolerance to all types of risks is also determined on the basis of annual identification, measurement and assessment of material risks in the Bank within the ICAAP and ILAAP.

5. Bank's financial risk management *(continued)*

5.2. Credit risk management

The Bank is exposed to the credit risk, which is the risk of loss due to debtors' inability to settle its cash commitments towards the Bank.

General requirements

Credit risk management, as the most important risk, is aimed at accepting moderate risks and ensuring an optimal return given the risks taken. In order to maintain the medium and long-term viability of the business, the Bank seeks to gradually increase the quality of the loan portfolio and increase profitability, based on a better ratio between returns and risks taken. The main credit risk indicators whose limits and target values are defined in Risk Appetite Banks are in the segment of maintaining portfolio quality and credit risk volatility.

The key principles of risk taking and risk management are related to lending to clients, legal entities (non-financial corporations) and individuals targeting the domestic market. The principles and rules for lending to different segments are defined by the Bank's internal acts. The emphasis is mainly on:

- defining the main conditions relating to the approval of placements and collateral
- defining target segments that the Bank is prepared to finance, as it sees potential, taking into account the aspect of the risks taken
- defining segments that the Bank does not want to finance, either because of risks being too high or too low profitability, taking into account assumed risks or other reasons
- a projection of expected losses the Bank is prepared to assume upon approval of the placements, and
- defining the approach by which the Bank proactively manages risks arising from low-quality exposures

Risk mitigation

The Bank has a moderate risk appetite for assuming risk. The main source of repayment is the borrower's creditworthiness and available cash flow, while the placement security is considered to be a secondary source of repayment. Credit risk mitigation is done through the provision of quality collateral in accordance with the Bank's internal acts. Portfolios are diversified by business segments and activities, with particular regard to exposures to a single entity or group of related parties.
In addition, regular monitoring and analysis of trends in the quality of individual segments of the loan portfolio, with a particular focus on new transactions, allows early detection of increased risk as well as optimization of taken risks relative to profitability.

Risk control and monitoring

The Bank monitors credit risk exposures in a manner that is consistent with the legal limits and in line with the Bank's internal limits. Credit risk management is defined by internal acts as well as by an adequately established organizational structure of the Bank's risk management and risk management. Also, control in the process of assuming the level of credit risk is performed through defined levels of decision making in the credit business.

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.2. Credit risk management *(continued)*

Total credit risk exposure	**December 31, 2020**	**December 31, 2019**
Cash and balances with CBBH (*Note 12*)	220,547	228,414
Placements with banks (*Note 13*)	88,709	100,093
Loans to customers (*Note 14*)	771,141	772,828
Financial assets at FVPL (*Note 15*)	1,536	1,448
Financial assets at FVOCI (*Note 16*)	126,393	98,291
Other financial assets (*Note 19*)	3,549	3,801
	1,211,875	**1,204,875**

The following table shows the maximum exposure to credit risk

Financial assets	**Total carrying value**	**Impairment**	**Total net carrying value**
December 31, 2020			
Cash and balances with CBBH (*Note 12*)	220,743	(196)	220,547
Placements with banks (*Note 13*)	88,895	(186)	88,709
Loans to customers (*Note 14*)	813,712	(42,571)	771,141
Financial assets at FVPL (*Note 15*)	1,536	-	1,536
Financial assets at FVOCI (*Note 16*)	126,393	(663)	125,730
Other financial assets (*Note 19*)	3,943	(394)	3,549
	1,255,222	**(44,010)**	**1,211,212**
Contingent liabilities (*Note 28*)	**155,779**	**(2,012)**	**153,767**
Total	**1,411,001**	**(46,022)**	**1,364,979**
December 31, 2019			
Cash and balances with CBBH (*Note 12*)	228,598	(184)	228,414
Placements with banks (*Note 13*)	100,112	(19)	100,093
Loans to customers (*Note 14*)	845,235	(72,407)	772,828
Financial assets at FVPL (*Note 15*)	1,448	-	1,448
Financial assets at FVOCI (*Note 16*)	98,291	227	98,064
Other financial assets (*Note 19*)	5,963	(2,162)	3,801
	1,279,647	**(74,545)**	**1,204,648**
Contingent liabilities (*Note 28*)	**148,000**	**(2,718)**	**145,282**
Total	**1,427,647**	**(77,263)**	**1,349,930**

The Bank performs regular reviews of assets, and the credit risk assessment is carried out on a monthly basis based on established rating groups and regularity in servicing liabilities.

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.2. Credit risk management *(continued)*

Credit risk exposure regarding loans to customers and funds held with other banks, by credit rating, is given below:

December 31, 2020	Banks		Loans to customers		Total	
	Gross	Risk provisions	Gross	Risk provisions	Gross	Risk provisions
A	43,566	(122)	458,064	(2,822)	501,630	(2,944)
B	45,329	(64)	273,761	(3,913)	319,090	(3,977)
C	-	-	(47,717)	(7,581)	47,717	(7,581)
D	-	-	19,356	(15,936)	19,356	(15,936)
E	-	-	14,814	(12,319)	14,814	(12,319)
Total	**88,895**	**(186)**	**813,712**	**(42,571)**	**902,607**	**(42,757)**
Total (net)	-	**88,709**	-	**771,141**	-	**859,850**

December 31, 2019	Banks		Loans to customers		Total	
	Gross	Risk provisions	Gross	Risk provisions	Gross	Risk provisions
A	54,217	(7)	464,439	(4,375)	518,656	(4,382)
B	45,895	(12)	287,055	(5,946)	332,950	(5,958)
C	-	-	33,563	(5,233)	33,563	(5,233)
D	-	-	9,163	(8,332)	9,163	(8,332)
E	-	-	51,015	(48,521)	51,015	(48,521)
Total	**100,112**	**(19)**	**845,235**	**(72,407)**	**945,347**	**(72,426)**
Total (net)	-	**100,093**	-	**772,828**	-	**872,921**

Impairment losses and provisioning policy

The Bank assesses the impairment of receivables which represents the Bank's estimate of losses incurred in its loan portfolio.

With the application of standard IFRS 9, the expected credit losses are based on the transfer of assets amongst three (3) stages. The change in credit quality and credit risk from the moment of initial recognition represents one of the basic criteria for the transition/change between the Stages in which the client is classified.

Collective impairment and provisions are calculated for financial assets and contingent liabilities classified in Stage 1 and Stage 2 and non-performing clients that are not part of an individual assessment and are classified in Stage-3.

Individual impairment and provisions are calculated for clients in Stage 3 with exposure over 50 thousand EUR.

5. Bank's financial risk management *(continued)*

5.2. Credit risk management *(continued)*

Collaterals

For most placements approved to customers, the Bank requires collateral.

Collaterals usually include one or a combination of following items:
- pledge of cash deposits,
- pledge of securities,
- pledge of property, including first line mortgage over property,
- pledge of precious metals,
- pledge of movable assets,
- irrevocable guarantees,
- insurance with an insurance company,
- bills of exchange.

In addition to the above-mentioned, the Bank also uses the following elements for securing placements:
- Co-guarantors,
- Cessions and assignations,
- Administrative order on monthly salary payments, or agreement on confiscation,
- and exceptionally guarantees by retail and legal entities,

The Bank retains the right to request any other type of collateral (or variation of above-mentioned collateral) that it considers necessary.

Assessment of fair value of collateral is based on the value of collaterals evaluated in the moment of borrowing and it is updated periodically in accordance with relevant credit policy.

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.2. Credit risk management *(continued)*

Credit exposure and collaterals before discounting for loans to clients and financial assets with other banks:

	Maximum credit risk exposure (net)	Fair value of collaterals
December 31, 2020		
Credit exposure, net	772,677	1,133,181
Loans to customers at AC	*771,141*	*1,129,200*
Loans to customers FVPL	*1,536*	*3,981*
Placements with banks	*88,709*	-
Off-balance sheet exposure, net	153,767	163,666
Total	**1,015,153**	**1,296,847**

	Maximum credit risk exposure (net)	Fair value of collaterals
December 31, 2019		
Credit exposure, net	874,369	1,102,860
Loans to customers at AC	*772,828*	*1,098,879*
Loans to customers FVPL	*1,448*	*3,981*
Placements with banks	*100,093*	-
Off-balance sheet exposure, net	145,282	93,346
Total	**1,019,651**	**1,196,206**

Out of the total collateral value, as at December 31, 2020, amount of BAM 374,204 thousand relates to business and residential real estates, while the rest of the collaterals are deposits, movable assets, inventories, administrative orders, codebtors and bills of exchange.

As at December 31, 2019, out of the total value of collaterals, BAM 377,161 thousand relates to business and residential real estates.

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.2. Credit risk management *(continued)*

Fair value of collateral per type of collateral for loans to customers, placements to banks and off-balance exposures total for Stage 1, 2 and 3, and separately for Stage 3 is shown in following tables:

December 31, 2020	Gross exposure	Fair value of collateral					Impairment	Maximal exposure to credit risk
Stage 1, 2 and 3	1	Cash deposits	Guarantee	Real estate	Movable assets	Total collateral	2	(3=1-2)
Retail loans	**457,439**	**1,850**	-	**104,441**	**178**	**106,469**	**(25,542)**	**431,897**
Housing loans	74,420	46	-	70,654	-	70,700	(1,934)	72,486
Consumer loans	353,574	1,588	-	32,967	1	34,556	(22,369)	331,205
Other retail loans	29,445	216	-	820	177	1,213	(1,239)	28,206
Corporate loans	**356,273**	**7,103**	-	**236,179**	**15,649**	**258,931**	**(17,029)**	**339,244**
Corporate customers	305,528	6,057	-	202,693	12,168	220,918	(13,105)	292,423
SME	36,925	636	-	29,278	2,782	32,696	(3,019)	33,906
Other customers	13,820	410	-	4,208	699	5,317	(905)	12,915
Loans to customers FVPL	**1,536**	-	-	**3,981**	-	**3,981**	-	**1,536**
Placements with banks	**88,895**	-	-	-	-		**(186)**	**88,709**
Off-balance sheet exposure	**155,779**	**5,946**	-	**29,603**	-	**35,549**	**(2,012)**	**153,767**
Guarantees	65,988	5,504	-	11,432	-	16,936	(1,226)	64,762
Letters of credit	875	-	-	-	-	-	(26)	849
Approved undrawn loans	88,916	442	-	18,171	-	18,613	(760)	88,156
Total	**1,059,922**	**14,899**	-	**374,204**	**15,827**	**404,930**	**(44,769)**	**1,015,153**

December 31, 2020	Gross exposure	Fair value of collateral					Impairment	Maximal exposure to credit risk
Stage 3	1	Cash deposits	Guarantee	Real estate	Movable assets	Total collateral	2	(3=1-2)
Retail loans	**24,044**	**9**	-	**8,468**	-	**8,477**	**(21,626)**	**2,418**
Housing loans	1,617	-	-	2,895	-	2,895	(1,340)	277
Consumer loans	21,333	8	-	5,573	-	5,581	(19,272)	2,061
Other retail loans	1,094	1	-	-	-	1	(1,014)	80
Corporate loans	**10,126**	-	-	**9,421**	-	**9,421**	**(6,628)**	**3,498**
Corporate customers	4,649	-	-	1,488	-	1,488	(3,764)	885
SME	4,430	-	-	7,717	-	7,717	(2,266)	2,164
Other customers	1,047	-	-	216	-	216	(598)	449
Loans to customers FVPL	**1,536**	-	-	**3,981**	-	**3,981**	-	**1,536**
Placements with banks	-	-	-	-	-	-	-	-
Off-balance sheet exposure	**84**	**3**	-	-	-	**3**	**(84)**	-
Guarantees	8	2	-	-	-	2	(8)	-
Letters of credit	-	-	-	-	-	-	-	-
Approved undrawn loans	76	1	-	-	-	1	(76)	-
Total	**35,790**	**12**	-	**21,870**		**21,882**	**(28,338)**	**7,452**

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.2. Credit risk management *(continued)*

December 31, 2019	Gross exposure	Fair value of collateral					Impairment	Maximal exposure to credit risk
Stage 1, 2 and 3	1	Cash deposits	Guarantee	Real estate	Movable assets	Total collateral	2	(3=1-2)
Retail loans	**449,832**	**2,526**	**-**	**88,494**	**128**	**91,148**	**31,333**	**418,499**
Housing loans	60,640	118	-	51,773	-	51,891	2,180	58,460
Consumer loans	358,856	2,130	-	36,228	2	38,360	27,261	331,595
Other retail loans	30,336	278	-	493	126	897	1,892	28,444
Corporate loans	**395,403**	**7,622**	**-**	**267,505**	**16,897**	**292,024**	**41,074**	**354,329**
Corporate customers	313,522	5,970	-	214,539	11,753	232,262	10,129	303,393
SME	49,537	894	-	35,994	3,512	40,400	12,946	36,591
Other customers	32,344	758	-	16,972	1,632	19,362	17,999	14,345
Loans to customers FVPL	**2,927**	**-**	**-**	**3,981**	**-**	**3,981**	**1,479**	**1,448**
Placements with banks	**100,112**	**-**	**-**	**-**	**-**	**-**	**19**	**100,093**
Off-balance sheet exposure	**148,000**	**3,404**	**-**	**17,181**	**1,129**	**21,714**	**2,718**	**145,282**
Guarantees	68,245	3,386	-	17,065	1,129	21,580	1,877	66,368
Letters of credit	3,128	-	-	-	-	-	21	3,107
Approved undrawn loans	76,627	18	-	116	-	134	820	75,807
Total	**1,196,386**	**13,552**	**-**	**377,161**	**18,154**	**408,867**	**76,642**	**1,119,744**

December 31, 2019	Gross exposure	Fair value of collateral					Impairment	Maximal exposure to credit risk
Stage 3	1	Cash deposits	Guarantee	Real estate	Movable assets	Total collateral	2	(3=1-2)
Retail loans	**27,266**	**10**	**-**	**13,442**	**7**	**13,459**	**26,271**	**995**
Housing loans	1,881	-	-	3,479	-	3,479	1,804	77
Consumer loans	23,704	9	-	9,861	-	9,870	22,823	881
Other retail loans	1,681	1	-	102	7	110	1,644	37
Corporate loans	**38,878**	**30**	**-**	**31,207**	**1,536**	**32,773**	**35,539**	**3,339**
Corporate customers	6,578	-	-	4,906	293	5,199	5,643	935
SME	14,615	-	-	16,398	278	16,676	12,211	2,404
Other customers	17,685	30	-	9,903	965	10,898	17,685	-
Loans to customers FVPL	**2,927**	**-**	**-**	**3,981**	**-**	**3,981**	**1,479**	**1,448**
Placements with banks		**-**	**-**	**-**	**-**	**-**	**-**	**0**
Off-balance sheet exposure	**1,056**	**6**	**-**	**2,512**	**1,126**	**3,644**	**339**	**717**
Guarantees	840	6		2,512	1,126	3,644	236	604
Letters of credit	-	-	-	-	-	-	-	-
Approved undrawn loans	216	-	-	-	-	-	103	113
Total	**70,127**	**46**	**-**	**51,142**	**2,669**	**53,857**	**63,628**	**6,499**

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.2. Credit risk management *(continued)*

Overviews of LTV (loan to value) ratios for 2020 and 2019 are presented below:

LTV ratio December 31, 2020	0-30%	30-60%	60-90%	90-100%	100-120%	120-%	Amount of uncovered loans	Total
Housing loans	2,021	7,961	15,100	16,257	3,382	68	29,631	74,420
Consumer loans	2,033	3,585	4,835	2,740	1,501	295	338,585	353,574
Total	**4,054**	**11,546**	**19,935**	**18,997**	**4,883**	**363**	**368,216**	**427,994**

LTV ratio December 31, 2019	0-30%	30-60%	60-90%	90-100%	100-120%	120-%	Amount of uncovered loans	Total
Housing loans	2,036	7,009	9,902	7,789	1,565	173	32,166	60,640
Consumer loans	2,956	3,445	4,031	2,062	467	343	345,552	358,856
Total	**4,992**	**10,454**	**13,933**	**9,851**	**2,032**	**516**	**377,718**	**419,496**

Loan portfolio per industrial sector is presented in the table below. Calculated interests and fees which increase the balance of loan receivables and bank placements, as well as accrued income, deducted from loan receivables and bank placements, are presented within the separate positions in the table below.

	31 December 2020 BAM	31 December 2020 %	31 December 2019 BAM	31 December 2019 %
Retail	456,104	50.58	449,042	47.56
Trade	176,223	19.54	197,457	20.91
Mining and industry	89,252	9.90	107,094	11.34
Financial institutions	98,603	10.93	108,101	11.45
Building construction industry	23,446	2.60	28,281	3.00
Transportation and communications	20,005	2.22	24,832	2.63
Trading in real estate	13,398	1.49	11,550	1.22
Services, tourism, catering	4,529	0.50	3,084	0.33
Agriculture, forestry and fishing	1,248	0.14	3,618	0.38
Other	18,984	2.10	11,143	1.18
	901,792	**100.00**	**944,202**	**100.00**
Interests and fees	2,752		3,241	
Deferred fees for loans processing	(1,937)		(2,096)	
	902,607		**945,347**	
Less: Impairment allowance	(42,757)		(72,426)	
	859,850		**872,921**	

Non-Performing Loans

Non-Performing Loans (NPL) are the Bank's loans classified into categories D and E. Management of non-performing portfolio is done in the Department for Collection and NPL Management. For all Corporate and SME customers in Categories D and E whose total exposure to a client or group of related entities is over 1,000 EUR, immediately after the fulfilment of these criteria a procedure is initiated to transfer the customer from the business component to the Department for Collection and NPL Management (corporate collection department/retail collection department).

5. Bank's financial risk management *(continued)*

5.2. Credit risk management *(continued)*

As of June 1, 2018, Sector is divided into two organizational units, the Corporate Collection Department and Retail Collection Department, where the process of early, late and court collection of claims from problematic clients is being run and monitored.
The process of collecting claims for retail is centralized and is in charge of the Retail Collection Department.

All activities for collecting claims for retail clients are undertaken solely by the Retail Collection Department and start from the first day of the client's delay through early collection and continue through late collection activities and initiation of court proceedings until the claims are closed or the client recovered.

In the collection process for corporate entities, the Corporate Collection Department is involved with collection activity starting from a 31st day of delay, which implies customer interaction, meeting, and defining collection strategy for the client along with the Corporate Sector. With the classification of a client in a credit rating class D and E, the client enters into the jurisdiction of the Corporate Collection Department, where the collection strategy is defined individually for each client (restructuring, settlement, and collateral, collection from collaterals, initiation and conducting court proceedings).

If the clients under the jurisdiction of Collection department and NPL management establish the continuity in payment without delays and exit financial difficulties after the recovery period, than they are returned to Performing portfolio under the jurisdiction of Corporate department and Retail department.

In the process of collection of receivables, the clients, for which restructuring measures were taken, are included.

Measures for restructuring debt include a "concession" to a debtor which is caused by deterioration in economic and financial situation of the customer and his inability to service the debt under previously agreed terms and conditions. A client with financial difficulties may be performing or non-performing.

Restructured receivables represent the "forborne" exposure of the Bank that needs to be considered in the sectors for PE - performing entities of the Sector for Corporate and the Sector for Retail or NPE - non-performing entities of the Sector for collection and non-performing asset management. "R" represents receivables with granted concessions due to financial difficulties (concessions would not have been approved if client didn't have financial difficulties).

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.2. Credit risk management *(continued)*

The overview of the forborne loans is presented in the table by segment:

Segment	December 31, 2020		
	Performing portfolio	Non-performing portfolio	Total
Corporate clients	4,447	47	4,494
SME clients	-	3,758	3,758
Other clients	15	702	717
Retail	79	190	269
	4,541	**4,697**	**9,238**

Segment	December 31, 2019		
	Performing portfolio	Non-performing portfolio	Total
Corporate clients	-	1,892	1,892
SME clients	-	7,545	7,545
Other clients	10	2,795	2,805
Retail	5	128	133
	15	**12,360**	**12,375**

Impairment allowances for loans with forborne status are presented in the table by segment:

Segment	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Corporate clients	-	805	42	847
SME clients	-	-	1,808	1,808
Other clients	-	1	253	254
Retail	-	14	185	199
	-	**820**	**2,288**	**3,108**

Segment	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Corporate clients	-	-	1,892	1,892
SME clients	-	-	5,378	5,378
Other clients	-	-	2,795	2,795
Retail	-	-	128	128
	-	-	**10,193**	**10,193**

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.2. Credit risk management *(continued)*

Reprograms and restructuring

The restructuring of liabilities aims to enable the client to repay liabilities in accordance with its realistic capabilities, while ensuring more efficient and secure collection of the Bank's receivables. In that sense, the restructuring of liabilities represents a change in the conditions agreed upon when approving the loan (e.g. extension of repayment terms, reduction of the interest rate, etc.). The purpose of restructuring is to prevent a potential loss to the Bank, so it is important that restructuring is attempted at an early stage of delay (or even before the client begins to be late) if the client is unable to meet its obligations.
However, restructuring may also be possible for clients in the late or court collection phase in cases where restructuring is a better option for the Bank or the client requires restructuring due to changed circumstances (e.g. employment of the client).

The decision on the restructuring of the client's obligations is made by the competent authority, in accordance with the authorizations determined by the Decision on authorizations in credit operations.

Restructured exposure may be identified as both in the uncollectable (NPL) and in collectable (PL) part of the portfolio.

	Number of restructured loans (number of transactions)	Gross loan exposures
December 31, 2020		
Corporate	12	10,589
Retail and entrepreneurs	14	273
Total	**26**	**10,862**
December 31, 2019		
Corporate	47	17,096
Retail and entrepreneurs	28	368
Total	**75**	**17,464**

5. Bank's financial risk management *(continued)*

5.2. Credit risk management *(continued)*

Watch Loan Committee, Watch List and Intensive Care List

The Watch Loan Committee (hereinafter referred to as the WLC) is a body whose task is to define all activities that the Bank undertakes to collect receivables from performing clients that are or should be on the Watch List (hereinafter: WL), i.e. Intensive care list (hereinafter: ICL), and refers to arrears from 8 to 90 per local methodology and arrears from 8 to 90 per international methodology, which are not classified as NPL clients and A, B and C creditworthiness clients. Detailed powers, responsibilities and mode of work of the committee are prescribed by the Rules of Procedure of the Watch Loan Committee and the Instructions for the work of the Watch Loan Committee and monitoring watch list.

The goal of the WLC is:

- establishing a continuous process of identification of potentially problematic clients based on early warning signals in the Bank,
- stop the delay day counter (LMAX and MMAX dpd),
- analysis of submitted proposals for inclusion and exclusion of clients on WL and ICL,
- making decisions on listing and excluding clients on WL and ICL,
- defining measures to be taken towards clients,

all with the aim of mitigating risks and stopping negative trends.

Clients with a delay of 8 to 30 days are included in the WL, and clients with a delay of 31 to 90 days are included in the ICL, i.e. clients for which the WLC has concluded on inclusion on one of the lists.

In addition to the criteria for days of delay on the last day of the month, the Bank considers other important factors for the potential inclusion of the client in the WL, i.e. ICL:

- transaction account blocking (clients whose account is found to be blocked are included in the ICL)
- frequent change of management,
- change of creditworthiness,
- degree of financial security,
- financial debts according to EBITDA ratio,
- poor FBA category of debtors in other Banks or poor FBA category of co-borrowers,
- bankruptcy or liquidation proceedings with the co-debtor,
- Decision of the Credit Committee on the inclusion of the client in the WL / ICL,
- overdue liabilities over 100 KM,
- negative information in the media (printed and electronic),
- other reasons why the WLC decides that it can classify clients into WL and ICL.

Vintage analysis

The Bank monitors the quality of approved placements and days past due after approval using two types of vintage analysis. Vintage 30+ and Vintage 90+ are used to track the number, value, and percentage of loans that are in delay 30+ or 90+ days as of the month of contract. The Vintage 30+ report starts after at least 2 months have passed since contracting, while the 90+ report records delays after 4 months have elapsed since contracting. Vintage reports are updated on a monthly basis, so that they consistently number all the previous months from the contracting date to the reporting date, and for the purposes of simpler reporting, cross sections 4, 6, 12, 18, 24 and 36 months from the moment of contracting are used, significant changes are also taken into account in other time periods. For a Retail loans segment, it is diversified into 4 types of residential mortgage, consumer, credit card and overdraft facilities, while for corporate loans diversification refers to maturity, i.e. long-term loans, short-term and overdrafts and business cards.

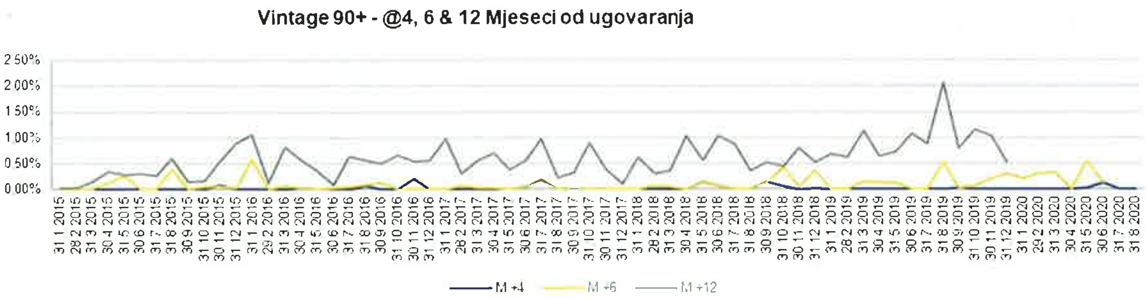
(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.2. Credit risk management *(continued)*

The average percentage of delay of 90+ 12 months after approval is observed on a monthly level of up to 0.95% as at 31.12.2020 on Retail placements where a mass portfolio can derive legitimacy. During 2020, due to the pandemic of the viral disease "COVID-19", the delay in repayment of loans to individuals was significantly increased, which can be seen in the growth of amounts in arrears, especially loans approved in 2019. Receivables in arrears were generally not subject to special measures in accordance with the Decision on Temporary Measures of the Banking Agency of the Federation of BiH. The share of total loans in arrears remained relatively low due to accounting write-offs in 2020.

Vintage 90+ analysis Retail entities

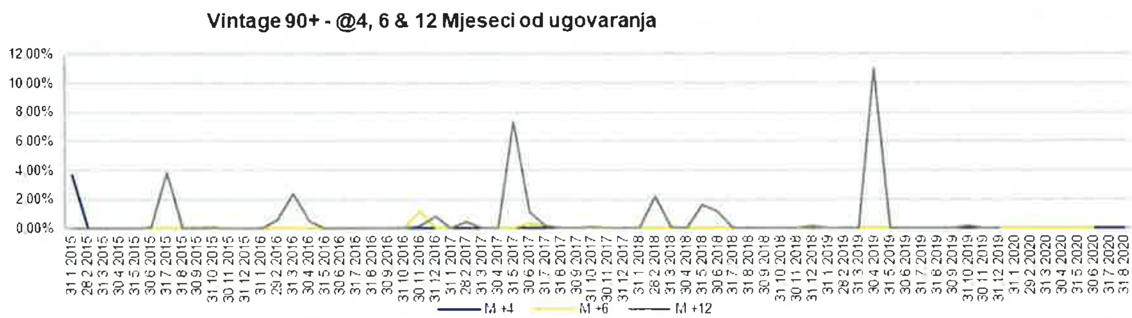


The table below shows quarterly movements of share of exposures in 90+ days past due, compared to the quarter in which it is contracted, with sections of 12, 18, 24, and 36 months after contracting.

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Vintage @12 M	0.63%	0.33%	0.57%	0.59%	0.57%	0.56%	0.55%	0.44%	0.41%	0.88%	0.60%	0.58%	0.85%	0.81%	1.19%	0.90%
Vintage @18 M	0.99%	1.01%	0.89%	0.82%	1.32%	0.75%	1.00%	0.80%	0.65%	1.46%	0.91%	1.49%	1.61%	1.57%	-	-
Vintage @24 M	1.29%	1.08%	1.25%	1.06%	1.53%	0.60%	1.27%	0.73%	1.12%	1.96%	1.95%	1.90%	-	-	-	-
Vintage @36 M	1.40%	1.35%	1.25%	1.74%	2.09%	1.65%	1.77%	1.47%	-	-	-	-	-	-	-	-

Legal entities have a special view of tracking client delays in settling liabilities through WLC so that 90+ delays occur in isolated cases.

Vintage 90+ analysis Corporate entities



(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.2. Credit risk management *(continued)*

The table below shows quarterly movements of share of exposure in 90+ delays compared to the quarter in which it is contracted, with sections of 12, 18, 24, and 36 months after contracting. It is not possible to derive legitimacy since the peaks are caused by individual isolated cases.

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Vintage @12 M	1.43%	0.16%	0.00%	0.44%	0.10%	3.32%	0.07%	0.04%	0.61%	0.83%	0.00%	0.04%	0.00%	3.42%	0.00%	0.05%
Vintage @18 M	0.75%	0.44%	0.03%	0.59%	0.13%	1.25%	0.07%	0.15%	0.71%	0.56%	0.19%	0.09%	0.01%	4.22%	-	-
Vintage @24 M	0.75%	0.43%	0.01%	0.59%	0.10%	1.25%	0.07%	0.12%	0.71%	0.56%	0.18%	0.09%	-	-	-	-
Vintage @36 M	0.56%	0.27%	0.00%	0.45%	0.07%	0.00%	0.00%	0.10%	-	-	-	-	-	-	-	-

Off-balance sheet items

(a) Loan liabilities

The timings of contractual amounts of the Bank's off-balance sheet financial instruments committing it to extend loans to customers are summarized in the table below.

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
As of December 31, 2020				
Loan liabilities	88,766	150	-	**88,916**
As of December 31, 2019				
Loan liabilities	76,078	549	-	**76,627**

(b) Other financial liabilities - guarantees

Other financial liabilities are also included in the table below, based on the earliest contractual maturity date.

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
As of December 31, 2020				
Other financial facilities	38,789	28,071	3	**66,863**
As of December 31, 2019				
Other financial facilities	50,125	21,248	-	**71,373**

Risk measurement

The measurement of exposure to market risks is performed in accordance with regulations and the methodology for measuring the quantity of risk exposure on the level of the NLB Group, by using standard approach. The NLB Group has relatively conservative policy for market risk management, which includes certain limitations and procedures in policies and other documents of the NLB Group.

General requirements

The Bank is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rates, foreign currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. Market risks, in terms of the Banking Law, are considered to be position risk, currency (foreign exchange) risk and commodity risk, of which currency (foreign exchange) risk is the most significant for the Bank. In addition, equity risk, investment risk, settlement risk and free delivery risk are also considered in the group of market risks.

5. Bank's financial risk management *(continued)*

5.2. Credit risk management *(continued)*

The Management Board sets limits and guidelines for monitoring and mitigating market risks, which is regularly monitored by the Bank's ALCO Committee.

When it comes to market risk management, the key factor is the separation of responsibilities between the monitoring and management of market risks Non-credit risks are regularly monitored by the Risk department, which analyses whether all positions for certain types of risk are within the defined limits. Open positions are managed by the Asset liability management department of the Bank which maintains them within the given limits.

5.3 Market risk

Risk mitigation

The department for trading daily currency conversions maintains the foreign exchange position within legally and internally established limits, and continuously conducts different activities in order to reduce market risks to the lowest level.

Risk controlling and monitoring

Risk controlling is used to monitor compliance with certain legal and internal limits. Market risk controlling, and monitoring is supported by internal methodologies adjusted to Basel Standards. In accordance with the local regulations the Bank provides the necessary level of capital for covering potential unexpected losses due to exposure to currency and other market risks.

5.4 Foreign currency risk management

Currency risk is the Bank's exposure to the possible impact of changes in exchange rates and the risk that adverse changes result in losses for the Bank in BAM (local currency). The level of risk represents a function of level and the size of exposure to possible changes of exchange rates for the Bank, depending on the amount of bank's foreign debt and the level of Bank's open balance sheet and off-balance FX positions, i.e. the degree of compliance of its currency flows.
Foreign currency exposure arises from loans, deposits, and investment and trading activities. It is monitored daily in accordance with legislation and internally set limits for each currency and for the total balance sheet denominated or linked to a foreign currency. Throughout the year open currency positions were maintained in accordance with the regulations set by the Banking Agency of FBiH and internal limits defined by the Methodology of the NLB Group.
Since BAM has a fixed exchange rate to EUR, in accordance with the Currency Board arrangement, the Bank was not exposed to changes in EUR exchange rate. Fluctuations in other currencies did not have a significant influence on exposure of the Bank to foreign currency risk since the open foreign exchange position was reduced to a minimum.

The following table details the sensitivity of the Bank to a 10% increase and a decrease in BAM relative to the USD calculated on the Bank's net foreign exchange position.

	2020	**2019**
USD Profit/(loss)	14/(14)	5/(5)

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.4. Foreign currency risk management *(continued)*

The Bank had the following currency position:

December 31, 2020	EUR	USD	BAM	Other currencies	Total
Financial assets					
Cash and balances with the CBBH	3,545	345	215,812	845	220,547
Placements to banks and loans to customers	75,489	4,659	191,378	7,981	279,507
Placements to banks and loans to customers with a foreign currency clause	580,343	-	-	-	580,343
Financial assets at fair value through profit or loss with a foreign currency clause	1,536	-	-	-	1,536
Financial assets at fair value through OCI	74,711	8,645	40,663	-	124,019
Financial assets at fair value through OCI with a foreign currency clause	9,514	-	-	-	9,514
Other financial assets	1,375	-	2,171	3	3,549
	746,513	**13,649**	**450,024**	**8,829**	**1,219,015**
Financial Commitments					
Financial liabilities at amortized cost	316,685	6,802	528,520	8,744	860,751
Financial liabilities at amortized cost with foreign currency clause (EUR)	207,586	-	-	-	207,586
Other financial liabilities	5,037	20	12,066	5	17,128
	529,308	**6,822**	**540,586**	**8,749**	**1,085,465**
Foreign exchange position, net	**217,205**	**6,827**	**(90,562)**	**80**	**133,550**

December 31, 2019	EUR	USD	BAM	Other currencies	Total
Financial assets					
Cash and balances with the CBBH	4,130	159	222,958	1,167	228,414
Placements to banks and loans to customers	78,039	7,202	310,577	10,322	406,140
Placements to banks and loans to customers with a foreign currency clause	466,781	-	-	-	466,781
Financial assets at fair value through profit or loss with a foreign currency clause	1,448	-	-	-	1,448
Financial assets at fair value through OCI	49,321	8,205	30,338	-	87,864
Financial assets at fair value through OCI with a foreign currency clause	16,967	-	-	-	16,967
Other financial assets	1,230	-	2,569	2	3,801
	617,916	**15,566**	**566,442**	**11,491**	**1,211,415**
Financial Commitments					
Financial liabilities at amortized cost	329,181	9,027	498,394	11,233	847,835
Financial liabilities at amortized cost with foreign currency clause (EUR)	216,971	-	-	-	216,971
Other financial liabilities	6,596	15	11,612	9	18,232
	552,748	**9,042**	**510,006**	**11,242**	**1,083,038**
Foreign exchange position, net	**65,168**	**6,524**	**56,436**	**249**	**128,377**

Financial liabilities at amortized cost include liabilities to banks, clients, borrowings and subordinated debt.

5. Bank's financial risk management *(continued)*

5.5. Interest rate risk management

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest-bearing liabilities mature or re-price at different times or in different amounts.

In case of floating rates, the Bank's assets and liabilities are also exposed to base risk, which is the difference in the re-pricing characteristics of the various floating rate indices, such as savings rates, the six months EURIBOR, and different types of interest. Risk management activities are consistent with the Bank's business strategies and they are aimed at optimizing net interest income given the market interest rate levels.

The Bank produced Policies and procedures for monitoring of market risk management, whose goal is to manage and limit the potential losses of the Bank, due to changes in foreign and domestic interest rates that affect the economic and market value of the Bank.

In order to achieve the Policies' goals for monitoring interest rate risk exposure, the Bank identifies positions that are sensitive to change in interest rates, prepares data for the calculation of interest-sensitive positions, establishes methods for risk measurement, establishes control mechanisms and limits, determines authorizations and responsibilities, and prepares reports.

The purpose of interest rate risk management, as one segment of assets and liabilities management, is to determine the optimal interest rate, and with that, the Bank's income, taking into account market conditions and the competitive environment, and to adjust the interest rate in line with the Bank's assets and liabilities. Considering this objective, it is extremely important to assess the sensitivity of revenues towards abrupt changes in the market interest rate.

As a protection from interest rate risk exposure, the Bank contracts the variable interest rate, adjusts the structure of interest-bearing assets and liabilities subject to interest payment, and uses other interest rate risk management instruments.
The Bank manages the interest rate risk in the following manner:

- By adequately determining the level of the interest margin, by adjusting the interest rates on positions of interest-sensitive assets and liabilities to be within the same maturity and time intervals within which the re-establishment of the interest rate is being performed; and/or
- By securing maturity alignment of interest-sensitive assets and liabilities (when the fixed interest rate is used), or by adjusting the deadline (time interval for re-establishment of the interest rates in cases where variable interest rate is being used).

The Bank is exposed to risks that affect its financial position and cash flows, through the effects of change in interest rates on the market. The table below shows the Bank's exposure to interest rate risk.

The positions of assets and liabilities with the balance as at 31 December 2020 and 2019 are shown in the table at the book value and in accordance with the agreed interest rate and the date of repricing.

In the Non-interest bearing column are loans to customers of credit rating D and E and related interest and fees.

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.5. Interest rate risk management *(continued)*

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
December 31, 2020							
Financial assets							
Cash and balances with the CBBiH	171,558	-	-	-	-	48,989	220,547
Placements with banks	82,442	5,867	400	-	-	-	88,709
Loans to customers	65,369	117,343	229,187	232,664	125,148	1,430	771,141
Financial assets FVPL	-	-	1,536	-	-	-	1,536
Financial assets at fair value through OCI	10,350	9,775	19,258	82,466	3,388	1,156	126,393
Equity instruments at fair value through OCI	-	-	-	-	-	7,140	7,140
Other financial assets	3,549	-	-	-	-	-	3,549
Non-financial assets							
Tangible and intangible assets	-	-	-	-	-	36,437	36,437
Other non-financial assets	2,053	-	-		-	-	2,053
	335,321	**132,985**	**250,381**	**315,131**	**128,536**	**95,152**	**1,257,505**
Financial liabilities							
Banks' deposits	5,171	8,802	-	147	-	-	14,120
Customers' deposits	119,796	28,062	113,477	219,731	245	539,762	1,021,072
Borrowings	4,046	1,974	10,581	10,548	-	-	27,149
Subordinated debt	11	21	5,964	-	-	-	5,996
Other financial liabilities	17,128	-	-	-	-	-	17,128
Non-financial liabilities							
Other provisions	3,124	-	-	-	1,063	-	4,187
Deferred income	-	-	-	154	-	-	154
	149,276	**38,859**	**130,022**	**230,580**	**1,308**	**539,762**	**1,089,806**
Exposure to interest rate risk, net	**186,045**	**94,126**	**120,359**	**84,551**	**127,228**	**(444,610)**	**167,699**

As at 31.12.2020, the Bank is mostly exposed to items with a variable interest rate (66% of the total portfolio), while the rest is with a fixed interest rate (34% of the portfolio). When it comes to reference rates, they are included in variable interest rates. The Bank's portfolio with a variable interest rate mostly refers to items with an administratively variable interest rate (more than 85%), while the reference rates refer to 15% of the portfolio (mostly items with EURIBOR, and a very small part with LIBOR).

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.5. Interest rate risk management *(continued)*

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
December 31, 2019 (restated)							
Financial assets							
Cash and balances with the CBBiH	180,754	-	-	-	-	47,660	228,414
Placements with banks	95,523	130		4,440		-	100,093
Loans to customers	70,832	94,818	257,406	232,094	115,710	1,968	772,828
Financial assets FVPL	-	-	1,448	-	-	-	1,448
Financial assets at fair value through OCI	0	1,756	16,362	69,201	4,253	6,719	98,291
Equity instruments at fair value through OCI	-	-	-		-	6,540	6,540
Other financial assets	3,801	-	-	-	-	-	3,801
Non-financial assets							
Tangible and intangible assets	-	-	-	-	-	35,343	35,343
Other non-financial assets	739	-	-	-	-	-	739
	351,649	**96,704**	**275,216**	**305,735**	**119,963**	**98,230**	**1,247,497**
Financial liabilities							
Banks' deposits	5,870	3,912	6,992	-	-	-	16,774
Customers' deposits	128,582	29,574	141,526	223,942	248	483,825	1,007,697
Borrowings	-	1,041	13,094	20,203	-	-	34,338
Subordinated debt	11	22	5,964	-	-	-	5,997
Other financial liabilities	18,715	-	-	-	-	-	18,715
Non-financial liabilities							
Other provisions	3,245	-	-	-	1,652	-	4,897
Deferred income	-	-	-	162	-	-	162
	156,423	**34,549**	**167,576**	**244,307**	**1,900**	**483,825**	**1,088,580**
Exposure to interest rate risk, net	195,226	62,155	107,640	61,428	118,063	(392,044)	152,468

In its management of interest rate risk, the Bank uses a simulation of expected and extreme changes in interest rates and the influence of these changes on the profit or loss.

5. Bank's financial risk management *(continued)*

5.5. Interest rate risk management *(continued)*

The following table presents the impact of expected changes in interest rates to the Bank's profit, while all other variables remain unchanged:

Profit or loss sensitivity to change in interest rates as at December 31, 2020

Increase in interest rates	Impact on profit or loss in BAM	Increase in interest rates	Impact on profit or loss in BAM
+100 bp	1,034	-100 bp	(258)

Profit or loss sensitivity to change in interest rates as at December 31, 2019

Increase in interest rates	Impact on profit or loss in BAM	Decrease in interest rates	Impact on profit or loss in BAM
+100 b.p.	1,005	-100 b.p.	(10)

Interest rate sensitivity as a result of changes in market interest rates affects two categories:
- The amount of net interest income,
- The market value of certain financial instruments (interest-sensitive investments and sources), which consequently affects the market value of the Bank's capital

The sensitivity of the profit or loss in the table shows how changes in market interest rates, applied to the existing interest sensitive open position, would reflect on the financial result. The limit for the income aspect of credit risk, presented as a decrease in net interest income in case of a parallel change in interest rates by 100 bp, is 3% of capital. The effect of interest rate decrease by 100 bp, at December 31, 2019 was 0.10% of capital, while at December 31, 2020 it was 0.36%.

In line with the Policies and procedures for the monitoring of interest rate risk exposure, the Bank must meet the criteria of impact of a parallel shift in interest rates by 200 basis points, which is applied to the existing open interest rate position in accordance with certain time intervals. During 2020, a new Policy and Procedure for Monitoring Interest Rate Risk Exposure was adopted and implemented. The most significant change relates to the change in the Economic Value of Equity (EVE) limit (from 8% to 12%), and the treatment of administratively variable interest rates, which are observed at maturity rather than the date of interest rate change.

Sensitivity of the market value of financial instruments at December 31, 2020

Change of interest rates	Effect of simulation in 000 BAM	Effect of simulation in relation to capital
200 bp	969	0.69%

Sensitivity of the market value of financial instruments at December 31, 2019

Change of interest rates	Effect of simulation in 000 BAM	Effect of simulation in relation to capital
200 bp	417	0.31%

5. Bank's financial risk management *(continued)*

5.6 Liquidity risk management

Definition

Liquidity is the ability of a bank to finance an increase in assets on the one hand and also fulfil maturity obligations on the other hand, but without creating unacceptable costs. Liquidity risk is probability that the Bank will not have sufficient cash assets for the normal course of its business activities in the future.
Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

General requirements

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including various types of retail and corporate deposits, borrowings and share capital and through emission of bonds. This enhances funding sources flexibility, limits dependence on one source of funds and generally lowers the cost of funds.
The Bank strives to maintain a balance between the continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding, required to meet business goals and targets set in terms of the overall strategy of the Bank. Furthermore, the Bank keeps a portfolio of liquid assets as part of its strategy for liquidity risk management.

The measurement of liquidity risk is performed through reporting on structural liquidity and liquidity gaps that show the long-term aspects of securing the Bank's liquidity (in relation to assets, liabilities, the relationship between assets and liabilities and financing source structure). In accordance with local regulations, the Bank is obliged to maintain a minimum liquidity requirement through the LCR coverage coefficient, which was previously monitored due to the requirements of the NLB Group's Risk Management Standard. Risk exposure is also measured using the Scoring model.
The Bank regularly conducts stress testing in its liquidity risk management process.
The Bank regularly performs the Internal Liquidity Adequacy Assessment Process (ILAAP).
The purpose of ILAAP is to establish a strong liquidity risk management system in the Bank. In accordance with the Risk Management Strategy and Risk Appetite, liquidity risk tolerance is low. ILAAP is included in the day-to-day business process and business decisions in the form of daily monitoring of cash flows, the results of stress tests serve to define the volume of liquid reserves, and the defined indicators in the internal system of limits related to monitoring liquidity risk exposure are used to activate the Contingency Plan or the Bank's Recovery Plan.

5. Bank's financial risk management *(continued)*

5.6. Liquidity risk management *(continued)*

Risk controlling

The Bank adjusts its business activities in compliance with liquidity risk according to legislation and internal policies for the maintenance of liquidity reserves, the matching of liabilities and assets, limits, and preferred liquidity ratios. The Bank's Treasury manages liquidity reserves daily, also ensuring that the Bank satisfies all customer needs.

Monitoring liquidity risk exposure

In accordance with Risk Management Standards in the NLB Group, a monthly report is made on structural liquidity, in which the following ratios are monitored:
- Liquidity coverage ratio (LCR) – protective amount of liquidity/total net outflows in the next 30 days,
- Net Stable Funding Ratio (NSFR) - available amount of funds for stable funding / required amount of funds for stable funding,
- Net Loan to Deposit Ratio (NET LTD) – the ratio of net loans (minus impairment) and deposits (net loans to non-banking sector/deposits of non-banking sector),
- The share unmortgaged liquid reserves in total assets (AUAR),
- Share of non-bank deposits in the total liabilities (excluding equity),
- Share of resources of 30 largest non-banking depositors in total balance sheet sum,
- A'vista stability – Stable demand deposits,
- Liquidity stress test – strong combined stress test.

The purpose of the Scoring model is to assess liquidity risk by monitoring various indicators, and to inform the Bank's Management Board about the assessment of current liquidity risks to which the Bank is exposed. The output results of the Scoring model are then used as input data in the decision-making process.

The aim of the Scoring model is to closely monitor the Bank's exposure to liquidity risk, by monitoring various indicators that have an impact on the Bank's liquidity. The scoring model covers a wide range of different indicators, taking into account both Bank-specific indicators as well as systemic indicators, which have an impact on the Bank in a broader sense. The Scoring model provides a clear input for further decision-making, as the Scoring model provides an assessment of the Bank's liquidity risk, numerically, in the form of a number. This number corresponds to one of the five levels of risk, which represent the levels of liquidity risk, and range from low to high liquidity risk. The scoring model enables efficient monitoring of liquidity risk and assesses the current liquidity situation of the Bank.

The indicators included in the Scoring model have been identified as key indicators for assessing the Bank's liquidity risk.

The indicators in the Scoring model were selected based on the following criteria:

- Inclusion of indicators in Risk Appetite
- Inclusion of indicators in the Policy
- Regulatory requirements
- Impact of indicators on liquidity
- Monitoring frequency (monthly, in case of some calculations quarterly calculations)

In addition to the above Bank-specific indicators, the Scoring model includes several systemic risk indicators, which fully cover the systemic risk that affects the bank's liquidity risk.

The scoring model gives the result (number) of risk levels, which represents an assessment of the Bank's liquidity position.

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.6. Liquidity risk management *(continued)*

The liquidity risk assessment is described by the following risk levels:

1. Low liquidity risk 0% - 15%
2. Acceptable liquidity risk 15% - 30%
3. Moderate liquidity risk 30% - 45%
4. High liquidity risk 45% - 60%
5. Extremely high liquidity risk 60% - 100%

The Bank's exposure to liquidity risk as of December 31, 2020 is at the very threshold between low and acceptable level, because the result of a Scoring model is 15.38% (31 December 2019: 13.97%).

In case of exposure to high liquidity risk, the Bank would activate the Plan for liquidity in unpredictable circumstances.

The following table details the Bank's remaining contractual maturities for financial assets and liabilities. The table has been prepared on the basis of undiscounted cash flows of financial assets and liabilities, including interest on those assets that will be earned, except for assets on which the Bank expects cash flows to occur in another period.

The following table presents analysis of assets and liabilities per maturity based on remaining period from balance sheet date to agreed due date.

December 31, 2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Without maturity date	Total
Financial assets							
Cash and balances with the CBBiH	171,387	-	-	-	-	49,160	220,547
Placements with banks	82,442	5,869	400	-	-	-	88,711
Loans to customers	44,533	95,957	225,547	362,264	144,491	-	872,792
Financial assets at fair value through profit and loss	-	-	1,544	-	-	-	1,544
Financial assets at fair value through OCI	10,669	9,778	19,293	83,289	3,388	7,140	133,557
Other financial assets	3,549	-	-	-	-	-	3,549
Total	**312,580**	**111,604**	**246,784**	**445,553**	**147,879**	**56,300**	**1,320,700**
Financial liabilities							
Banks' deposits	5,171	8,802	1	147	-	-	14,121
Customers' deposits	642,834	29,747	121,777	231,411	741	-	1,026,510
Borrowings	4,046	2,021	10,617	10,584	-	-	27,268
Subordinated debt	142	22	228	1,047	6,910	-	8,349
Other financial liabilities	17,128	-	-	-	-	-	17,128
Total	**669,321**	**40,592**	**132,623**	**243,189**	**7,651**	**-**	**1,093,376**
Exposure to liquidity risk, net	**(356,741)**	**71,012**	**114,161**	**202,364**	**140,228**	**56,300**	**227,324**

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.6. Liquidity risk management *(continued)*

December 31, 2019 (restated)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Without maturity date	Total
Financial assets							
Cash and balances with the CBBiH	180,754	-	-	-	-	47,660	228,414
Placements with banks	95,880	130	-	4,083	-	-	100,093
Loans to customers	47,971	73,383	249,501	362,345	141,895	-	875,095
Financial assets at fair value through profit and loss	-	-	161	1,287	-	-	1,448
Financial assets at fair value through OCI	1,931	4	22,055	70,094	4,250	6,540	104,874
Other financial assets	3,801	-	-	-	-	-	3,801
Total	**330,337**	**73,517**	**271,717**	**437,809**	**146,145**	**54,200**	**1,313,725**
Financial liabilities							
Banks' deposits	5,870	3,912	6,994	-	-	-	16,776
Customers' deposits	597,622	32,782	147,881	240,409	1,536	-	1,020,230
Borrowings	9	199	13,295	23,191	-	-	36,694
Subordinated debt	277	22	359	2,092	8,479	-	11,229
Other financial liabilities	12,863	310	1,395	4,147	-	-	18,715
Total	**616,641**	**37,225**	**169,924**	**269,839**	**10,015**	**-**	**1,103,644**
Exposure to liquidity risk, net	**(286,304)**	**36,292**	**101,793**	**167,970**	**136,130**	**54,200**	**210,081**

5. Bank's financial risk management *(continued)*

5.7. Fair value of financial assets and liabilities

Fair value is defined as the price that the Bank would obtain to sell a financial asset or to pay for the transfer of a liability in the ordinary course of business between market participants at the measurement date (i.e. an exit price). This emphasizes that fair value is a market-based measure. The standard assumes a fair value hierarchy where level 1 is the preferred method where available:

- Level 1 – quoted price for identical financial instruments, i.e. identical assets and liabilities in active markets
- Level 2 – other visible inputs for assets or liabilities such as quoted prices in active markets for similar assets or liabilities, or quoted prices for identical assets or liabilities in inactive markets
- Level 3 – invisible input developed by the entity using the best available information that has no market activity (or is negligible) for the asset or liability at the measurement date

5.7.1. Fair value of financial assets and financial liabilities of the Bank which are measured at fair value on a recurring basis, from period to period

Debt securities and equity securities are carried in the Bank's balance sheet at fair value. The reduction to fair value is performed at the end of each month, and the difference in value in relation to the purchase value is recorded in the benefit / debit of capital.

As at 31 December 2020, all securities are classified as financial assets at fair value through other comprehensive income (FVOCI) at credit risk level 1 (Stage 1) and serve as liquidity reserves. Valuation is performed at fair value in accordance with IFRS. Valuation effects are presented in the Statement of changes in equity within the item Other comprehensive income / loss (fair value reserves). The total market value of securities, including accrued interest, amounts to BAM 133,533 thousand (31.12.2019: BAM 104,831 thousand).

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.7. Fair value of financial assets and liabilities *(continued)*

5.7.1. Fair value of financial assets and financial liabilities of the Bank which are measured at fair value on a recurring basis, from period to period (continued)

The following table presents information on how the fair value of securities available for sale is measured (valuation techniques and input data used, in particular).

Fair value as of		Fair value hierarchy
December 31, 2020	**December 31, 2019**	
Debt securities: • Republic of Slovenia (short-term treasury bills) BAM 24,494 thousand • Republic of Slovenia (long-term bonds) BAM 18,618 thousand • Kingdom of Belgium (long-term bonds) – BAM 9,166 thousand • Republic of France (long-term bonds) – BAM 7,256 thousand • United States of America (long-term bonds) BAM 1,600 thousand	**Debt securities:** • Republic of Slovenia (short-term treasury bills) BAM 11,763 thousand • Republic of Slovenia (long-term bonds) BAM 8,967 thousand • Kingdom of Belgium (long-term bonds) – BAM 9,381 thousand • Republic of France (long-term bonds) – BAM 3,392 thousand • United States of America (long-term bonds) BAM 1,756 thousand	Level 1
Debt securities: • Ministry of Finance FBiH (long-term bonds) – BAM 31,386 thousand • Ministry of Finance RS (long-term bonds) – BAM 21,706 thousand • Ministry of Finance FBiH (short-term treasury bills) – BAM 8,996 thousand • City Banja Luka (long-term bonds) – BAM 1,436 thousand • Ministry of Finance RS (short-term treasury bills) – BAM 991 thousand • Canton Sarajevo (long-term bonds) – BAM 744 thousand	**Debt securities:** • Ministry of Finance FBiH (long-term bonds) – BAM 31,995 thousand • Ministry of Finance RS (long-term bonds) – BAM 21,944 thousand • JP Autoceste FBiH (long-term bonds) – BAM 5,723 thousand • City Banja Luka (long-term bonds) – BAM 1,768 thousand Canton Sarajevo (long-term bonds) – BAM 1,002 thousand	Level 2
Equity securities: • Mastercard Incorporated – BAM 7,045 thousand • SWIFT Belgium – BAM 67 thousand • RVP FBiH – BAM 14 thousand • UBBIH – BAM 14 thousand	**Equity securities:** • Mastercard Incorporated – BAM 6,449 thousand • SWIFT Belgium – BAM 63 thousand • RVP FBiH – BAM 14 thousand • UBBIH – BAM 14 thousand	Level 3

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.7. Fair value of financial assets and liabilities *(continued)*

5.7.2. Fair value of financial assets and financial liabilities of the Bank which are measured at fair value on a recurring basis

The fair value of loans and deposits is calculated by different segments, products and residual maturities. The calculations are based on the net value of the loan increased by future interest. All future cash flows from principal and interest are discounted to present value.

When calculating fair value, the following criteria are taken into account:

1. The calculation is based on data from individual contracts.
2. Performing (loans of ABC creditworthiness clients) and non-performing (loans of DE creditworthiness clients) are especially considered.
3. Segmentation of loans and deposits (government, banks, financial organizations, companies and households) is taken into account.
4. The calculation of fair value shall take into account the expected cash flows from loans and deposits, from principal and interest, from depreciation plans, at the remaining maturity of each cash flow, whereby the cash flow from each contract is reduced by the calculated value adjustments and provisions, while accrued interest is not taken into account.

Future cash flows of loans and deposits are discounted at the market interest rate in accordance with the net present value methodology, whereby the discount factor consists of the market curve and spread for deposits and performing loans, ie the market curve and the discount factor of 20% for non-performing loans.

Calculated fair value of financial instruments as at 31.12.2020. is presented below and has no impact on the Bank's existing accounting records:

		December 31, 2020		December 31, 2019	
Financial assets	**Fair value hierarchy**	**Book value**	**Fair value**	**Book value**	**Fair value**
Placements with banks	Level 3	88,709	88,721	100,093	100,115
Loans to clients	Level 3	771,141	800,792	772,828	765,050
Total		**859,850**	**889,513**	**872,921**	**865,165**
Financial liabilities					
Banks' deposits	Level 3	14,120	14,129	16,774	16,789
Deposits of parties that are not banks	Level 3	1,021,072	1,022,353	1,007,697	1,007,564
Borrowings	Level 3	27,149	27,865	34,338	35,496
Subordinated debt	Level 3	5,996	6,014	5,997	6,018
Total		**1,068,337**	**1,070,361**	**1,064,806**	**1,065,867**

5. Bank's financial risk management *(continued)*

5.8. Operational risk management

Operational risk management as an important part of the Bank's business activities enables the Bank to operate with its activities successfully and to preserve its reputation.

The Bank performs the following activities with regards to operational risk:

- Permanent identification and risk assessment activities, the identification of all operational risks in business activities in the Bank, in new processes, new products, as well as operating risks related to hiring external suppliers,
- Activities of regular re-identification on an annual basis, review of previously identified operating risks,
- Semi-annual reporting to the Operational risk management board on the maximum limit of risk tolerance, important operational risks of categories A and B (with proposals for their overcoming), as well as important damage events,
- Annual calculation of the Bank's risk profile and comparative overview with risk profile for the previous year and reporting to NLB d.d. and the Operational risk management board,
- Monthly data collection and reporting on negative events,
- Quarterly reporting to the Banking Agency of FBiH,
- Reporting to the Operational Risk Management Committee on the results of monitoring key risk indicators,
- Stress testing in the area of operational risk and reporting to the Operational Risk Management Committee and the FBiH Banking Agency on the results.

In order to improve processes for operational risk management, the Bank performed the following activities:

- Regular activities related to adequate operational risk management for all processes, new projects, outsourcing, and the development of new products, processes and systems, as well as projects being implemented,
- Continuous activities on the identification of operational risks related to "cyber" crime, inadequate software operations, risks of data incorrectly entered into the software, natural disasters risks, risks of noncompliance with legislation, rules, regulations, agreements, prescribed practices, ethical standards and other operational risks that have a little chance of occurrence but may have a very high financial effect, or they represent a very high risk to the reputation of the Bank, and other specific operational risks to which they would like to draw attention,
- Special emphasis on compliance risk (risk of loss due to legal sanctions), risk of conduct (risk of loss due to deliberate deception of customers in the presentation of products and services, and inadequate treatment of clients in resolving their complaints), risks arising from potential adverse events occurred, and the risk of terrorist attacks,
- Permanent support of audit recommendations in assessing the adequacy of system of controls in certain business areas,
- Preparation of analyses of operational risk within the most important business processes,
- Establishing and monitoring of adequacy of formed provisions to cover operational risk in accordance with the Federal Banking Agency regulations, and guidelines of the Group, with the purpose of creating consolidated reports, and reporting to Bank authorities, the Operating risks department, and NLB d.d. Ljubljana,
- Holding meetings of the Operational risk management board on a monthly basis,
- Continuous education of employees on processes of identification of operational risks and reporting on recorded harmful events, potential harmful events and increasing awareness on the presence of such risks in the working environment of all Bank employees,
- Owners of operational risk processes have been appointed in order to identify significant / key / systemic risks in individual processes, define specific measures for risk management and centralized monitoring of implementation.

5. Bank's financial risk management *(continued)*

5.9. Capital risk management

In accordance with the Law on Banks of Federation of Bosnian and Herzegovina (Official gazette of FBiH, number: 27/17), the minimum amount of the Bank's subscribed founding capital cannot be less than BAM 15,000 thousand.

The aim of managing of the Bank's capital is to ensure and maintain the optimum volume, structure and sources of capital, to enable:

- Ensure all legal (regulatory) requirements,
- Cover all risks assumed in the Bank's operations,
- Continuous achievement of strategic goals of the Bank and
- Achieving optimal return on equity to shareholders.

The Bank's Management monitors capital adequacy indicators and other business indicators monthly, and reports on indicators' actual values are delivered to the FBA quarterly in a prescribed form.

The Bank, in accordance with the Decision on Calculating the Capital of the Bank (FBiH Official Gazette, No. 81/17, 50/19, 37/20 and 81/20) (hereinafter: the Decision), must at all times meet the following minimum capital requirements:

1. regular share capital rate of 6.75% (CET1 rate), as a ratio of ordinary share capital to total risk exposure,
2. a fixed capital rate of 9% (T1 rate), as a ratio of share capital to total risk exposure, and
3. a regulatory capital rate of 12%, as the ratio of regulatory capital to the total amount of risk exposure.

According to this Decision, the regulatory capital of the Bank represents the sum of core and additional capital, after regulatory adjustments:

1. Core Bank capital (Tier 1) represents sum of regular core capital items (CET 1) after regulatory adjustments and additional core capital items (AT1) after regulatory adjustments.
2. Additional capital of Bank (Tier 2) is the sum of capital instruments, subordinated debts, and other items of additional capital after deduction for regulatory compliance, which cannot be more than one-third of the core capital.

(All amounts are given in thousand BAM unless otherwise stated)

5. Bank's financial risk management *(continued)*

5.9. Capital risk management *(continued)*

The Bank calculates total risk exposure as a sum of the following item:
- Exposure weighted with risk for credit risk,
- Capital requirements relating to market risks (foreign exchange risk, settlement risk, commodity risk) and
- Capital requirements for operational risk.

When calculating the total amount of risk exposure, the Bank multiplies capital requirements relating to market risks and operational risk with 12.5.
Also, the Bank must maintain a conservation buffer of capital in the form of regular core capital in the amount of 2.5% of the total amount of risk exposure. The capital conservation buffer represents a part of the ordinary core capital above the prescribed minimum of 6.75% of the total amount of risk exposure and cannot be used to maintain the rate of the core and the total capital rate.
The FBA may determine the rate of capital buffer for a systemically important bank in the amount of 0% to 2% of the total amount of exposure to risk.

The requirement for a combined equity conservation buffer is core capital (expressed as a percentage of the total amount of risk exposure), which is intended to meet the requirements for a capital conservation buffer, plus the following conservation buffers, depending on what is applicable:
1. Countercyclical buffer specific for the bank
2. Buffer for a systemically important bank and
3. Systemic risk buffer.

The application of Countercyclical buffer specific for the bank, buffer for a systemically important bank and systemic risk buffer are not prescribed yet.

Since the beginning of the application of the Decision on the calculation of Bank capital, the Bank maintains a regulatory capital rate above the required minimum of 12% and fulfills requirement for maintenance of capital conservation buffer of 2.5%, as well as an additional requirement for Risk Appetite of the Bank of 0.5%.

The following table presents regulatory capital items, amount of exposure to risk, and capital ratios in accordance with the Decision as of December 31, 2020:

	December 31, 2020	December 31, 2019 (restated)	December 31, 2019
Regulatory capital of the Bank	**145,894**	**140.642**	**134,798**
Exposure weighted with credit risk	730,837	737,933	734,708
Risk exposure for valuation risk	23,116	31,263	21,588
Risk exposure for operational risk	60,541	86,955	86,955
Total risk exposure	**814,494**	**856,151**	**843,251**
Regular core capital ratio	**17.19%**	**16.18%**	**15.74%**
Core capital ratio	**17.19%**	**16.18%**	**15.74%**
Regulatory capital ratio	**17.91%**	**16.43%**	**15.99%**
Regular Core Capital Rate including adjustments from Tier 2	8.14%	8.00%	8.00%
Core capital rate including adjustments from Tier 2	10.86%	10.66%	10.66%
Regulatory capital rate including adjustments from Tier 2	14.47%	14.22%	14.22%

5. Bank's financial risk management *(continued)*

5.9. Capital risk management *(continued)*

The ICAAP is an important part of capital planning. ICAAP defines a set of restrictions for different types of risks (all relevant types of risks to which the Bank may be exposed, not only materially the largest), in terms of their consumption of capital under normal and stressful conditions.

ICAAP's most important goal at the Bank is to ensure adequate capital and sustainability in every moment. The purpose of the ICAAP process is for the Bank to have in place sound, effective and comprehensive strategies and processes for assessing and maintaining current amounts, types and allocation of internal capital that are considered adequate to cover the nature and level of risk to which the Bank may or may be exposed. ICAAP plays a key role in maintaining the continuity of the Bank's operations by ensuring its adequate capitalization.

An economic perspective gives a very comprehensive view of risks. From an economic perspective, the goal is to provide the capital needed internally for the risks that could cause economic loss, based on current quantification and using very high levels of reliability to estimate unexpected losses. Some of these risks, or the risks associated with them, can be partially or fully materialized later under a normative perspective through the adverse impact on the income statement that results in a decrease in equity. Therefore, the Bank is expected to evaluate in a regulatory perspective the extent to which risks identified and quantified in the economic perspective could affect equity and the total amount of risk exposure in the future.

The Normative Perspective (Baseline Scenario) is a five-year assessment of the Bank that demonstrates its ability to meet all regulatory requirements related to equity and the Bank's Risk Appetite. Within these capital constraints, the Bank defines its risk layers in Risk Appetite above regulatory minimums and internal capital requirements that enable it to sustainably monitor its business strategy.

The Normative perspective (adverse stress scenario) includes the results of the stress tests performed. In a perspective that includes stress scenarios, the Bank seeks to meet the capital adequacy ratio, including three-year projections of adverse developments that imply the Bank's exhaustion of capital.

Data presented on December 31, 2020 at the time of preparation of these reports have not yet been audited given that the regulatory audit deadline is May 31, 2020.

As of January 1, 2020, the Bank has implemented the Decision on Credit Risk Management and Determination of Expected Credit Losses, published by the Banking Agency of the Federation of Bosnia and Herzegovina. The Bank modified the methodology for determining expected losses in accordance with the aforementioned Decision and calculated the effects of additional expected credit losses in the amount of BAM 3.7 million. Capital adequacy as at January 1, 2020 after the application of the abovementioned Decision decreased from **15.99%** to **15.97%**.

(All amounts are given in thousand BAM unless otherwise stated)

6. Net Interest Income

a. Interest Income calculated using the effective interest rate

	2020	2019
Loans measured at amortized cost	39,359	40,455
Financial assets at FVOCI	2,322	1,972
Unwinding (*Note 14*)	115	237
Placements with banks	27	162
Other interest and similar income	22	12
Interest Income	**41,845**	**42,838**
Other interest income not calculated using the effective interest rate		
Loans measured at fair value	135	124
Modification income	49	-
Total interest income	**42,029**	**42,962**

b. Interest Expense

	2020	2019
Deposits	4,130	4,948
Loan liabilities	850	1,008
Subordinated debt	262	130
Discount amount of provision under IAS 19 (*Note 25a*)	37	48
Other interest expenses	1,984	1,398
Modification expense	181	-
Interest Expense	**7,444**	**7,532**
Net Interest Income	**34,585**	**35,430**

7. Net fee and commission income

a. Fee and commission income

	2020	2019
Income from domestic and international payment transactions	20,332	21,049
Income from guarantees and letters of credit	1,403	1,210
Income from other activities	3,625	3,911
Fee and commission income	**25,360**	**26,170**

b. Fee and commission expense

	2020	2019
Payment transactions and other banking services expenses	6,843	7,232
Deposit insurance expenses	2,232	2,084
Fee and commission Expense	**9,075**	**9,316**
Net fees and commission income	**16,285**	**16,854**

The Bank did not disclose the value of any open performance obligations at 31 December 2020, as its contracts with clients generally have a fixed term that is less than one year, an open term with a cancellation period that is less than one year.

(All amounts are given in thousand BAM unless otherwise stated)

8. Impairment losses (net)

	2020				2019
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
Cash and accounts at CBBiH (*Note 12*)	(13)	-	-	(13)	(16)
Placements with banks (*Note 13*)	11	-	-	11	-
Loans to customers (*Note 14*)	(7,059)	9,387	8,879	11,207	3,327
Debt instruments at fair value through OCI (*Note 16*)	(179)	1	-	(178)	(75)
Other assets (*Note 19*)	226	101	79	406	227
Contingencies and commitments (*Note 27*)	(829)	(10)	(241)	(1,080)	314
Allowance for general credit risk and potential credit losses (net)	(7,843)	9,479	8,717	10,353	3,777
Provisions for litigations (net) (*Note 25b*)	(31)	-	-	(31)	485
Provisions for missing documentation in managed funds operations	64	-	-	64	-
	(7,810)	**9,479**	**8,717**	**10,386**	**4,262**

9. Foreign exchange gains

	2020	**2019**
Fee income from foreign exchange transactions	894	1,222
Fee expense from foreign exchange transactions	(100)	(113)
	794	1,109
Foreign exchange differences, net	2	8
	796	**1,117**

10. General and administrative expenses

	2020	**2019**
Depreciation of tangible and intangible asset and right-of-use assets	3,603	2,772
Maintenance	2,053	1,746
Postal and telecommunications services cost	1,160	1,073
Security costs	1,152	1,114
Services	977	939
Marketing costs	825	831
Fees to FBA	771	743
Office supplies and small inventory	660	582
Utilities	634	717
Rent	551	712
Insurance of property and employees	353	303
Other taxes and contributions	345	321
Legal expenses and other administrative expenses	260	156
Cleaning costs	223	236
Management fee	114	-
Other employees' expenses	37	188
	13,718	**12,433**

(All amounts are given in thousand BAM unless otherwise stated)

10.a. Employees' expenses

	2020	2019
Net salaries	8,410	8,732
Taxes and contributions	5,172	5,364
Meal and transport	912	1,110
Holiday allowance	514	507
Other	357	562
	15,365	16,275
Provision for regular severance payments, provisions for unused vacation (*Note 25*)	529	111
	15,894	16,386

Provisions for regular severance payments in 2020 amounted to BAM 81 thousand (2019: BAM 94 thousand), provisions for holiday allowance amounted to BAM 193 thousand, provisions for employees with specific jobs amounted to BAM 173 thousand, and provisions for variable part of employees' remunerations amounted to BAM 82 thousand.
The average number of employees by calculated hours in 2020 was 428 (2019: 434).

10.b. Other operating income

	2020	2019
Income from recovered written off receivables	1,768	284
Income from disposal (sale) of fixed assets	244	19
Income from early termination of term deposits	125	249
Dividend income	24	23
Income from sale of repossessed tangible assets	89	188
Subsequently determined interest and fee income	10	7
Other revenues	197	263
	2,457	1,032

11. Income tax

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

	2020	2019
Income tax for the year	1,307	2,520
Deferred tax	(152)	-
	1,155	2,520

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

	2020	2019
Profit before tax	14,042	21,074
Income tax at the statutory rate of 10%	1,404	2,107
Capital gains/losses	(162)	3,755
Non-taxable income	(273)	(542)
Effect of non-deductible expenses	110	1,223
Temporary tax differences	1,518	905
Tax reliefs	(2,161)	(1,219)
Tax base	13,074	25,196
Income tax expense	1,307	2,520
Effective income tax rate for the year	9.31%	11.96%

(All amounts are given in thousand BAM unless otherwise stated)

11. Income tax (continued)

11.a Deferred tax assets and liabilities

Movement in deferred tax assets

	2020	2019
Balance as at December 31, previous year	-	-
Deferred tax assets-other provisions	57	-
Deferred tax assets-stage 1 and 2 impairment allowances	92	-
Deferred tax assets-impairment of other assets	3	-
Balance as at December 31	**152**	**-**

Movement in deferred tax liabilities

	2020	2019
Balance as at December 31, previous year	645	-
Deferred tax liabilities-equity securities	63	645
Deferred tax liabilities-debt securities	115	-
Balance as at December 31	**823**	**645**

Deferred tax (tax assets or tax liabilities) is recognized for the difference between the carrying amount for tax purposes and the carrying amount for the following items:

	Deferred tax assets	Deferred tax liabilities	Net deferred tax assets / (liabilities)
Balance at 31.12.2018	-	-	-
Change in fair value of financial assets at fair value through other comprehensive income	-	645	645
Changes in other reserves at actuarial gain/loss	-	-	-
Other provisions for loans and receivables from clients through profit or loss	-	-	-
Net deferred tax liability for depreciation	-	-	-
Netting tax assets	-	-	-
Balance at 31.12.2019	**-**	**645**	**645**
Change in fair value of financial assets at fair value through other comprehensive income	-	178	178
Changes in revaluation reserves at actuarial gain/loss	-	-	-
Other provisions for loans and receivables from clients through profit or loss	(57)	-	(57)
Gain-deferred tax assets Stage 1 and 2	(92)	-	(92)
Net deferred tax liability for depreciation	-	-	-
Changes in negative fair value of property and equipment recognized in profit or loss	(3)	-	(3)
Changes in positive fair value of property and equipment recognized in other comprehensive income	-	-	-
Netting tax assets	152	(152)	-
Balance at 31.12.2020	**-**	**671**	**671**

(All amounts are given in thousand BAM unless otherwise stated)

12. Cash and balances with the Central Bank of BiH

	December 31, 2020	December 31, 2019
Cash in hand	49,185	47,844
Balances with the Central Bank of Bosnia and Herzegovina	171,558	180,754
- Obligatory reserve	107,458	107,402
- Liquidity reserves in excess of obligatory reserve	64,100	73,352
	220,743	**228,598**
Less: Value adjustment	(196)	(184)
	220,547	**228,414**

Cash and cash equivalents include cash in hand and balances on accounts with the Central Bank of BiH, and cash on accounts with other banks without placements to banks with maturity more than 30 days and without related accrued due and not due interests and commissions.

The obligatory reserve represents amounts required to be deposited with the Central Bank of Bosnia and Herzegovina. According to the Law on the Central Bank of Bosnia and Herzegovina, starting from July 1, 2016 the obligatory reserve requirement represents 10% of average ten-day deposits and borrowings in BAM, no matter what currency the funds are expressed. The obligatory reserve is maintained through average account balances with the Central Bank of Bosnia and Herzegovina.

Central bank on the account of reserves in the reporting period:
- On the amount of obligatory reserves - does not charge fee,
- On the amount of funds above obligatory reserves – charges a fee at rate which is applied by the European Central Bank on deposits of commercial banks (Deposit Facility Rate). If there is a change in the value of the Deposit Facility Rate during the maintenance period, the rate applicable on the first day of the maintenance period during which the Deposit Facility Rate changes.

(All amounts are given in thousand BAM unless otherwise stated)

13. Placements with banks

	December 31, 2020 Stage 1	Stage 2	Stage 3	Total	2019
Current accounts with banks	81,034	-	-	-	93,794
Items in the course of collection	-	-	-	-	-
Non-interest bearing deposit	-	-	-	-	4,000
Interest-bearing deposits	7,861	-	-	-	2,318
	88,895	-	-	-	**100,112**
Less: Impairment allowance	(186)	-	-	-	(19)
	88,709	-	-	-	**100,093**

The table below presents the gross exposure of the Bank in a form of placements with banks according to the internal rating system (internal classification) and by the level of credit risk (stage classification) at the end of the year:

	December 31, 2020				
	Stage 1 Collective assessment	Stage 2 Collective assessment	Stage 3	Total	2019
Internal classification					
A	43,566	-	-	43,566	54,210
B	45,329	-	-	45,329	45,883
	88,895	-	-	**88,895**	**100,093**

Change in gross carrying amount value and related value adjustment in 2020 is, as follows:

	Stage 1 Collective assessment	Stage 2 Collective assessment	Stage 3	Total
Gross carrying value December 31, 2019	**100,112**	-	-	**100,112**
New assets originated or purchased	8,322	-	-	8,322
Assets derecognized or matured (excluding write-offs)	(19,539)	-	-	(19,539)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At December 31, 2020	**88,895**	-	-	**88,895**

(All amounts are given in thousand BAM unless otherwise stated)

13. Placements with banks *(continued)*

	Stage 1 Collective assessment	Stage 2 Collective assessment i	Stage 3	Total
Impairment losses at December 31, 2019	**19**	-	-	**19**
Effects of the first application of the Decision on credit risk management and determination of expected credit losses (Official Gazette of FBiH 44/19) – change in the methodology for calculating impairment (Note 4.1)	161	-	-	161
New assets originated or purchased	29	-	-	29
Assets derecognized or matured (excluding write-offs)	(23)	-	-	(23)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At December 31, 2020	**186**	-	-	**186**

	Stage 1 Collective assessment	Stage 2 Collective assessment	Stage 3	Total
Gross carrying value December 31, 2018	***100,133***	-	-	***100,133***
New assets originated or purchased	21,051	-	-	21,051
Assets derecognized or matured (excluding write-offs)	(21,072)	-	-	(21,072)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At December 31, 2019	**100,112**	-	-	**100,112**

	Stage 1 Collective assessment	Stage 2 Collective assessment i	Stage 3	Total
Impairment losses at December 31, 2018	***19***	-	-	***19***
New assets originated or purchased	3	-	-	3
Transfers to Stage 1	(3)	-	-	(3)
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At December 31, 2019	**19**	-	-	**19**

(All amounts are given in thousand BAM unless otherwise stated)

14. Loans to customers

	Short-term loans December 31, 2020	Short-term loans December 31, 2019	Long-term loans December 31, 2020	Long-term loans December 31, 2019	Total loans December 31, 2020	Total loans December 31, 2019
Retail loans	29,755	32,720	427,684	417,112	457,439	449,832
Corporate loans	192,217	221,550	164,056	173,853	356,273	395,403
	221,972	**254,270**	**591,740**	**590,965**	**813,712**	**845,235**
Less: Allowance for impairment losses	(11,086)	(25,172)	(31,485)	(47,235)	(42,571)	(72,407)
	210,886	**229,098**	**560,255**	**543,730**	771,141	772,828

In the table below are presented the gross exposure of the Bank in a form of loans to customers according to the internal rating system (internal classification) and credit risk levels (stage classification) at the end of the year:

31.12.2020

	Stage 1 Individual assessment	Stage 1 Collective assessment	Stage 2 Individual assessment	Stage 2 Collective assessment	Stage 3 Individual assessment	Stage 3 Collective assessment	Total
Internal rating							
A	-	456,018	-	2,046	-	-	458,064
B	-	267,608	-	6,153	-	-	273,761
C	-	4,898	-	42,819	-	-	47,717
D and E	-	-	-	-	9,931	24,239	34,170
	-	**728,524**	**-**	**51,018**	**9,931**	**24,239**	**813,712**

31.12.2019.

	Stage 1 Individual assessment	Stage 1 Collective assessment	Stage 2 Individual assessment	Stage 2 Collective assessment	Stage 3 Individual assessment	Stage 3 Collective assessment	Ukupno
Internal rating							
A	-	434,068	-	29,444	-	927	464,439
B	-	252,885	-	32,228	112	1,830	287,055
C	-	10,730	-	19,736	-	3,097	33,563
D and E	-	-	-	-	36,214	23,964	60,178
	-	**697,683**	**-**	**81,408**	**36,326**	**29,818**	**845,235**

(All amounts are given in thousand BAM unless otherwise stated)

14. Loans to customers *(continued)*

Movement in the value adjustment of loans in 2020 and 2019 is presented in following table:

	2020	2019
1 January	**72,407**	**73,246**
Effects of the first application of the Decision on credit risk management and determination of expected credit losses (Official Gazette of FBiH 44/19) - change of methodology for calculating value adjustment (Note 4.1)	2,637	-
Effects of the first application of the Decision on credit risk management and determination of expected credit losses (Official Gazette of FBiH 44/19) - Accounting write-off	(27,033)	-
Charge for the year	38,054	27,432
Decrease in provisions	(27,043)	(24,183)
Charge for the year, net (*Note 8*)	11,011	3,249
Decrease in provisions on the basis of unwinding (*Note 6a*)	(115)	(237)
Net impairment of interest receivables (*Note 8*)	196	78
Accounting write-off during the year	(13,706)	-
Write-offs	(2,826)	(3,929)
31 December	**42,571**	**72,407**

In the following text are presented loans to customers per segments and credit risk levels at December 31, 2020 and December 31, 2019:

31,12,2020

	Stage 1		Stage 2		Stage 3		
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total
Retail loans							
Housing loans	-	71,742	-	1,061	191	1,426	74,420
Consumer loans	-	326,697	-	5,544	162	21,171	353,574
Other retail loans	-	27,937	-	414	14	1,080	29,445
	-	**426,376**	**-**	**7,019**	**367**	**23,677**	**457,439**
Corporate loans							
Corporate clients	-	262,889	-	37,989	4,602	48	305,528
SME clients	-	28,180	-	4,315	4,307	123	36,925
Other clients	-	11,079	-	1,695	655	391	13,820
	-	**302,148**	**-**	**43,999**	**9,564**	**562**	**356,273**
	-	728,524	-	51,018	9,931	24,239	813,712
Less: Impairment allowance	-	(6,232)	-	(8,084)	(6,272)	(21,983)	(42,571)
Total loans (net)	**-**	**722,292**	**-**	**42,934**	**3,659**	**2,256**	**771,141**

(All amounts are given in thousand BAM unless otherwise stated)

14. Loans to customers *(continued)*

	31,12,2019						
	Stage 1		Stage 2		Stage 3		
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total
Retail loans							
Housing loans	-	52,407		6,352	119	1,762	60,640
Consumer loans	-	307,674		27,478	472	23,232	358,856
Other retail loans	-	26,400		2,255	4	1,677	30,336
	-	**386,481**		**36,085**	**595**	**26,671**	**449,832**
Corporate loans							
Corporate clients	-	269,060		37,884	6,530	48	313,522
SME clients	-	29,244		5,678	14,315	300	49,537
Other clients	-	12,898		1,761	14886	2,799	32,344
	-	**311,202**		**45,323**	**35,731**	**3,147**	**395,403**
	-	697,683		81,408	36,326	29,818	845,235
Less: Impairment allowance	-	(6,750)		(3,831)	(32,929)	(28,897)	(72,407)
Total loans (net)	-	**690,933**		**77,577**	**3,397**	**921**	**772,828**

Changes in the gross carrying amount and the related impairment allowances for loans to customers in 2020 are presented in note 14.1. and 14.2, below.

(All amounts are given in thousand BAM unless otherwise stated)

14. Loans to customers *(continued)*

14.1. Retail loans

Changes in the gross carrying amount and the related value adjustments for retail loans in 2020 are, as follows:

	Stage 1		**Stage 2**		**Stage 3**		**Total**
	Individual	Collective	Individual	Collective	Individual	Collective	
Gross carrying amount as at December 31, 2019	-	**386,481**	-	**36,085**	**595**	**26,671**	**449,832**
New assets originated or purchased	-	137,170	-	867	-	901	138,938
Assets derecognized or matured (excluding write-offs)	-	(105,890)	-	(9,607)	(494)	(12,904)	(128,895)
Transfers to Stage 1	-	22,392	-	(21,747)	-	(645)	-
Transfers to Stage 2	-	(4,542)	-	4,663		(121)	-
Transfers to Stage 3	-	(9,251)	-	(3,283)	266	12,268	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	16	-	63	-	190	269
Write-offs	-	-	-	(22)	-	(2,683)	(2,705)
At December 31, 2020	-	**426,376**	-	**7,019**	**367**	**23,677**	**457,439**

	Stage 1		**Stage 2**		**Stage 3**		**Total**
	Individual	Collective	Individual	Collective	Individual	Collective	
ECL Allowance as at December 31, 2019	-	**2,957**	-	**2,089**	**546**	**25,742**	**31,334**
New assets originated or purchased	-	954	-	166	-	701	1,821
Assets derecognized or matured (excluding write-offs)	-	7,228	-	1,061	(467)	(12,930)	(5,108)
Transfers to Stage 1	-	141	-	(137)	-	(4)	-
Transfers to Stage 2	-	(826)	-	854	-	(28)	-
Transfers to Stage 3	-	(7,691)	-	(2,872)	123	10,440	-
Changes to contractual cash flows due to modification not resulting in de-recognition	-	-	-	14	-	185	199
Write-offs	-	-	-	(22)	-	(2,683)	(2,705)
At December 31, 2020	-	**2,763**	-	**1,153**	**202**	**21,423**	**25,541**

(All amounts are given in thousand BAM unless otherwise stated)

14. Loans to customers *(continued)*

14.1. Retail loans

	Stage 1		Stage 2		Stage 3		Total
	Individual	Collective	Individual	Collective	Individual	Collective	
Gross carrying amount as at December 31, 2018	-	***355,414***	-	***34,896***	***1,025***	***26,348***	***417,683***
New assets originated or purchased	-	147,012	-	11,130	-	700	158,842
Assets derecognized or matured (excluding write-offs)	-	(110,155)	-	(10,624)	(328)	(3,408)	(124,515)
Transfers to Stage 1	-	2,796	-	(1,750)	-	(1,046)	-
Transfers to Stage 2	-	(3,804)	-	4,080	-	(276)	-
Transfers to Stage 3	-	(4,775)	-	(1,652)	112	6,315	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	5	-	128	133
Write-offs	-	(7)	-	-	(214)	(2,090)	(2,311)
At December 31, 2019	-	**386,481**	-	**36,085**	**595**	**26,671**	**449,832**

	Stage 1		Stage 2		Stage 3		Total
	Individual	Collective	Individual	Collective	Individual	Collective	
ECL Allowance as at December 31, 2018	-	***1,526***	-	***1,464***	***1,025***	***25,423***	***29,438***
New assets originated or purchased	-	1,162	-	513	-	614	2,289
Assets derecognized or matured (excluding write-offs)	-	5,291	-	872	(327)	(4,046)	1,790
Transfers to Stage 1	-	27	-	(16)	-	(11)	-
Transfers to Stage 2	-	(689)	-	746	-	(57)	-
Transfers to Stage 3	-	(4,353)	-	(1,490)	62	5,781	-
Changes to contractual cash flows due to modification not resulting in de-recognition	-	-	-	-	-	128	128
Write-offs	-	(7)	-	-	(214)	(2,090)	(2,311)
At December 31, 2019	-	**2,957**		**2,089**	**546**	**25,742**	**31,334**

(All amounts are given in thousand BAM unless otherwise stated)

14. Loans to customers *(continued)*

14.2. Corporate loans

Changes in the gross carrying amount and the related value adjustments for corporate loans in 2020 are, as follows:

	Stage 1		Stage 2		Stage 3		Total
	Individual	Collective	Individual	Collective	Individual	Collective	
Gross carrying amount as at December 31, 2019	-	**311,202**	-	**45,323**	**35,731**	**3,147**	**395,403**
New assets originated or purchased	-	203,836	-	23,313	900	40	228,089
Assets derecognized or matured (excluding write-offs)	-	(205,901)	-	(36,056)	(31,481)	(2,628)	(276,066)
Transfers to Stage 1	-	4,180	-	(4,180)	-	-	-
Transfers to Stage 2	-	(11,172)	-	11,172	-	-	-
Transfers to Stage 3	-	(12)	-	(20)	-	32	-
Changes to contractual cash flows due to modification not resulting in de-recognition	-	15	-	4,447	4,414	93	8,969
Write-offs	-	-	-		-	(122)	(122)
At December 31, 2020	-	**302,148**	-	**43,999**	**9,564**	**562**	**356,273**

	Stage 1		Stage 2		Stage 3		Total
	Individual	Collective	Individual	Collective	Individual	Collective	
ECL allowance as at December 31, 2019	-	**3,793**	-	**1,742**	**32,383**	**3,155**	**41,073**
New assets originated or purchased	-	2,056	-	4,440	451	30	6,977
Assets derecognized or matured (excluding write-offs)	-	(983)	-	(1,416)	(28,776)	(2,631)	(33,806)
Transfers to Stage 1	-	65	-	(65)	-	-	-
Transfers to Stage 2	-	(1,446)	-	1,446	-	-	-
Transfers to Stage 3	-	(17)	-	(21)	-	38	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	1	-	805	2,012	90	2,908
Recoveries	-	-	-	-	-	(122)	(122)
At December 31, 2020	-	**3,469**	-	**6,931**	**6,070**	**560**	**17,030**

(All amounts are given in thousand BAM unless otherwise stated)

14. Loans to customers *(continued)*

14.12. Corporate loans *(continued)*

	Stage 1		Stage 2		Stage 3		Total
	Individual	Collective	Individual	Collective	Individual	Collective	
Gross carrying amount as at December 31, 2018	-	***272,210***	-	***36,921***	***37,351***	***3,814***	***350,296***
New assets originated or purchased	-	210,912	-	35,751	3,552	75	250,290
Assets derecognized or matured (excluding write-offs)	-	(174,058)	-	(23,775)	(17,204)	(770)	(215,807)
Transfers to Stage 1	-	4,137	-	(4,137)	-	-	-
Transfers to Stage 2	-	(1,828)	-	1,828	-	-	-
Transfers to Stage 3	-	(171)	-	(1,275)	1,222	224	-
Changes to contractual cash flows due to modification not resulting in de-recognition	-	-	-	10	11,984	248	12,242
Write-offs	-	-	-	-	(1,174)	(444)	(1,618)
Foreign exchange adjustments	-	-	-	-	-	-	-
At December 31, 2019	-	**311,202**	-	**45,323**	**35,731**	**3,147**	**395,403**

	Stage 1		Stage 2		Stage 3		Total
	Individual	Collective	Individual	Collective	Individual	Collective	
ECL allowance as at December 31, 2018	-	***3,739***	-	***2,352***	***33,903***	***3,814***	***43,808***
New assets originated or purchased	-	2,100	-	692	2,489	61	5,342
Assets derecognized or matured (excluding write-offs)	-	(1,843)	-	(386)	(13,543)	(752)	(16,524)
Transfers to Stage 1	-	84	-	(84)	-	-	-
Transfers to Stage 2	-	(114)	-	114	-	-	-
Transfers to Stage 3	-	(173)	-	(946)	891	228	-
Unwind of discount	-	-	-	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-	9,817	248	10,065
Changes to models and inputs used for ECL calculations	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	(1,174)	(444)	(1,618)
Foreign exchange adjustments	-	-	-	-	-	-	-
At December 31, 2019	-	**3,793**	-	**1,742**	**32,383**	**3,155**	**41,073**

(All amounts are given in thousand BAM unless otherwise stated)

14. Loans to customers *(continued)*

14.3. Loans to customers per days past due

Receivables from customers – Stage 1

At December 31, 2020	Not due	Due in less than 30 days	Due in 31 - 60 days	Due in 61 - 90 days	Due over 90 days	Total
Housing loans	70,335	1,406	-	-	-	71,741
Consumer loans	306,530	20,141	-	-	26	326,697
Other retail loans	26,416	1,519	-	-	3	27,938
Total Retail loans	**403,281**	**23,066**	-	-	**29**	**426,376**
Corporate lending	258,355	4,533	-	-	-	262,888
SME lending	28,180	-	-	-	-	28,180
Other loans	10,599	480	-	-	-	11,079
Total Corporate loans	**297,134**	**5,013**	-	-	-	**302,147**
Total Loans to customers	**700,415**	**28,079**	-	-	**29**	**728,523**
of which: restructured	31	-	-	-	-	*31*
Due from banks	**88,895**	-	-	-	-	**88,895**

At December 31, 2019	Not due	Due in less than 30 days	Due in 31 - 60 days	Due in 61 - 90 days	Due over 90 days	Total
Housing loans	48,785	3,487	136		-	52,408
Consumer loans	286,160	21,142	373		-	307,675
Other retail loans	21,321	4,955	99	23	-	26,398
Total Retail loans	**356,266**	**29,584**	**608**	**23**	-	**386,481**
Corporate lending	265,299	3,761	-	-	-	269,060
SME lending	29,233	11	-	-	-	29,244
Other loans	12,899	-	-	-	-	12,899
Total Corporate loans	**307,431**	**3,772**	-	-	-	**311,203**
Total Loans to customers	**663,697**	**33,356**	**608**	**23**	-	**697,684**
of which: restructured	-	-	-	-	-	-
Due from banks	**100,112**	-	-	-	-	**100,112**

Methodology for group value adjustments and provisions calculation in NLB Banka d.d., Sarajevo defines the levels of material delays for legal entities and individuals, which will result in clients being transferred to Stage 2. Accordingly, Stage 1 contains clients who are over 30 days late, but their delay is not materially significant in order to be transferred to Stage 2.

(All amounts are given in thousand BAM unless otherwise stated)

14. Loans to customers *(continued)*

14.3. Loans to customers per days past due *(continued)*

Receivables from customers – Stage 2

At December 31, 2020	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	160	87	496	319	-	1,062
Consumer loans	1,609	533	2,052	1,350	-	5,544
Other retail loans	165	20	133	96	-	414
Total Retail loans	**1,934**	**640**	**2,681**	**1,765**	**-**	**7,020**
Corporate lending	33,665	4,326	-	-	-	37,991
SME lending	4,173	142	-	-	-	4,315
Other loans	1,553	142	-	-	-	1,695
Total Corporate loans	**39,391**	**4,610**	**-**	**-**	**-**	**44,001**
Total Loans to customers	**41,325**	**5,250**	**2,681**	**1,765**	**-**	**51,021**
of which: restructured	4,510	-	-	-	-	*4,510*
Due from banks	-	-	-	-	-	-

At December 31, 2019	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	5,419	376	514	42	-	6,351
Consumer loans	22,385	1,947	2,625	441	80	27,478
Other retail loans	1,841	282	65	44	24	2,256
Total Retail loans	**29,645**	**2,605**	**3,204**	**527**	**104**	**36,085**
Corporate lending	34,361	3,524	-	-	-	37,885
SME lending	5,512	50	-	116	-	5,678
Other loans	1,507	248	6	-	-	1,761
Total Corporate loans	**41,380**	**3,822**	**6**	**116**	**-**	**45,324**
Total Loans to customers	**71,025**	**6,427**	**3,210**	**643**	**104**	**81,409**
of which: restructured	8	6	-	-	-	14
Due from banks	-	-	-	-	-	-

(All amounts are given in thousand BAM unless otherwise stated)

14. Loans to customers *(continued)*

14.3. Loans to customers per days past due *(continued)*

Receivables from customers – Stage 3

At December 31, 2020	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	271	129	26	-	1,191	1,617
Consumer loans	3,088	935	166	183	16,961	21,333
Other retail loans	29	10	1	2	1,051	1,093
Total Retail loans	**3,388**	**1,074**	**193**	**185**	**19,203**	**24,043**
Corporate lending	-	-	47	-	4,602	4,649
SME lending	-	-	-	-	4,430	4,430
Other loans	628	-	-	42	376	1,046
Total Corporate loans	**628**	-	**47**	**42**	**9,408**	**10,125**
Total Loans to customers	**4,016**	**1,074**	**240**	**227**	**28,611**	**34,168**
of which: restructured	723	-	*47*	-	3,927	*4,697*
Due from banks	-	-	-	-	-	-

At December 31, 2019	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	130	336	91	-	1,324	1,881
Consumer loans	2,142	1,823	866	980	17,892	23,703
Other retail loans	61	18	18	23	1,562	1,682
Total Retail loans	**2,333**	**2,177**	**975**	**1,003**	**20,778**	**27,266**
Corporate lending	2,933	-	-	-	3,644	6,577
SME lending	757	-	-	-	13,858	14,615
Other loans	133	-	27	61	17,463	17,684
Total Corporate loans	**3,823**	-	**27**	**61**	**34,965**	**38,876**
Total Loans to customers	**6,156**	**2,177**	**1,002**	**1,064**	**55,743**	**66,142**
of which: restructured	736	-	126	-	11,499	12,361
Due from banks	-	-	-	-	-	-

(All amounts are given in thousand BAM unless otherwise stated)

15. Financial assets compulsory measured at fair value through profit and loss

Certain loans to customers have contractual cash flows that represent not only principal and interest payments on outstanding principal, i.e. do not pass the SPPI test.
These loans to customers are classified in accordance with IFRS 9 as financial assets measured at fair value through profit or loss (FVPL), and the measurement of fair value is carried out in accordance with the Methodology for estimating the fair value of loans of NLB Banka d.d., Sarajevo. Fair value calculation is based on a regular discount curve that reflects market interest rates (by specific currency), adjusted for the credit rating of an individual client. This is set out according to valid interest rate policy (NLB rates) at the day of valuation for a product that is similar with one being evaluated (similar currency, credit rating, maturity, type of loan).

December 31, 2020	**Nominal value**	**Deviation**	**Fair value**
Financial assets mandatory at FVPL			
Loans to customers	2,736	(1,200)	1,536
	2,736	**(1,200)**	**1,536**

December 31, 2019	**Nominal value**	**Deviation**	**Fair value**
Financial assets mandatory at FVPL			
Loans to customers	2,927	(1,479)	1.448
	2,927	**(1,479)**	**1.448**

(All amounts are given in thousand BAM unless otherwise stated)

16. Financial assets at fair value through OCI

The Bank classifies financial assets under IFRS 9 as financial assets measured at fair value through other comprehensive income.

Debt securities	**December 31, 2020**	**December 31, 2019 (restated)**
Government of Federation of BiH – Federal Ministry of Finance	40,382	31,995
Republic of Srpska - Ministry of Finance	22,697	21,944
Ministry of Finance of the Republic of Slovenia	43,112	20,730
Kingdom of Belgium	9,166	9,381
Republic of France	7,256	3,992
United States of America	1,600	1,756
Canton Sarajevo	1,436	1,768
City Banja Luka	744	1,002
JP Autoceste FBiH	-	5,723
	126,393	**98,291**
Equity securities		
Mastercard Incorporated	7,045	6,449
S.W.I.F.T.. Belgium	67	63
Registry of Securities of FBiH, Sarajevo	14	14
Banks' Association of BiH, Sarajevo	14	14
	7,140	**6,540**

The Bank received dividend in amount of BAM 24 thousand in 2020 (in 2019: BAM 23 thousand) from Master Card Incorporated shares.

(All amounts are given in thousand BAM unless otherwise stated)

16. Financial assets at fair value through OCI *(continued)*

The Bank has classified equity securities under IFRS 9 as equity instruments under the FVOCI.

The table below shows the Bank's gross exposure in the form of financial instruments at FVOCI to the internal rating system (internal classification) and to the credit risk levels (stage classification) at year-end:

December 31, 2020	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
Internal classification							
A	-	68,274	-	-	-	-	68,274
B	-	65,259	-	-	-	-	65,259
C	-	-	-	-	-	-	-
D and E	-	-	-	-	-	-	-
	-	**133,533**	-	-	-	-	**133,533**

December 31, 2019	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
Internal classification							
A	-	42,523	-	-	-	-	42,523
B	-	62,308	-	-	-	-	62,308
C	-	-	-	-	-	-	-
D and E	-	-	-	-	-	-	-
	-	**104,831**	-	-	-	-	**104,831**

Changes in gross carrying amount and related value adjustments for financial assets measured at FVOCI in 2020 are presented as follows:

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
Fair Value at December 31, 2019	-	**98,382**	-	-	-	-	**98,382**
Effects of corrections of prior period errors	-	6,449	-	-	-	-	6,449
Restated balance as at December 31, 2019	-	104,831	-	-	-	-	104,831
New assets originated or purchased	-	54,252	-	-	-	-	54,252
Assets derecognized or matured (excluding write-offs)	-	(23,857)	-	-	-	-	(23,857)
Fair value changes	-	(1,693)	-	-	-	-	(1,693)
Transfers to Stage 1	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-
Transfers zo Stage 3	-	-	-	-	-	-	-
December 31, 2020	-	**133,533**	-	-	-	-	**133,533**

(All amounts are given in thousand BAM unless otherwise stated)

16. Financial assets at fair value through OCI *(continued)*

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
ECL at December 31, 2019	-	**227**	-	-	-	-	**227**
Effects of the first application of the Decision on credit risk management and determination of expected credit losses (Official Gazette of FBiH 44/19) - change in the methodology for calculating impairment	-	617	-	-	-	-	617
New assets originated or purchased	-	125	-	-	-	-	125
Assets derecognized or matured (excluding write offs)	-	(186)	-	-	-	-	(186)
Transfers to Stage 1	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-
Changes to models and inputs used for credit risk assessment	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Fair value changes	-	(120)	-	-	-	-	(120)
Write-offs	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	-	-	-
At December 31, 2020	-	**663**	-	-	-	-	**663**

(All amounts are given in thousand BAM unless otherwise stated)

16. Financial assets at fair value through OCI *(continued)*

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
ECL at December 31, 2018	-	***302***	-	-	-	-	***302***
New assets originated or purchased	-	156	-	-	-	-	156
Assets derecognized or matured (excluding write offs)	-	(231)	-	-	-	-	(231)
Transfers to Stage 1	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-
Unwind of discount	-	-	-	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-
Changes to models and inputs used for credit risk assessment	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	-	-	-
At December 31, 2019	-	**227**	-	-	-	-	**227**

Equity securities at fair value:

Structure of investments	**Activity**	**Country of business**	**% of ownership December 31, 2020**	**% of ownership December 31, 2019**
Banks' Association of BiH	Activity of other member organisations	Bosnia and Herzegovina	4.18	4.18
Securities Registry of FBiH	Registering and maintenance of securities' data	Bosnia and Herzegovina	0.687	0.687
S.W.I.F.T.	Payment transactions	Belgium	0.0054	0.0054
Master Card Incorporated	Card services	United States of America	0.15	0.11

(All amounts are given in thousand BAM unless otherwise stated)

16. Financial assets at fair value through OCI per IFRS 9 *(continued)*

The Bank has the following debt securities in its portfolio:

Debt securities	December 31, 2020	December 31, 2019
Bonds of Government of the Federation of BiH - war claims	641	886
Bonds of the Ministry of Finance FBiH	30,745	31,109
Bonds of the Ministry of Finance RS	21,706	21,944
Bonds of the Ministry of Finance of Canton Sarajevo	744	1,002
Bonds of City Banja Luka	1,436	1,768
Bonds of Republic of Slovenia	18,618	8,967
Bonds of Kingdom Belgium	9,166	9,381
Bonds of Republic of France	7,256	3,992
Bonds of United States of America	1,600	1,756
Bonds of JP Autoceste FBiH	-	5,723
Treasury bills of Republic of Slovenia	24,494	11,763
Treasury bills of Ministry of Finance of FBiH	8,996	-
Treasury bills of Republika Srpska	991	-
Total	**126,393**	**98,291**

The portfolio of debt securities increased by KM 28,102 thousand at the end of 2020 compared to the end of 2019. Domestic securities increased by KM 2,826 thousand, while foreign securities increased by KM 25,276 thousand.

(All amounts are given in thousand BAM unless otherwise stated)

16. Financial assets at fair value through OCI per IFRS 9 *(continued)*

Overview of securities per fair value hierarchy levels as of December 31, 2020:

	Level 1	Level 2	Level 3	Total
Debt securities	61,134	65,259	-	**126,393**
Equity securities	-	-	7,140	**7,140**
Total	**61,134**	**65,259**	**7,140**	**133,533**

Overview of securities per fair value hierarchy levels as of December 31, 2019 (restated):

	Level 1	Level 2	Level 3	Total
Debt securities	35,859	62,432	-	**98,291**
Equity securities	-	-	6,540	**6,540**
Total	**35,859**	**62,432**	**6,540**	**104,831**

Level 1 debt securities portfolio consists of bonds and treasury bills of the Ministry of Finance of the Republic of Slovenia in the amount of BAM 43,112 thousand, the Kingdom of Belgium in the amount of BAM 9,166 thousand, the Republic of France in the amount of BAM 7,256 thousand and the United States of America in the amount of BAM 1,600 thousand.

Level 2 securities portfolio consists of long-term bonds of the FBiH Ministry of Finance in the amount of BAM 40,382 thousand, RS Ministry of Finance in the amount of BAM 22,697 thousand, City of Banja Luka in the amount of BAM 1,436 thousand and Canton Sarajevo in the amount of BAM 744 thousand.

Level 3 includes equity securities.

(All amounts are given in thousand BAM unless otherwise stated)

17. Property, equipment and right-of-use assets

	Land and buildings	Vehicles	Computer equipment	Other equipment	Assets under-construction	Real estate and equipment leases (IFRS16)	Total
Cost							
At January 1, 2019	30,893	1,045	6,696	5,492	2,923	5,180	52,229
Additions	-	-	-	-	6,085	2,340	8,425
Transfers	297	185	853	875	(2,210)	-	-
Disposals	-	-	-	-	-	(1,113)	(1,113)
- Write-offs	-	-	(370)	(389)	-	-	(759)
- Impairment under IAS 36	(315)	-	-	-	-	-	(315)
- Sale of tangible assets	-	(150)	-	-	-	-	(150)
At December 31, 2019	30,875	1,080	7,179	5,978	6,798	6,407	58,317
Additions	-	-	-	-	3,462	1,206	4,668
Transfers	5,850	-	1,954	964	(8,724)	-	44
Disposals	-	-	-	-	-	-	-
- Write-offs	-	-	(538)	(216)	-	(97)	(851)
- Impairment under IAS 36	(41)	-	-	-	-	-	(41)
- Sale of tangible assets	(314)	-	-	-	-	-	(314)
At December 31, 2020	36,370	1,080	8,595	6,726	1,536	7,516	61,823
Accumulated depreciation							
At January 1, 2019	12,786	400	5,083	4,233	-	-	22,502
Depreciation charge for the year (Note 10)	402	140	579	341	-	1,061	2,523
- Write-offs	-	-	(369)	(386)	-	(66)	(821)
- Impairment under IAS 36	(58)	-	-	-	-	-	(58)
- Sale of tangible assets	-	(90)	-	-	-	-	(90)
At December 31, 2019	13,130	450	5,293	4,188	-	995	24,056
At January 1, 2020	13,130	450	5,293	4,188	-	995	24,056
Depreciation charge for the year (Note 10)	698	144	731	491	-	1,249	3,313
- Write-offs	-	-	(535)	(216)	-	(21)	(772)
- Impairment under IAS 36	(10)	-	-	-	-	-	(10)
- Sale of tangible assets	(27)	-	-	-	-	-	(27)
At December 31, 2020	13,791	594	5,489	4,463	-	2,223	26,560
Net book value at December 31, 2020	**22,579**	**486**	**3,106**	**2,263**	**1,536**	**5,293**	**35,263**
Net book value at December 31, 2019	**17,745**	**630**	**1,886**	**1,790**	**6,798**	**5,412**	**34,261**

(All amounts are given in thousand BAM unless otherwise stated)

17. Property, equipment and right-of-use assets (continued)

In 2020 and 2019, real estates and equipment were not pledged as collateral for the Bank's liabilities. The total cost of fully depreciated assets still in use amounts to BAM 6,457 thousand as at December 31, 2020, while as at December 31, 2019 it was BAM 7,108 thousand.

Management believes that the fair value of property and equipment is approximately equal to the carrying amount.

Lease

a) Rent as lessee

The right to use the property	December 31, 2020	December 31, 2019
Real estate	6,248	5,314
Equipment	1,268	1,093
Total	**7,516**	**6,407**

The increase in the right-to-use assets during 2020 amounted to BAM 1,109 thousand.

In the statement of financial position, the right-to-use assets are included under 'Property, equipment and and right-of-use assets' and the lease liabilities are included under 'Other financial liabilities'.

In the Income Statement, the following types of expenses relate to rents:

Depreciation expense	2020	2019
Real estate	1,031	865
Equipment	218	196
Total	**1,249**	**1,061**

Other expenses	2020	2019
Interest expense	88	83
Short-term rental expense (Note 10)	247	291
Low value rental lease expense (Note 10)	188	313
VAT expense from leases treated under IFRS 16 (Note 10)	116	108
Total	**639**	**795**

The total amount of BAM 1,624 thousand was paid to suppliers for leases in 2020. Of that amount, the amount of BAM 1,196 refers to leases under IFRS 16.

b) Rent as lessor

In 2020, the Bank did not lease business premises.

(All amounts are given in thousand BAM unless otherwise stated)

18. Intangible assets

	Licenses and software
Cost	
At January 1, 2019	*5,302*
Additions	698
Write-offs	(338)
At December 31, 2019	**5,662**
At January 1, 2020	*5,662*
Additions	426
Write-offs	(44)
At December 31, 2020	**6,044**
Accumulated depreciation	
At January 1, 2019	4,670
Deprecation (Note 10)	248
Write-offs	(338)
At December 31 2019	**4,580**
At January 1, 2020	4,580
Deprecation (Note 10)	290
Write-offs	-
At December 31, 2020	**4,870**
Net book value at December 31, 2020	**1,174**
Net book value at December 31, 2019	**1,082**

The total cost of fully depreciated intangible assets still in use amounts to BAM 4,221 thousand as at December 31, 2020 while as at December 31, 2019, it was BAM 3,887 thousand.

(All amounts are given in thousand BAM unless otherwise stated)

19. Other assets

	December 31, 2020	December 31, 2019
Other financial assets		
Service fees accrued	412	526
Receivables from card operations	3,080	3,843
Other financial assets	451	1,594
	3,943	5,963
Less: Impairment allowance	(394)	(2,162)
	3,549	**3,801**
Other assets		
Repossessed tangible assets	1,269	1,384
Prepaid costs	850	260
Small inventory	22	20
Advance for income tax	1,022	66
	3,163	1,730
Less (impairment/value adjustment):		
Repossessed tangible assets	(1,244)	(988)
Other non-financial assets	(18)	(3)
Other non-financial assets	**1,901**	**739**
	5,450	**4,540**

Movement in impairment allowance:

	December 31, 2020	December 31, 2019
1 January	3,153	3,103
Effects of the first application of the Decision on credit risk management and determination of expected credit losses – change of methodology for calculating impairment	3	-
Effects of the first application of the Decision on credit risk management and determination of expected credit losses (Official Gazette of FBiH 44/19) – Accounting write-off	(1,421)	-
Increase for the year, net (*Note 8*)	413	227
Foreign exchange differences	(1)	-
Accounting write-off	(358)	-
Write-offs	(133)	(177)
31 December	**1,656**	**3,153**

Repossessed tangible assets are presented within Other assets of the Bank in the amount of BAM 1,269 thousand as at December 31, 2020 and they relate to real estate repossessed for unsettled debts. Appraisal of all properties were done in 2020 (valuation is performed annually) by the internal appraisers of the Bank who have expertise in the field of architecture/construction.

All repossessed tangible assets are located on the territory of Bosnia and Herzegovina.

The Bank plans to sell repossessed assets taken over for unsettled debts in the period of one year after the date of acquiring of these assets. For assets not sold within one year. evaluation is made, and adequate impairment is recognized.

20. Banks' deposits

	December 31, 2020	December 31, 2019
Nova Ljubljanska banka d.d.. Ljubljana	9,380	12,411
NLB Banka AD Skopje	4,287	3,939
NLB Banka AD Beograd	144	119
NLB Banka AD Podgorica	16	9
Other banks	293	296
	14,120	**16,774**

(All amounts are given in thousand BAM unless otherwise stated)

21. Customers' deposits

	December 31, 2020	December 31, 2019
Companies:		
Current accounts		
- in BAM	294,379	281,308
- in foreign currencies	38,047	33,905
Term deposits		
- in BAM	53,230	73,213
- in foreign currencies	22,406	31,442
	408,062	**419,868**
Retail:		
Current accounts		
- in BAM	229,458	199,800
- in foreign currencies	70,031	67,001
Term deposits		
- in BAM	158,315	159,909
- in foreign currencies	155,206	161,119
	613,010	**587,829**
	1,021,072	**1,007,697**

22. Borrowings

	December 31, 2020	December 31, 2019
Nova Ljubljanska banka d.d.. Ljubljana	23,238	28,472
European Fund for South-East Europe (EFSE)	3,911	5,866
	27,149	**34,338**

Long-term borrowings are used for alignment of maturity structure of financial assets and financial liabilities, as well as for placement of funds.

Long-term loans from banks and non-banking financial institutions were obtained from NLB d.d.. Ljubljana and investment funds EFSE.

Interest rates on the entire portfolio of long-term credit facilities from banks and non-banking financial institutions for the year ended December 31, 2019 were in the range – fixed interest rates from 2.20% to 2.92% per annum, while variable interest rates rates ranged from 6M EURIBOR + 1.85% to 6M EURIBOR + 2%.

Interest rates on the entire portfolio of long-term credit lines from banks and non-banking financial institutions for the year ended December 31, 2020 were in the range – fixed interest rates from 1.35% to 2.40% per annum, while variable interest rates ranged from 6M EURIBOR + 1.85% to 6M EURIBOR + 2%.

In order to provide the Bank with access to diversified sources of assets, as at December 31, 2020 the Bank has concluded a Credit Line Contract with Nova Ljubljanska banka d.d.. Ljubljana in amount of EUR 10 million; a Business Cooperation Contract with NLB Banka a.d. Banja Luka and Union banka d.d.. Sarajevo to the maximum amount of EUR 5 million, and BAM 3 million respectively.
The funds from these credit lines have not been withdrawn by the Bank.

(All amounts are given in thousand BAM unless otherwise stated)

23. Subordinated debt

In 2019, upon receiving the approval of the Banking Agency of the FBiH, the Bank also realized a subordinated loan that is included in the supplementary capital. The loan was realized by NLB d.d., Ljubljana, in the amount of EUR 3 million, for a period of 10 years, with a variable interest rate of 6M EURIBOR + 4.40% and a bullet repayment.

	December 31, 2020	**December 31, 2019**
Nova Ljubljanska banka d.d., Ljubljana	5,996	5,997
	5,996	**5,997**

Loan and subordinated liabilities under this basis are not further secured or subject to their own guarantee or guarantee, mortgage, or any other type or form of collateral issued, and no other form of arrangement could be made to increase the superiority of claims under this loan and subordinated liabilities of any of the following: the Borrower or its affiliates; its parent company or its subsidiaries, its parent financial holding company or its subsidiaries, a mixed holding company or its subsidiaries, a mixed financial holding company or its subsidiaries; or any business that has close links with the entities listed above.

The early repayment of the loan is possible after 5 years and 1 day after the date of withdrawal, but with the prior approval of the Banking Agency of the FBiH.

24. Other liabilities

	December 31, 2020	**December 31, 2019**
Other financial liabilities		
Liabilities under IFRS 16	5,661	5,524
Paid amount for not due loan receivables	5,578	4,719
Unallocated payments received	1,666	3,321
Liabilities to suppliers	784	805
Liabilities to employees	570	566
Dividend liability	328	329
Liabilities for taxes and contributions	156	66
Liabilities for other banking fees	101	53
Liabilities from commission operations	-	8
Other liabilities	1,460	2,679
	16,304	**18,070**
Other non-financial liabilities		
Prepaid revenue	155	162
	155	**162**
	16,459	**18,232**

(All amounts are given in thousand BAM unless otherwise stated)

24.a. The management of assets in the name of and on behalf of clients

	December 31, 2020	December 31, 2019
Corporate	12,729	13,347
Retail	8,707	8,911
Total placements	**21,436**	**22,258**
Government of Tuzla Canton	13,305	13,672
Government of Sarajevo Canton	7,281	7,503
Other non-banking financial institutions	850	1,083
Total sources (liabilities)	**21,436**	**22,258**
Differences	-	-

Funds managed by the Bank as an agent for and on behalf of third parties do not represent Bank assets in the Bank's balance sheet. The Bank manages certain assets on behalf of third parties by investing the funds in long-term loans granted to companies and individuals. The Bank does not bear the risk for these placements and charges a fee for its services.

25. Other provisions

	December 31, 2020	December 31, 2019
Provisions for employees	1,574	1,546
Provisions for litigations	601	632
Provisions for off-balance sheet exposures (*Note 28*)	2,012	2,719
	4,187	4,897

a. Movement of provisions in accordance with IAS 19

	December 31, 2020	December 31, 2019
Opening balance as of January 1	**1,546**	**1,345**
Expenses during the year	82	94
Provisions for unused vacation	193	17
Increase for the year - net (*Note 9a*)	275	111
Discount amount of provision under IAS 19 (*Note 6b*)	37	48
Additional provisions through OCI	(169)	122
Utilization	(115)	(80)
	1,574	**1,546**

b. Movement of provisions for litigations

	December 31, 2020	December 31, 2019
Opening balance as of January 1	632	240
Increase for the year, net (*Note 8*)	-	485
Utilization	(31)	(93)
	601	**632**

(All amounts are given in thousand BAM unless otherwise stated)

26. Share capital

	December 31, 2020	December 31, 2019
Number of shares	**382,894**	**382,894**
-Ordinary shares	382,712	382,712
-Preference shares	182	182

Preference shares were issued in 1991 bearing a dividend in an amount equal to the interest rate on retail term deposits with a maturity of over 3 years, applicable from the date on which the Shareholders' Assembly is held.

Ownership structure is presented within the Note 1.

Earnings per share

Bank shares are traded on the Stock Market - SASE. The Bank calculates and discloses earnings per share in accordance with IAS 33. Basic earnings per share are calculated by dividing net profit attributable to ordinary shareholders by the weighted average number of ordinary shares for the period (amounts in absolute values). The Bank does not have instruments, such as convertible debt or share options, for which there could be diluted earnings per share. For this reason, the Bank does not calculate diluted earnings per share, meaning it is the same as the basic earnings per share.

	December 31, 2020	December 31, 2019
Net profit of the Bank after tax (in BAM)	12,887,191	18,554,268
Weighted number of shares	382,712	382,712
Basic earnings per Share (in BAM)	33.67	48.48

27. Transactions with related parties

Parties are considered to be related when one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Transactions with the Bank management and members of their families have likewise been considered transactions with related parties in 2020 and 2019.

Transactions with related parties are a part of everyday operations. These transactions include loans, deposits, and borrowings, received and issued guarantees and other potential liabilities.

Memberships of members of the Supervisory Board and Bank Management in other affiliates and non- affiliates are specified in Note 1.

(All amounts are given in thousand BAM unless otherwise stated)

27. Transactions with related parties (continued)

The volume of transactions with the related party and the balance at the end of December 31, 2020 are presented in the next table:

Related party	Business activity / role of individuals	Relationship of related party with NLB Banka d.d.. Sarajevo	Liabilities	Receivables	Off-balance Receivables (Contingent liabilities)	Revenue	Expense
			NLB Banka d.d.. Sarajevo at 31.12.2020 toward related party			NLB Banka d.d.. Sarajevo in 2020 Toward related party	
NOVA LJUBLJANSKA BANKA DD. LJUBLJANA	BANK ACTIVITIES	SIGNIFICANT OWNERSHIP INTEREST IN BANK	38,732	4,481	550	14	1.040
NLB BANKA AD. BANJA LUKA	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	22	636	-	218	-
NLB BANKA AD. PODGORICA	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	16	6,353	-	-	-
NLB BANKA AD. SKOPJE	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	4,287	4,507	-	-	-
NLB BANKA AD BEOGRAD	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	144	9,720	-	1	-
KOMERCIJALNA BANKA AD BANJA LUKA	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	-	-	-	3	-
NLB LEASING DOO SARAJEVO	FINANCE LEASING	COMMON OWNER	833	1	4	1	2
PRVI FAKTOR DOO – u likvidaciji	OTHER FINANCIAL SERVICE ACTIVITIES	COMMON OWNER	3	-	-	1	-
BH-RE DOO SARAJEVO	REAL ESTATE	COMMON OWNER	13	-	-	1	-
REAM D.O.O. PODGORICA	REAL ESTATE	COMMON OWNER	-	-	-	-	3
REPUBLIC OF SLOVENIA – MINISTRY OF FINANCE	OTHER ACTIVITIES	SHAREHOLDER OF A PERSON WITH SIGNIFICANT OWNERSHIP INTEREST IN THE BANK	-	43,223	-	534	677
INDIVIDUALS	MEMBERS OF THE MANAGEMENT AND MANAGEMENT AUTHORITY AND MEMBERS OF THEIR FAMILIES		1.178	1,210	146	55	8

(All amounts are given in thousand BAM unless otherwise stated)

27. Transactions with related parties (continued)

The volume of transactions with the related party and the balance at the end of December 31. 2019 are presented in the next table:

Related party	Business activity / role of individuals	Relationship of related party with NLB Banka d.d.. Sarajevo	Liabilities	Receivables	Off-balance Receivables (Contingent liabilities)	Revenue	Expense
			NLB Banka d.d.. Sarajevo at 31.12.2019 toward related party			NLB Banka d.d.. Sarajevo in 2018 Toward related party	
NOVA LJUBLJANSKA BANKA DD. LJUBLJANA	BANK ACTIVITIES	SIGNIFICANT OWNERSHIP INTEREST IN BANK	46,999	9,046	550	14	984
NLB BANKA AD. BANJA LUKA	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	22	4,923	-	201	-
NLB BANKA AD. PODGORICA	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	12	6,207	-	-	-
NLB BANKA AD. SKOPJE	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	3,939	1,514	-	-	-
NLB BANKA AD BEOGRAD	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	119	6,246	-	-	-
NLB LEASING DOO SARAJEVO	FINANCE LEASING	COMMON OWNER	956	1	4	12	3
PRVI FAKTOR DOO – u likvidaciji	OTHER FINANCIAL SERVICE ACTIVITIES	COMMON OWNER	28	-	-	1	-
BH-RE DOO SARAJEVO	REAL ESTATE	COMMON OWNER	20	-	-	-	-
REPUBLIC OF SLOVENIA – MINISTRY OF FINANCE	OTHER ACTIVITIES	SHAREHOLDE R OF A PERSON WITH SIGNIFICANT OWNERSHIP INTEREST IN THE BANK	29	20,870	-	123	146
INDIVIDUALS	MEMBERS OF THE MANAGEMENT AND MANAGEMENT AUTHORITY AND MEMBERS OF THEIR FAMILIES		1.143	1,015	136	53	8

(All amounts are given in thousand BAM unless otherwise stated)

27. Transaction with related parties (*continued*)

Management remuneration

	December 31, 2020	December 31, 2019
Short-term employee benefits		
Net salaries	536	630
Taxes and contributions on net salaries	327	385
Other remunerations	183	256
Taxes and contributions on other income	112	156
	1,158	**1,427**

Net salaries, taxes and contributions in 2020 are lower than in 2019, as a result of salary cuts and lower education costs. Also, during 2020, no bonuses were paid to key management personnel of the Bank.

Remunerations of Bank's Supervisory Board and Audit Committees' members

	December 31, 2020	December 31, 2019
Fees paid to SB an AC members	17	19
Taxes and contributions	4	4
	21	**23**

During 2020 and 2019 the fee was paid to two members of the Supervisory Board of the Bank and to one member of the Audit Committee of the Bank, of which two are connected with the majority owner of the Bank.

(All amounts are given in thousand BAM unless otherwise stated)

28. Contingencies

The following table presents contractual amounts which refer to contingent and assumed liabilities of the Bank:

	2020							
	Stage 1		Stage 2		Stage 3			
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total	2019
Guarantees	-	60,330	-	5,650	-	8	65,988	68,245
Letters of credit	-	386	-	489	-	-	875	3,128
Granted loans not withdrawn	-	87,430	-	1,410	-	76	88,916	76,627
	-	**148,146**	**-**	**7,549**	**-**	**84**	**155,779**	**148,000**
Less: Value adjustment for potential losses	-	(1,421)	-	(507)	-	(84)	(2,012)	(2,719)
	-	**146,725**	**-**	**7,042**	**-**	**-**	**153,767**	**145,281**

The table below shows the gross exposure of the Bank in the form of contingencies and commitments to the internal rating system (internal classification) and to the level of credit risk (stage classification) at the end of the year:

	2020							
	Stage 1		Stage 2		Stage 3			
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total	2019
Internal classification								
A	-	72,690	-	143	-	-	72,833	68,523
B	-	74,233	-	459	-	-	74,692	61,094
C	-	1,223	-	6,947	-	-	8,170	17,629
D and E	-	-	-	-	-	84	84	754
	-	**148,146**	**-**	**7,549**	**-**	**84**	**155,779**	**148,000**

Change in gross carrying value and related provisions for potential losses in 2020 are presented below:

	Stage 1		Stage 2		Stage 3		
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total
Amount of exposure at 31 December 2019	**-**	**136,992**	**-**	**9,952**	**892**	**164**	**148,000**
New exposure	-	89,590	-	4,585	-	5	94,180
Exposures derecognized or matured (excluding write off))	-	(81,276)	-	(4,323)	(647)	(153)	(86,399)
Transfer to Stage 1	-	4,578	-	(4,575)	-	(3)	-
Transfer to Stage 2	-	(1,670)	-	1,914	(245)	-	(1)
Transfer to Stage 3	-	(68)	-	(4)	-	71	(1)
Changes due to modifications not resulting in derecognition							
Write offs	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	-	-	-
Balance at 31 December. 2020	**-**	**148,146**	**-**	**7,549**	**-**	**84**	**155,779**

(All amounts are given in thousand BAM unless otherwise stated)

28. Contingencies *(continued)*

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
Amount of exposure at 31 December 2018	-	***138,187***	-	***13,215***	***919***	***235***	***152,556***
New exposure	-	84,499	-	4,851	657	8	90,015
Exposures derecognized or matured (excluding write off))	-	(86,468)	-	(7,306)	(676)	(121)	(94,571)
Transfer to Stage 1	-	1,451	-	(1,435)	-	(16)	-
Transfer to Stage 2	-	(581)	-	627	(8)	(38)	-
Transfer to Stage 3	-	(96)	-	-	-	96	-
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-
Write offs	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	-	-	-
Balance at 31 December. 2019	-	**136,992**	-	**9,952**	**892**	**164**	**148,000**

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
ECL at December 31, 2019	-	**2,037**	-	**342**	**180**	**160**	**2,719**
New exposure	-	933	-	288	-	5	1,226
Exposures derecognized or matured (excluding write off)	-	(1,469)	-	(470)	(216)	(152)	(2,307)
Effects of the first application of the Decision on credit risk management and determination of expected credit losses (Official Gazette 44/19) – change in the methodology for calculating provisions	-	81	-	238	56	-	375
Transfer to Stage 1	-	31	-	(31)	-	-	-
Transfer to Stage 2	-	(124)	-	144	(20)	-	-
Transfer to Stage 3	-	(68)	-	(4)	-	71	(1)
Balance at December 31, 2020	-	**1,421**	-	**507**	-	**84**	**2,012**

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
ECL at December 31, 2018	-	***1,541***	-	***171***	***510***	***180***	***2,402***
New exposure	-	1,423	-	160	76	8	1,667
Exposures derecognized or matured (excluding write off)	-	(841)	-	14	(404)	(119)	(1,350)
Transfer to Stage 1	-	26	-	(26)	-	-	-
Transfer to Stage 2	-	(19)	-	23	(2)	(2)	-
Transfer to Stage 3	-	(93)	-	-	-	93	-
Balance at December 31, 2019	-	**2,037**	-	**342**	**180**	**160**	**2,719**

28. Contingencies (continued)

Litigation in progress

As of December 31, 2020, 57 legal proceedings are pending against the Bank for which legal risk is assessed. The total value of these court proceedings as of December 31, 2020 amounts to BAM 11,504 thousand; CHF 5 thousand and $ 50.

During 2020, the Bank received 5 new lawsuits.

Between January 1, and December 31, 2020, 23 court proceedings were closed.

The Bank continually monitors legal risk and evaluates expected costs on the basis of legal risk, with the formation of adequate provisions on this basis. The amount of provisions is disclosed in Note 25b.

(All amounts are given in thousand BAM unless otherwise stated)

29. Segment reporting

Segment analysis is used for internal financial reporting of business results. The Bank's operating segments are organizational units that communicate directly with clients on the market and contract and/or provide the Bank's services and thus generate revenues for the Bank. These are: Corporate Division with Business Centers Tuzla, Sarajevo and Mostar (Corporate and SME), Retail Division with Branches (Micro and individuals), Asset Management Division (Treasury) and Collection and Management of NPL Division (Collection). The Other segment includes categories that cannot be allocated to any operating segment, namely: equity, deposits with other legal entities and fixed assets. Interest income and expense are allocated to segments using internal transfer pricing (ITC), as determined by the Asset Management Division, depending on market conditions. The term transfer prices means internal interest rates at which the difference between collected and placed funds, which was realized by business segments, is calculated. Markups on assets/liabilities are interest income/expenses after the application of transfer prices. ALM banking market risk represents the difference between the reported net interest income and the net interest income after using the ITC. The distribution of common costs and costs of service and overhead centres is done through the appropriate keys, or planning weights.

Statement of financial position per segments as of December 31, 2020:

	Corporate and SME	Micro and Retail	Treasury	Collection	Other	Bank
ASSETS						
Cash and balances with the CBBiH	-	34,556	171,387	-	14,604	220,547
Loans	323,308	441,554	88,708	6,280	-	859,850
Financial assets FVPL	-	-	-	1,536	-	1,536
Financial assets at fair value through OCI	-	-	133,533	-	-	133,533
Tangible and intangible assets	-	-	-	-	36,437	36,437
Deferred tax assets	-	-	-	-	152	152
Other assets	130	831	26	46	4,417	5,450
Total assets	**323,438**	**476,941**	**393,654**	**7,862**	**55,610**	**1,257,505**
LIABILITIES						
Deposits	250,780	769,027	14,118	1,267	-	1,035,192
Borrowings	-	-	27,149	-	-	27,149
Subordinated debt	-	-	5,996	-	-	5,996
Deferred tax liabilities	-	-	704	-	119	823
Other liabilities	1,389	5,180	1,313	78	8,499	16,459
Provisions for contingencies and commitments. for employees and legal risk	1,470	458	1	88	2,170	4,187
Total liabilities	**253,639**	**774,665**	**49,281**	**1,433**	**10,788**	**1,089,806**

(All amounts are given in thousand BAM unless otherwise stated)

29. Segment reporting *(continued)*

Statement of financial position per segments as of December 31, 2019 (restated):

	Corporate and SME	Micro and Retail	Treasury	Collection	Other	Bank
ASSETS						
Cash and balances with the CBBiH	-	34,474	180,570	-	13,370	228,414
Loans and placements with banks	337,940	431,466	100,093	3,422	-	872,921
Financial assets FVPL	-	-	-	1,448	-	1,448
Financial assets at fair value through OCI	-	-	104,831	-	-	104,831
Tangible and intangible assets	-	-	-	-	35,343	35,343
Deferred tax assets	-	-	-	-	-	-
Other assets	179	864	11	396	3,090	4,540
Total assets	**338,119**	**466,804**	**385,505**	**5,266**	**51,803**	**1,247,497**
LIABILITIES						
Deposits	273,804	731,628	16,768	2,271	-	1,024,471
Borrowings	-	-	34,338	-	-	34,338
Subordinated debt	-	-	5,997	-	-	5,997
Deferred tax liabilities	-	-	645	-	-	645
Other liabilities	1,149	6,269	2,749	74	7,991	18,232
Provisions for contingencies and commitments, for employees and legal risk	1,890	540	1	293	2,173	4,897
Total liabilities	**276,843**	**738,437**	**60,498**	**2,638**	**10,164**	**1,088,580**

(All amounts are given in thousand BAM unless otherwise stated)

29. Segment reporting *(continued)*

Income statement by segments for the year 2020:

	Corporate and SME	Micro and Retail	Treasury	Collection	Bank
Interest Income	9,508	28,766	2,379	1,376	42,029
Interest Expense	(1,214)	(3,173)	(3,037)	(20)	(7,444)
Net Interest Income (before transfer prices)	**8,294**	**25,593**	**(658)**	**1,356**	**34,585**
Margin on assets	7,134	21,191	1,312	1,052	30,689
Margin on liabilities	(175)	2,297	(1,258)	2	866
ALM	-	-	3,030	-	3,030
Net Interest Income (by transfer prices)	**6,959**	**23,488**	**3,084**	**1,054**	**34,585**
Impairment provisions for general credit risk and contingent credit and other losses (net)	(2,932)	(9,679)	171	2,054	(10,386)
Net Interest Income after provision for losses	**4,027**	**13,809**	**3,255**	**3,108**	**24,199**
Net fee and commission income	1,887	13,220	1,133	45	16,285
Other net non-interest income	161	1,012	214	2,198	3,585
Total operative income	**6,075**	**28,041**	**4,602**	**5,351**	**44,069**
Total expense	(4,173)	(22,116)	(1,944)	(1,794)	(30,027)
Profit before income tax	**1,902**	**5,925**	**2,658**	**3,557**	**14,042**

(All amounts are given in thousand BAM unless otherwise stated)

28. Segment reporting (*continued*)

Income statement by segments for the year 2019 (restated):

	Corporate and SME	Micro and Retail	Treasury	Collection	Bank
Interest Income	10,053	29,535	2,146	1,228	42,962
Interest Expense	(1,398)	(3,652)	(2,463)	(19)	(7,532)
Net Interest Income (before transfer prices)	**8,655**	**25,883**	**(317)**	**1,209**	**35,430**
Margin on assets	7,372	21,364	956	956	30,648
Margin on liabilities	(179)	2,696	(712)	20	1,825
ALM	-	-	2,957	-	2,957
Net Interest Income (by transfer prices)	**7,193**	**24,060**	**3,201**	**976**	**35,430**
Impairment provisions for general credit risk and contingent credit and other losses (net)	(2,932)	(9,679)	171	2,054	(10,386)
Net Interest Income after provision for losses	**4,027**	**13,809**	**3,255**	**3,108**	**24,199**
Net fee and commission income	1,887	13,220	1,133	45	16,285
Other net non-interest income	161	1,012	214	2,198	3,585
Total operative income	**6,075**	**28,041**	**4,602**	**5,351**	**44,069**
Total expense	(4,173)	(22,116)	(1,944)	(1,794)	(30,027)
Profit before income tax	**1,902**	**5,925**	**2,658**	**3,557**	**14,042**

29. Events after the date of reporting

As the epidemic and the spread of COVID-19 remain unstoppable, it is difficult to predict the full extent and duration of its business and economic implications. Therefore, these new circumstances may pose challenges to the Bank's operations, due to measures and policies already implemented by state bodies, as well as additional measures and policies that state bodies could only implement in the future. Such measures and policies may significantly disrupt the business activities of NLB Banka d.d. Sarajevo.

NLB Banka d.d. Sarajevo estimates that "COVID-19" could have a negative impact on the loan portfolio, quality of financial assets, additional impairments, provisions, etc. The Bank's management believes that the possible negative effects caused by "COVID-19" will not significantly affect its liquidity and capital adequacy, i.e. the continuity of the Bank 's operations.