NLB Banka d.d., Sarajevo

Financial Statements
For the year ended December 31, 2018

Table of Content

Responsibility for financial statements

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

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

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

- Suitable accounting policies are selected and then applied consistently;
- Judgments and estimates are reasonable and prudent;
- Applicable accounting standards implemented; and
- The financial Statements are prepared on the going concern basis unless it is inappropriate to presume that Bank will continue in business.

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

Signed on behalf of the Management Board

NLB Banka d.d., Sarajevo 01

Lidija Žigić, Chairman of Management board

NLB Banka d.d., Sarajevo
Džidžikovac 1
71000 Sarajevo
Bosnia and Herzegovina

March 29, 2019

Ernst & Young d.o.o.
Fra. Anđela Zvizdovića 1
71000 Sarajevo
Bosnia and Herzegovina

Tel: +387 33 296 307
Fax: +387 33 296 309
www.ey.com/ba

Building a better working world

Independent auditor's report

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

Report on the audit of the financial statements

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 2018, statement of 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 give a true and fair view of the financial position of the Bank as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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

Ernst & Young d.o.o.
Fra. Anđela Zvizdovića 1
71000 Sarajevo
Bosnia and Herzegovina

Tel: +387 33 296 307
Fax: +387 33 296 309
www.ey.com/ba

Building a better working world

Independent auditor's report *(continued)*

Key audit matters (continued)

1. Individual impairment of Loans

The carrying amount of loans to customers amounts to BAM 695 million (or 60% of total assets) as at 31 December 2018. Impairment is a highly subjective area due to the high level of judgment applied by the management in determining provisions.

As described in Note 3.22 Principal accounting policies - Impairment of financial assets and potential liabilities, impairment of loans to customers is determined under application of IFRS 9 Financial Instruments adopted as of 1 January 2018.

This is a key audit matter as significant judgement is involved to determine the individual impairment of loans to customers.

Key areas of judgement included the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model and evaluation and assumptions used in the possible outcomes of individually assessed loans for impairment.

The possible outcomes are based on discounted cash flows for individually assessed loans and include judgement and complexity areas, such as impairment triggers and the cash flow forecasts themselves, including collateral realization.

We understood and evaluated the processes and controls for identifying impairment events within the loan portfolios, as well as the impairment assessment processes for individually assessed loans.

We involved information systems experts in areas that required specific expertise such as data reliability to assist us in performing our audit procedures.

We assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment provision. We tested a sample of performing loans with characteristics that might imply an impairment event had occurred to assess whether impairment events had been identified by management.

For a sample of individually impaired loans, we understood the latest developments at the borrower and the basis of measuring the impairment provisions and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation. In addition, we tested key inputs to the impairment calculation including the expected future cash flows, their timing and valuation of collateral held, and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and with the regulatory guidelines.

We assessed the adequacy of the disclosures included in Note 13 Loans to customers and Note 4.2. Credit risk management of the accompanying financial statements.

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

Ernst & Young d.o.o.
Fra. Anđela Zvizdovića 1
71000 Sarajevo
Bosnia and Herzegovina

Tel: +387 33 296 307
Fax: +387 33 296 309
www.ey.com/ba

Building a better working world

Independent auditor's report *(continued)*

Responsibilities of management and Audit Committee for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards, 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.
Audit Committee is responsible for overseeing the Bank's financial reporting process.

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

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

Ernst & Young d.o.o.
Fra. Anđela Zvizdovića 1
71000 Sarajevo
Bosnia and Herzegovina

Tel: +387 33 296 301
Fax: +387 33 296 309
www.ey.com/ba

Building a better working world

Independent auditor's report *(continued)*

Auditor's responsibilities for the audit of the financial statements *(continued)*

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

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

From the matters communicated with Audit Committee, 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.

Zvonimir Madunić, Director

DRUŠTVO ZA REVIZIJU ERNST & YOUNG SARAJEVO, d.o.o.

Ivana Lazarević Soldat, Licensed auditor

29 March 2019

Ernst & Young d.o.o. Sarajevo
Fra Anđela Zvizdovića 1
71000 Sarajevo
Bosnia and Herzegovina

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

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

	Note	2018.	2017.
Interest Income	5a	41,916	43,446
Interest Expense	5b	(7,369)	(8,166)
Net Interest Income	5	34,547	35,280
Impairment provisions for general credit risk and contingent credit losses (net)	8	(5,371)	(4,871)
Impairment provisions for litigations (net)	8,23b	(340)	-
Net Interest Income after provision for impairment		28,836	30,409
Fee and commission income	6a	22,059	20,680
Fee and commission expense	6b	(8,109)	(7,045)
Net Fee and commission income	6	13,950	13,635
Gains from financial assets recognized at fair value through profit and loss (net)		306	-
Foreign exchange gains	7	1,105	697
Other operating income	9b	1,345	849
Employees' expenses	9a	(16,530)	(15,771)
General and administrative expenses	9	(11,288)	(11,755)
Other operating expenses		(329)	(573)
Profit before income tax		17,395	17,491
Income tax	10	(1,888)	(2,305)
Net profit for the year		15,507	15,186
Other comprehensive income/loss:			
Profit from equity instruments recognized at fair value through OCI (net)		6	-
Profit from debt instruments recognized at fair value through OCI (net)		913	-
Profit from financial assets available for sale (net)		-	99
Profit/(Loss) from provisions for severances (IAS 19)		100	(84)
Other comprehensive Income for the year		1,019	15
Total comprehensive income for the year		16,526	15,201
Earnings per Share (in BAM)	24	40.52	39.68

Notes on pages from 10 to 113 form an integral part of these financial statements.

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

	Note	December 31, 2018	December 31, 2017
ASSETS			
Cash and balances with the Central Bank of B&H	11	242,299	238,335
Placements with banks	12	100,114	49,774
Loans to customers	13	694,733	651,423
Financial assets mandatory at fair value through PL	14	1,719	-
Financial assets available for sale	15	-	74,989
Debt instruments at fair value through OCI	15	76,850	-
Equity instruments at fair value through OCI	15	88	-
Tangible assets	16	24,547	21,139
Intangible assets	17	632	552
Other assets	18	10,499	3,188
Total assets		**1,151,481**	**1,039,400**
LIABILITIES			
Banks' deposits	19	22,752	10,317
Customers' deposits	20	923,733	836,961
Borrowings	21	39,530	43,222
Other liabilities	22	11,510	10,573
Other provisions	23	3,987	4,891
Total liabilities		**1,001,512**	**905,964**
EQUITY			
Share capital	24	53,605	53,605
Statutory reserves		74,260	64,934
Revaluation reserves - financial assets available-for-sale		-	384
Revaluation reserves – financial assets at fair value through OCI		1,303	-
Other revaluation reserves		(573)	(673)
Retained earnings		21,374	15,186
Total equity		**149,969**	**133,436**
Total equity and liabilities		**1,151,481**	**1,039,400**

Notes on pages from 10 to 113 form an integral part of these financial statements.

The Management has authorized these financial statements on March 29, 2019 and signed them accordingly:

Jure Peljhan MB member	Denis Hasanić MB member	Lidija Žigić Chairman of MB

NLB Banka d.d., Sarajevo
NLB
01

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

	Share capital	Statutory reserves	Other comprehensive income: Measurement of financial assets AFS	Other comprehensive income: Measurement of financial assets at FVOCI	Other comprehensive income: Expected credit loss for assets at FVOCI	Other comprehensive income: Other revaluation on reserves	Retained earnings	Total
Balance as of December 31, 2016	53,605	54,421	285	-	-	(589)	10,513	118,235
Allocation of profit for 2016	-	10,513	-	-	-	-	(10,513)	-
Net profit for the year	-	-	-	-	-	-	15,186	15,186
Other comprehensive income	-	-	99	-	-	(84)	-	15
Total comprehensive income	-	-	99	-	-	(84)	15,186	15,201
Balance as of December 31, 2017	53,605	64,934	384	-	-	(673)	15,186	133,436
Impact of adopting IFRS 9	-	7	(384)	384	583	-	-	590
Balance as of January 1, 2018 in accordance with IFRS 9	53,605	64,941	-	384	583	(673)	15,186	134,026
Allocation of profit for 2017	-	9,319	-	-	-	-	(9,319)	-
Net profit for the year	-	-	-	-	-	-	15,507	15,507
Other comprehensive income	-	-	-	617	(281)	100	-	436
Total comprehensive income	-	-	-	617	(281)	100	15,507	15,943
Balance as of December 31, 2018	53,605	74,260	-	1,001	302	(573)	21,374	149,969

Notes on pages from 10 to 113 form an integral part of these financial statements

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

	Note	2018.	2017.
Cash flows from operating activities			
Interest income from loans		37,525	37,660
Fees and commission income from loans and commission from foreign exchange business		29,708	28,353
Interest paid on deposits to customers		(9,239)	(9,680)
Cash payments to employees and suppliers		(39,620)	(33,200)
Payments upon off-balance contracts		(74)	(107)
Incoming and outgoing payments under extraordinary items		875	429
(Increase) in operating assets:		-	-
(Increase) in loans to customers		(47,110)	(38,901)
Increase in operating liabilities:			
Increase in clients' deposits and other liabilities from ordinary business activities		92,468	33,884
Paid income tax		(2,724)	(1,852)
Net cash from operating activities:		61,809	16,586
Cash flows from investing activities			
Interest received from placements to financial institutions		1,098	985
Dividends received		13	10
(Purchase) of AFS financial assets, net		(553)	(12,626)
(Purchase) of intangible assets		(351)	(468)
(Purchase) of property and equipment		(4,901)	(2,498)
Disposal of other assets		(6)	39
Net cash (used in) investing activities		(4,700)	(14,558)
Cash flows from financing activities			
Proceeds from issuance of shares		(2,953)	(2,368)
Borrowings received		18,580	21,709
Repayment of borrowings		(22,232)	(11,251)
Net cash used in financing activities:		(6,605)	8,090
Net increase in cash and cash equivalents:		50,504	10,118
Cash and cash equivalents at the beginning of the year:	11, 12	287,698	277,574
Effects of changes in foreign exchange currency rates:		(1)	6
Cash and cash equivalents at the end of the year:	11, 12	338,201	287,698

Cash and cash equivalents include cash in hand and balances on accounts with the Central Bank of B&H (Note 11 – gross exposure), and cash on accounts with other banks (Note 12 – gross exposure) without placements to banks with maturity more than 30 days (Note 4), without related accrued due and not due interests and commissions.

	Note	2018.	2017.
Cash and balances with the Central Bank of B&H (gross)	11	242,499	238,335
Placements with banks (gross)	12	100,133	49,774
Less:			
Cash equivalents with maturity more than 30 days		(4,431)	(411)
Total		338,201	287,698

Notes on pages from 10 to 113 form an integral part of these financial statements

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

1. General information

NLB Banka d.d., Sarajevo (hereinafter: The Bank) is a bank of universal type that has constantly operated through different ways of organization for over a hundred years. The Bank became a separate legal entity, a shareholders' company, on April 1, 1990.

The Bank was initially registered with the Registry of Companies with the Cantonal Court in Tuzla, and today at the Municipal Court in Sarajevo, and with the Registry of the Securities Commission of the Federation of B&H, with all relevant data and permissions issued by the Banking Agency of the Federation of B&H (hereinafter: FBA) and other relevant bodies.

Shareholders Assembly on September 16, 2015 issued the Decision to change the registered address and the name of the Bank, pursuant to which the Bank's headquarters was relocated from Tuzla to Sarajevo, to the address Džidžikovac 1. Following the above change, the name of the Bank was also changed from NLB Banka d.d., Tuzla to NLB Banka d.d., Sarajevo.
On November 5, 2015 the Municipal Court in Sarajevo issued a Decision on changes in the data, by which the change in the name and headquarters of the Bank were entered in the Company Register.
Upon a decision by the Supervisory Board adopted on November 8, 2016, new Bank Management was appointed, pursuant to which on January 4, 2017 the Municipal Court in Sarajevo passed the Decision on change of information, under which a change of persons authorized to represent the Bank as of January 1, 2017 was made.
By decision of Supervisory Board adopted on December 14, 2017, changes and amendments were made in Decision on appointment of Management Board of NLB Banka d.d., Sarajevo, where the name of the function “Director of the Bank” was changed to “president of Bank’s Management Board”, and name of the functions “deputy director” and “executive director” into “Member of Management Board”. Changes were entered into Register of business entities by Decision of Municipal Court in Sarajevo as of January 16, 2018.

The Bank operates directly or through its organizational units:

a) Branch Office Tuzla with its Sub-Branch Office in Lukavac and Business Offices Centar, Slatina, Irac, and Sjenjak
b) Branch Office Sarajevo with its Sub-Branch Office in Goražde and Business Offices Centar, Pofalići, Ilidža, Markale, Alipašino Polje, Ferhadija and Dobrinja,
c) Branch Office Mostar with its Sub-Branch Offices in Čapljina, Široki Brijeg and Ljubuški and Business Offices Centar and Rondo,
d) Branch Office Živinice with Business office Centar and Sub-Branch Offices Banovići and Kladanj,
e) Branch Office Kalesija with Business office Centar and Sub-Branch Offices Sapna and Teočak,
f) Branch Office Gradačac with Business office Centar and Sub-Branch Offices Srebrenik, Brčko, Čelić, Orašje and Odžak,
g) Branch Office Gračanica with Business office Centar and Sub-Branch Doboj Istok,
h) Branch Office Zenica with Business office Centar and Sub-Branch Offices Travnik, Vitez and Tešanj,
i) Branch Office Bihać with Business office Centar and Sub-Branch Office Cazin.

Through its Head Office in Sarajevo and well-developed network the Bank provides a wide range of financial and consulting services as follows:

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);

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

1. General information (continued)

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.

Bank's shareholders

	December 31, 2018		December 31, 2017	
	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 Džidžikovac 1, 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, 2017, which is also ultimate owner of the Bank.

Employees

As of December 31, 2018, NLB Banka d.d., Sarajevo had 455 employees (in 2017: 459 employees).

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

1. General information (continued)

The Supervisory Board

December 31, 2018:

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

President	Tatjana Jamnik Skubic	1.1.2018-1.6.2018
Member	Suzana Žigon	1.1.2018-1.6.2018
Member	Barbara Deželak	1.1.2018-1.6.2018
Member	Nataša Simčič	1.1.2018-1.6.2018
Member	Zoran Blagojević	1.1.2018-1.6.2018

December 31, 2018:

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	Nataša Simčič	2.6.2018-1.6.2022
Member	Zoran Blagojević	2.6.2018-1.6.2022

Risk Committee

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

Management board

December 31, 2018:

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

Head internal auditor	Elma Spahović
Secretary of the Bank	Amela Dizdarević-Bulja

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

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. NLB Vita d.d., member of the Supervisory Board
5. Bank Association of Slovenia, President of the Supervisory Board

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

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

Jure Peljhan, Board member
1. Member of The Board of Directors of NLB Banka d.d. Priština (within which he is also the Chairman of the Risk Committee) – relieved of duty on personal request as of December 14, 2018

1. General information (continued)

1.1. Macroeconomic environment

Economic activity growth trend continued through first quarter of 2018. Based on industrial production output growth trend, economy growth trend is expected to be continued throughout second quarter of 2018.

Administrative data show a continuing trend of declining unemployment rate. It’s expected that unemployment rate according to definition of International organization methodology continues to decline, although on lower level than what administrative data shows.

GDP deflator points to a strong rise of domestic production of goods and services in the first quarter of 2018. Inflationary pressures, measured by consumer price index are stronger when compared to the same period in 2017.

Foreign exchange reserves continued to increase rapidly and in second quarter 2018 they exceeded amount of 11 billion BAM. In the composition of money supply decrease of other deposits is still present, while transferable deposits continue to grow. Growth trend of basis for obligatory reserve calculation is continued, as is growth trend of total obligatory reserve funds. Less than half of total amount of reserves held at Central bank of B&H (CBBH) at the end of fourth quarter 2018 were required by obligatory reserve regulations. Policy of ECB concerning reference rates has remained unchanged, so policy for obligatory reserve CBBH hasn’t change in any of its segments.

In first quarter of 2018 current accounts deficit increased due to increase of trade balance deficit and decrease of surplus of primary income account. On the other hand, increase of surplus on services account and on secondary income account had positive effect on final current account balance. Most important inflows in financial account throughout first quarter of 2018 are within other investments. Trade deficit slightly increased in second quarter. Impact of banking system on total income in financial account in second quarter 2018 is positive, and additional borrowing by general government from international credit agencies.[1]

Because of its analysis on September 7, 2018, credit rating agency Standard & Poor’s confirmed to Bosnia and Herzegovina credit rating of “B with stable outlook“. In February 2018 agency Moody’s Investors Service confirmed credit rating of “B3 with stable outlook”[2]

Banking system

In FB&H on September 30, 2018, there were 15 commercial Banks with 541 organizational units where 6,736 people has been employed.

Total net assets of banking system as of September 30, 2018 amounted to 21.6 billion BAM which is increase of 1.4 billion BAM or 7% comparing to December 31, 2017.

Total loans, with 65.1% share in total assets, have increased when compared to the end of previous year in amount of 866 million BAM, which represents 7% increase, and on September 30, 2018 they amounted to 14 billion BAM. Corporate loans have increased by 441 million BAM or 6% and on September 30, 2018 they amount to 7.3 billion BAM, with share in total loans of 51.7%. Loans to individuals in the same period has increased by 425 million BAM or 7% with participation in total loans of 48.3%, and in total they amount to 6,8 billion BAM.

Share of non-performing loans has decreased from 9.7% on 9.2%, mainly as a result of increase in total loans and activities on recovery of outstanding debts. Non-performing part of portfolio of corporate loans amounts to 11.2% while loans to individuals non-performing share amounts to 6.9%.

[1]Bulletin 2 CBBiH 2018
[2]www.cbbh.ba

1. General information (continued)

1.1. Macroeconomic environment (continued)

Deposits had reached amount of 17 billion BAM with increase in amount of 1.2 billion BAM or 8%, and had remained the most significant source of financing, with share of 78.9% of total balance sum. Savings deposits, as the largest and most significant part of total financial potential of banks, have increased for 371 million BAM or 4% and amount to 8.6 billion BAM.

Total equity on September 30, 2018 amounts to 3 billion BAM, out of which shareholders equity amounts to 1.3 billion BAM. Regulatory capital amounts to 2.6 billion BAM, and has increased by 111 million BAM or 4% when compared to end of 2017, without change in its structure.

Capital adequacy ratio of banking system in FB&H, as one of most important indicators of strength and adequacy of capital, on September 30, 2018, amounts to 15.2% and when compared to the end of previous year has decreased by 0.3 percentage points, which is result of increase of risk assets, and first adoption of IFRS 9. Capital adequacy is 26.7% higher than prescribed minimum and represents satisfactory level of capital adequacy. Leverage ratio of banking system on September 30, 2018 amounts to 9.2% (prescribed minimum is 6%) and has slightly negative trend when compared to prior year end.

Banking system liquidity is evaluated as satisfactory, when taken in consideration share of assets with high liquidity in total assets and maturity structure of financial assets and financial liabilities.

Banking system on September 30, 2018 made a profit in amount of 246,7 million BAM, which is for 15,1 million BAM or 6.5% higher compared to the same period of previous year.[3]

The Bank Management believes that it has taken all necessary measures to support the sustainability and growth of Bank business in the present circumstances.

[3]Information about banking system of Federation of Bosnia and Herzegovina as of 30 September 2018

2. Adoption of new and revised standards

2.1. Standards and interpretations in effect over the current period

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2018:

- IFRS 9 Financial Instruments
  The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. See notes 3.15, 3.22, 3.32 and 13 for effects of adoption of this standard and detailed disclosures.

- IFRS 15 Revenue from Contracts with Customers
  IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The application of this standard did not have effect on financial statements.

- IFRS 15: Revenue from Contracts with Customers (Clarifications)
  The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The application of this clarification did not have effect on financial statements.

- IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)
  The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The application of this amendment did not have effect on financial statements.

- IAS 40: Transfers to Investment Property (Amendments)
  The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The application of this amendment did not have effect on financial statements.

2. Adoption of new and revised standards (continued)

2.1. Standards and interpretations in effect over the current period (continued)

- IFRIC interpretation 22: Foreign Currency Transactions and Advance Consideration
  The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The application of this interpretation did not have effect on financial statements.

The International Accounting Standards Board (IASB) has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. It is not expected that the requirements of these improvements will have significant effect on Bank's financial statements.

- IAS 28 Investments in Associates and Joint Ventures: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

2.2. Standards issued but not yet effective and not early adopted

- IFRS 16: Leases
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Standard for Lessors assumes two exclusions for assets. IFRS 16, which is effective for annual periods beginning on or after 1 January 2019 requires more detailed disclosures than those under IAS 17.

  Transition to IFRS 16

  The Bank has performed transition to IFRS 16 in accordance with modified retrospective approach. Comparative data from previous year have not been adjusted.

  The Bank has elected, in accordance with NLB Group policy, to use exemptions, proposed by the standard, for lease contracts for which the contract will be terminated within 12 months from the date of initial application and for those contracts for which subject of the lease can be considered as low-value asset (below 5,000 EUR). The Bank has lease contracts for ATMs and archives, and parking spaces which are considered to be low-value assets.

2. Adoption of new and revised standards (continued)

2.2. Standards issued but not yet effective and not early adopted (continued)

Transition to IFRS 16

As a consequence of adoption of IFRS 16 since January 1, 2019, contracts that were earlier classified as operating lease are now being classified as lease agreements defined by new standard, and are related to following categories of leases: property and technical equipment.
In accordance with NLB Group policies, the Bank will not apply IFRS 16 on contracts for intangible assets.

With first adoption of IFRS 16, rights to use assets that are subject to lease agreements is measured in amount of liability arising from that contract, using internal transfer price for retail deposits by maturity and currency, on the starting day of the agreement. First adoption resulted in recognition of lease liability in amount of 5,170 thousand BAM, and in accordance with that, taking into consideration rents paid in advance, recognized the rights to use assets in amount of 5,180 thousand BAM in Statement of financial position as of January 1, 2019.

- Amendment in 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

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. It is not expected that these amendments will have effect on Bank's financial statements.

- IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. It is not expected that these amendments will have effect on Bank's financial statements.

2. Adoption of new and revised standards (continued)

2.2. Standards issued but not yet effective and not early adopted (continued)

- IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)
  The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. It is not expected that these amendments will have effect on Bank's financial statements.

- IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. It is not expected that this interpretation will have effect on Bank's financial statements.

- IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)
  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. It is not expected that these amendments will have effect on Bank's financial statements.

- Conceptual Framework in IFRS standards
  International Accounting Standards Board issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

2. Adoption of new and revised standards (continued)

2.2. Standards issued but not yet effective and not early adopted (continued)

- IFRS 3: Business Combinations (Amendments)
  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in 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, with earlier application permitted. It is not expected that these amendments will have effect on Bank's financial statements.

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)
  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. It is not expected that these amendments will have significant effect on Bank's financial statements.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. It is not expected that these amendments will have significant effect on Bank's financial statements.

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized
- IAS 23 Borrowing Costs: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

3. Summary of significant accounting policies

3.1. Statement of compliance

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

Accounting regulations applicable in the Federation are based on the provisions of the Law on accounting and auditing ("Law") (Official Gazette 83/09). Companies prepare and present their financial statements in accordance with International Accounting Standards ("IAS"), their amendments and interpretations ("Standard interpretations"), International Financial Reporting Standards ("IFRS") and their amendments and interpretations ("International Financial Reporting Interpretations") issued by International Accounting Standard Board ("IASB"), as translated and published by Association of accountants, auditors and financial employees in Federation (by the authorization of Accounting Commission of Bosnia and Herzegovina number 2-11/06). The decisions on publishing Standards number O-1/2-2017 dated 13 January 2017 and O-1/7- 2017 dated 24 May 2017 are binding for the periods starting 1 January 2017. Those decisions include IAS, IFRS and interpretations published by IFRS foundation in Blue book (2016 edition) chapter A and include all amendments and improvements published in 2016. Any subsequently standards or new or amended IFRS and IFRIC interpretations issued by the IASB subsequent to October 2017 have not yet been translated and published.

In preparation of these IFRS financial statements for the year ended December 31, 2018 the Bank has considered whether application of standards that have been issued by the IASB subsequent to and applicable for the current accounting period, but which were not translated and published in FB&H, results in a material departure from relevant applicable local accounting regulation.

The Bank has concluded that this is not the case and therefore in the opinion of the management these IFRS financial statements also satisfy the Bank's legal statutory requirement to publish financial statements in accordance with relevant applicable local accounting regulations.

3.2. Going concern basis

The financial statements are based on the assumption of going concern, 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.

3.3. 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.

3. Summary of significant accounting policies (continued)

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

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.

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, when assumptions used valuation model for b

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.

3.4. Functional and presentation currency

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

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

3. Summary of significant accounting policies (continued)

3.5. 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 3.31.

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

3.6. 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 using the closing exchange rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in foreign currency are disclosed using the exchange rate which was valid on the date 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 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:

Exchange rate	2018. BAM	2017. BAM
USD	1.707552	1.63081
EUR	1.95583	1.95583

3.7. 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 after initial recognition and exposures initially recognized as impaired. Accrued interest income on bad loans is excluded from profit or loss and interest income is recognized when collected.

3. Summary of significant accounting policies (continued)

3.7. Interest income and expense (continued)

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.

In accordance with IAS 39, 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 profit or loss as interest income using the effective interest rate method (unwinding – Note 5).

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.

3.8. Fee and commission income and expense

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Fee and commission income are recognized for all services provided to the Bank's clients.

Fee and commission income include fees for local and international payment operations, income from off- balance sheet operations, brokerage and dealing operations.

Fee and commission expenses relate to fees paid to the Central Bank of Bosnia and Herzegovina for local payments operations, SWIFT costs and costs of card operations.

Fee and commission expenses are recognized in the period in which they occurred.

3.9. Dividend Income

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

3.10. Employee compensations

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 profit or loss in the period to which the salaries relate.

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 to IAS 19. In accordance with NLB Group policies, every three years the Bank engages an external actuary for the employee benefits calculation, and furthermore, twice a year it has to perform an analysis of underlying information used in the calculation of provisions for employee benefits. Additional provisions are recorded in the following cases:

- when the number of employees increases by more than 10%,
- the amount of jubilee benefits or severance payments increases by more than 5%,
- when there is a significant decline in interest rates whose discount factor is used in calculations of the present value of provisions,
- when there have been changes in the legislation related to employee benefits.

3. Summary of significant accounting policies (continued)

3.10. Employee compensations (continued)

The following benefits are recognized in the other comprehensive income/loss:
- empirical adjustments i.e. differences between the prior actuarial assumptions and what was actually realized, and
- the effects of changes in actuarial assumptions referring to demographical (fluctuations of employees, mortality, etc.) and financial assumptions (e.g. changes in the discount rate, an increase in wages).

The effects of the recognition of benefits in other comprehensive income are presented in the statement of changes in equity within the position other comprehensive income / loss (other revaluation reserves

The Bank has made provisions for unused vacation days in 2018 using the Bank's average hourly rate method for each unused vacation day and released the excess provisions in favor of income from impairment for unused vacation.

3.11. Taxation

Taxes are calculated in accordance with the laws and regulations of the Federation of Bosnia and Herzegovina, on the basis of profit or loss recognized in the profit or loss statement prepared in accordance with accounting standards.
Corporate income tax (current tax) for the reporting period is calculated in accordance with the Income Tax Law using the prescribed rate of 10% on taxable income for the reporting period.

The corporate income tax charge is an aggregate amount of current and deferred taxes.

For the purposes of financial reporting, any deferred tax is recognized on the temporary differences between the tax base of assets and liabilities and their financial reporting book values using the balance sheet method and the applicable tax rates in force. Deferred tax liabilities are fully recorded. Deferred tax assets are recognized to the extent that it is probable that they will be available for offset against the current tax liability in the future.

The book value of deferred tax assets is reviewed on every balance sheet date and decreased to the extent to which it is not certain anymore that the available amount of taxable income will be available to fully or partially utilize the balance of deferred tax assets. Deferred tax is calculated using the tax rates which will probably be applicable in the period when liability is settled, or asset realized. Deferred tax is recorded as debit or credit in the income statement and in other comprehensive income except when it refers to items which directly credit or debit the principal, in which case the deferred tax is presented as part of the principal.
Deferred tax assets and liabilities are offset if they relate to items imposed by the same tax authorities and if the Bank intends to settle its current tax assets and liabilities on a net basis.

The amount of deferred tax assets and liabilities is not material for financial statements as a whole.

The Bank is obliged to pay several indirect taxes which are presented within the other operating expenses in the statement of profit or loss.

3. Summary of significant accounting policies (continued)

3.12. Earnings per share

The Bank discloses basic and diluted 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.

During 2017 and 2018 there have been no dilution effects.

3.13. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with a maturity of less than 30 days, including cash and non-restricted balances with the Central Bank as well as other eligible securities and loans and advances to banks.

3.14. Due from other banks

Amounts due from other banks are recorded when the Bank places funds to counterparty banks, with no intention of trading with such non-derivative, non-quoted receivables, which become due on a fixed or subsequently determinable date.

3.15. 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 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).

3. Summary of significant accounting policies (continued)

3.15. Financial Assets (continued)

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.

Measurement of financial assets according to IFRS 9 – Financial assets is applied on financial assets as of January 1, 2018

According to IFRS 9, 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:
- Entity's 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.

3. Summary of significant accounting policies (continued)

3.15. Financial Assets (continued)

In case the cash flows represent Solely Payments of Principal and Interest (SPPI) then debt instruments are valued at their paid value or FVOCI, depending on business model.

In case the contractual cash flows do not satisfy SPPI criteria, then financial assets are valued at 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.

For SPPI the Bank uses Guidance 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 Guidance 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 at off-balance evidence as of the date of contract, and in balance sheet at the date of contract realization.

Loans to customers and deposits are initially recognized in amount of placed funds.
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.

3. Summary of significant accounting policies (continued)

3.15. Financial Assets (continued)

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 B&H.
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)

Equity instruments which are not available for sale, 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 available for sale,
- 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 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.

3. Summary of significant accounting policies (continued)

3.15. Financial Assets (continued)

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.

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.

3. Summary of significant accounting policies (continued)

3.15. Financial Assets (continued)

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

Modified financial assets are those for which the contractual terms are changed over 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 the new financial asset (new contract), but in a way that the bank and the borrower define new contractual terms (annex of 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.

On December 31, 2017, the Bank classified the financial assets in accordance with IAS 39 into the following categories:

- Financial assets available for sale and
- Loans and receivables.

The main difference between these categories is the approach used to measure financial assets and the recognition of fair value in financial statements.

Financial assets available for sale

Available-for-sale financial assets include assets that the Bank intends to hold for an indefinite period of time, which could be sold in response to needs for liquidity or changes in interest rates, exchange rates or funding prices, or share prices; these are assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

In this group are also classified financial assets that do not meet conditions to be classified as financial assets for trading.

Financial assets available for sale are initially recognized at cost on trading date.
These assets are subsequently measured at fair value and the difference is recognized as revaluation reserve in equity. Changes in the fair value of securities classified as available-for-sale are recognized in other comprehensive income.
In case of sale of assets available-for-sale, the accumulated gain or loss recognized in equity is transferred to the Bank's profit or loss as realized gain or loss.

Financial assets available for sale include investments in capital of separate legal entities (equity instruments) which, in absence of active market for these instruments, are recorded at the purchase cost (acquisition cost).

3. Summary of significant accounting policies (continued)

3.15. Financial Assets (continued)

Loans placed to customers

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

All loans and receivables are initially measured at fair value at the loan disbursement date and are recognized when the borrower receives cash.

Loans are initially measured in the statement of financial position to the amount of approved placements less principal paid and any value adjustment, and they are increased by accrued uncollected interest. After initial recognition loans are subsequently measured at amortized cost using the effective interest rate.

3.15.1. Restructured financial resources

Restructuring of the 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,
- decrease in interest rate and/or other costs,
- decrease in 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 existing loan with new loan,
- capitalization of loan interest,
- 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 financial asset decreased at the initial recognition.
In accordance with Measures and placement approval procedures, the 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.
The effects of the modification are calculated for clients, corporate entities, who have repayment problems (classified in Stage 2 or Stage 3) and for which the reprogram or annex are contracted. For the mentioned clients, the modified gain/loss calculation at the date of reprogram is mandatory. The calculation is an integral part of a loan proposal for the amendment of a contract or agreement and a credit file.

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

3. Summary of significant accounting policies (continued)

3.15. Financial assets (continued)

The effects of the modification are recognized in the profit or loss only if the result is negative, i.e. the loss, and if the amount of the loss exceeds 30,000 EUR at the level of group of related parties, which is the subject of restructuring.
In the case of a restructuring of joint clients at the level of the NLB Group, the effect is recognized in each member's profit or loss individually if the total effect at Group level is over 130,000 EUR.
According to the Accounting policy for the recognition of modified financial instruments, only the changes of contracted cash flows for clients with financial difficulties, for which the Bank applies the principle of "excluded interest income", are taken into account, meaning that interest income is recognized only when it is collected and in the amount that exceeds the present value of new contracted cash flows at the date of modification.

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.

3.16. 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 2018 and 2017 as follows:

	2018.	2017.
Buildings	1.3%	1.3%
Leasehold improvements	20%	-
Computer equipment	14.3-50%	25%
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 2018 there were no impairment indicators, and the management believes that the fair value of this asset is approximately equal to the book value.

Overview of tangible assets in 2018 and 2017 is presented in Note 16

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.

3. Summary of significant accounting policies (continued)

3.17. Intangible assets

(a) License

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 2018 and 2017 is presented in Note 17.

3.18. 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 classified for sale acquired by the Bank through the settlement of overdue loans is classified either as an IFRS 5 non-current asset held for sale - if it is a long term asset (mostly real estate), if it is available for immediate sale and if the sale in the next 12 months is probable; or it is classified in accordance with IAS 2 - if the short-term asset is acquired for the purpose resale in a short period (up to 12 months).

In accordance with the Decision of the Banking Agency of the Federation of BiH 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 acquired tangible assets are classified as risk 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.

3. Summary of significant accounting policies (continued)

3.18. Acquired financial and nonfinancial assets (continued)

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.

After the transition to IFRS 9, the Bank continued to recognize assets acquired during collection of loan in the same manner.

3.19. 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, usually in the amount of received fees. This amount is amortized on a straight line basis over the commitment period.

3.20. 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.

3.21. 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.

3. Summary of significant accounting policies

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

As described in Note 3.22.2, the adoption of IFRS 9 fundamentally changed the Bank's loan impairment methodology by replacing IAS 39 approach of occurred losses with the ECL approach which takes into consideration future events. As of January 1, 2018, the Bank recognizes impairment allowance for expected credit losses for all loans and other debt financial assets held at FVPL, together with loan commitments and financial guarantee contracts.

3.22.1. Impairment of financial assets and off-balance sheet contingent liabilities - IAS 39 (related to the periods previous and ending December 31, 2017)

a) Assets carried at amortized cost

At each balance sheet date the Bank assesses whether there is objective evidence that a financial asset or groups of financial assets should be impaired.

It is considered that financial assets or group of financial assets are impaired when there is objective evidence of impairment which arises as a consequence of one or more loss events arising after the initial recognition of assets, and if those events (losses) will surely impact on future estimated cash flows.
In accordance with the adopted methodology, the process of assessment of receivables' impairment is as follows:

The Bank is individually assessing:
- Banks and exposures to central level of government,
- all clients with exposure on calculation date exceeding the threshold (BAM 100,000),
- all clients past due over 90 days in materially significant amount,
- clients in default status.

Impairment (value decrease) is recorded in cases where the Bank has information on events which represent the objective evidence of the impairment of financial asset, or a group of assets, including:
- financial difficulties of the borrower,
- borrower's breach of contractual liabilities,
- restructuring of financial assets due to financial difficulties of the borrower; extension of principal and/or interest repayment period, postponing of principal and/or interest repayment, decrease in interest rate and/or other costs, partial write-off of receivable (principal and/or interest past due), repossession of other assets for purposes of partial or full repayment of receivable, introduction of grace period and other similar activities.
- possibility of bankruptcy or financial reorganization of the borrower,
- measurable decrease of expected cash flows from the group of financial assets, occurred since the initial recognition of these financial assets, even when the decrease cannot be allocated to individual assets in the group, including: negative changes in debt repayment, worsening of economic conditions in industry branch, or negative economic conditions which influence the repayment of financial assets.

For off-balance sheet liabilities, provisions are recorded in the following cases:
- there is an event occurred in the past for which there is present liability for payment (payment call and similar),
- there is more than 50% probability that the Bank will have to settle the liability, and
- when it is possible to adequately measure the amount of the liability representing loss and to form provisions in the same amount.

Receivables from clients, for which no evidence of impairment exists, for which the Bank considers will be fully collected in accordance with contractual amounts and deadlines, are included in the groups for collective assessment of impairment, i.e. provisions.

3. Summary of significant accounting policies (continued)

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

3.22.1. Impairment of financial assets and off-balance sheet contingent liabilities - IAS 39 (related to the periods previous and ending December 31, 2017) (continued)

The group of 100% collectable receivables includes receivables secured with first-class collaterals and for them it is not necessary to record impairment, or provisions either on an individual or collective level.

Newly approved receivables from clients that have active liabilities towards the Bank are treated in the following manner:

a. when the existing receivables have been individually assessed, the newly approved receivables shall also be individually assessed,
b. when the existing receivables have been collectively assessed, the newly approved receivables shall also be collectively assessed (provided that the total exposure is not higher than the limit for individual assessment).

For receivables from clients, for which evidence of impairment exists, individual assessment is performed.

Individual assessment of impairment comprises the following steps:
- the review of contractual cash flows from the repayment plan,
- an estimate of the actual collection of receivables by amounts and time periods (expected cash flows),
- the discount of estimated future cash flows to present value is performed using the effective interest rate method (EIR),
- the calculation of the receivables collection rate, equal to the ratio of the present value of estimated cash flows and the present value of contracted cash flows,
- the amount of impairment is calculated on the basis of the receivables collection rate.

For receivables which are examined collectively, the impairment assessment is carried out according to the following stages:

1. Forming groups of clients

For the purpose of forming a collective allowance for impairment and provisions, risk assets and off-balance sheet commitments, which does not represent individually significant exposure, is divided into groups with similar characteristics with considering credit risk exposure, as follows:

   1. groups of companies and private entrepreneurs,
   2. groups of retail clients.

Both groups of clients are further divided into five rating subgroups, based on their credit rating (A, B, C, D and E).

2. Collective impairment percentages are applied for receivables classified into different rating groups. The loss is calculated as the difference between the book value and recoverable amount. The recoverable amount represents the present value of expected cash flows from the collection of receivables based on contracts.

b) Assets carried at fair value

At each reporting date the Bank assesses whether there is objective evidence that impairment indicators exist for a financial asset.

The fair value of financial assets available for sale is its quoted bid market price at the balance sheet date, without any deductions for selling costs.

If the market for a financial asset is not active (for unquoted securities also), or if, for any other reason, the fair value cannot be reliably measured using market price, the Bank determines fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions between informed and willing parties, reference to other similar instruments and discounted cash flow analysis, with maximal use of market inputs and relying as little as possible on entity-specific inputs.

3. Summary of significant accounting policies (continued)

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

3.22.1. Impairment of financial assets and off-balance sheet contingent liabilities - IAS 39 (related to the periods previous and ending December 31, 2017) (continued)

Where discounted cash flows are used, estimated future cash flows are based on the management's best estimate and the discount rate is a market rate valid as at balance sheet date for financial instruments with similar terms and conditions. Where a pricing model is used, inputs are based on market observable measures at the balance sheet date.

The effects of subsequent measurements of available for sale financial assets are presented in equity.

In case there is a significant and prolonged decrease in fair value below purchase prices for these assets, this is an indication that the financial asset has become impaired. If there is evidence of impairment of financial assets available for sale, the cumulative loss - measured as the difference between the acquisition cost and current fair value - is recognized in the profit or loss.
In case there is a subsequent increase in the fair value of an available for sale debt instrument and the increase can be objectively related to an event occurring after the initial impairment loss is recognized in the profit or loss, the impairment loss is reversed in the profit or loss, but only up to the amount of previously recognized impairment.
In the case of equity securities subsequent correction of impairment in the profit or loss is not permitted.

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

IFRS 9 requires transition from occurred losses into the model of expected losses, demanding that the Bank should recognize 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.

3. Summary of significant accounting policies (continued)

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

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

The methodology for the calculation of value adjustments and provisions defines the 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. 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.

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.

3. Summary of significant accounting policies (continued)

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

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

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.

Accounting policy of the Bank did not change with application of IFRS 9. It remained the same as in accordance with IAS 39 – Financial assets are writen-off completely or partially when all collection options are exhausted.

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.

When assessing whether the transfer of a financial asset meets the criteria for the derecognition, the extent to which the risks and rewards of ownership of a financial asset remain with the Bank is considered as follows:
- if all risks and benefit of ownership of a financial asset are transferred, financial asset is derecognized, and separate assets or liabilities are recognized with respect to all rights and obligations that occurred or were retained as result of the transfer;
- if all risks and benefits of ownership of financial assets are retained, the financial asset remains recognized on balance sheet;
- if all risks and benefit of of ownership of a financial asset are not transferred nor retained, it is determined whether the control over the financial asset is retained, in which case:
  - if the control is not retained, the financial asset is derecognized and any rights and obligations that arise or that are retained by a transfer are separately recognized as assets or liabilities or
  - if the control is retained, the financial asset continues to be recognized in the amount of participation in that financial asset.

3. Summary of significant accounting policies (continued)

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

3.22.3. Estimation of potential losses of financial assets in accordance with the requirements of the Banking Agency of the Federation of Bosnia and Herzegovina

In accordance with the Instruction on the amended method of recording, documenting and reporting of provisions for credit losses, brought by the Banking Agency of the Federation of Bosnia and Herzegovina, the Bank continues to manage adequate internal records (off-balance evidence) which is in accordance with the Decision of Banking Agency of the Federation of Bosnia and Herzegovina on minimum standards for credit risk management and the classification of banks' assets.

The Bank is required to classify loans, placements and other balance and off-balance sheet exposures to risk into categories A, B, C, D and E in accordance with the assessment of collectability of loans and other placements, based on the regularity of repayment of debtors' liabilities, the debtor's financial position and collateral. The estimated amount of provisions for potential losses is calculated using the following percentages: 2% for loans classified into category A, 5% - 15% for the loans in category B, 16% - 40% on loans in category C, 41 - 60% on loans in category D and 100% on E category loans.

The provisions for potential losses calculated in this way don't have effect on the recognition of credit losses in the financial statements of the Bank, but they are used to calculate the deductible item from regulatory capital when calculating the Bank capital adequacy, in accordance with the Decision on the calculation of capital of the bank (Official gazette of FB&H, 81/17).

If the amount of loan loss provisions calculated in accordance with the Decision on minimum standards for credit risk management and classification of banks' assets is higher than the sum of IFRS provisions for total assets and loan provisions for off-balance items and previously formed loan loss provisions, the Bank shall treat such a difference as a missing balancing figure in loan loss provisions in accordance with the Decision. The determined amount of missing loan loss provisions, as per regulatory requirements, represents a deductible item in the Bank's capital adequacy calculation (Note 4.9.)

If the amount of provisions and the amount of loss provisions for off-balance items under IFRS is higher than the calculated amount of loan loss provisions per Decision, the Bank is not required to form special reserves for loan losses. The excess of provisions for certain clients cannot be used for offsetting the missing provisions for other clients.

In accordance with the Decision, the Bank cannot decrease the amount of previously formed loan loss provisions.

3. Summary of significant accounting policies (continued)

3.23. 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 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.

3.24. 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.

3.25. Statutory reserves

Statutory reserves have been created in accordance with the Company Law of the FB&H, 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, 2018, the statutory reserves of the Bank amounted to 138.54% of the share capital.

The Bank's legal reserves as of December 31, 2018 amounted to 74,260 thousand BAM, out of which 13.401 thousand BAM relate to the legally prescribed 25% of the share capital, the loan loss reserves formed from profit amount to 3,755 thousand BAM, and 57,104 thousand BAM relate to the amount exceeding the statutory reserve.

3.26. Revaluation reserves

Revaluation reserves include changes in the fair value of financial assets available for sale/financial assets at fair value through OCI and other re-valuation 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.

Within the revaluation reserves are recorded impairments value per credit risk assessment for financial assets at fair value through other comprehensive income (impairment of debt securities).

3.27. 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.

3. Summary of significant accounting policies (continued)

3.28. 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 22a) and Fee and commission income (Note 6a).

3.29. 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.

When identifying related parties, the Bank takes into consideration the definitions of law on banks which defines the requirements for treatment of entities in a special relationship with the Bank.

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

3.30. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns which are different from those of other business segments.

A geographical segment relates to products or services within a particular economic environment which are subject to risks and returns different than those of segments operating in other economic environments.

The Bank is monitoring and disclosing its performance by business segments (public, retail, corporate) and by geographical segments (branch offices).

3. Summary of significant accounting policies (continued)

3.31. 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 accruals

Expenses for long-term provisions related to the future outflows regarding the retirement of employees are assessed based on the actuarial calculation done in accordance with IAS 19. For the purposes of the assessment, the Bank engages a certified actuary, who performs the calculation based on the data from the HR department of the Bank. The present value of these future liabilities is calculated by applying a discount interest rate. These provisions are only used to settle expenses for which they have been originally created for. At the end of each business year the Bank re-assesses the value of these provisions. If the amount recorded is higher or lower than estimated amount, the difference is released or expensed through profit or loss.

In 2018, the authorized actuary has made a calculation of provisions for severances for 2018 in accordance with IAS 19 and the Bank has made the required adjustments. For periods when the authorized actuary makes no calculations, the Bank conducts its own reviews of necessary provisions in accordance with Instructions of the NLB Group.

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 net 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 26.

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 based on the regulations and obtained opinions of the Ministry of Finance of FB&H.

The average effective tax rate of the Bank is disclosed in Note 10.

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

3. Summary of significant accounting policies (continued)

3.32. Review of effects of the first application of IFRS 9

The adjustment of the carrying amount of assets, liabilities and equity that were under IAS 39 with requirements in accordance with IFRS 9 at January 1, 2018 are presented in the following overview:

	Ref	IAS 39 – December 31, 2018		Reclassification	Remeasurement		IFRS 9 – January 1, 2018	
		Category	Amount		ECL	Other	Amount	Class
ASSETS								
Cash and balances with the CBB&H		L&R[4]	238,335	-	(395)	-	237,940	AC[5]
Placements with bank		L&R	49,774	-	(78)	-	49,696	AC
Loans to customers		L&R	651,423	(4,134)	2,122	-	649,411	AC
To: Financial assets mandatory at FVPL	A			(4,134)	2,122	-		
Financial assets mandatory at FVPL			N/A	4,134	-	(2,549)	1,585	FVPL[6]
From: Loans to customers	A			4,134	-	(2,549)		
Financial assets AFS		AFS[7]	74,989	(74,989)	-	-	N/A	
To: Debt securities at FVOCI	B			(74,906)	-	-		
To: Equity securities at FVOCI	C			(83)	-	-		
Debt securities at FVOCI			N/A	74,906	16	-	74,922	FVOCI[8]
From: Financial assets AFS	B			74,906	16	-		
Equity securities at FVOCI			N/A	83	-	-	83	FVOCI
From: Financial assets AFS	C			83	-	-		
Tangible assets			21,139	-	-	-	21,139	
Intangible assets			552	-	-	-	552	
Other assets		L&R	3,188	-	67	-	3,255	AC
Total assets			1,039,400	-	1,732	(2,549)	1,038,583	
LIABILITIES								
Deposits from banks		AC	10,317	-	-	-	10,317	AC
Deposits from customers		AC	836,961	-	-	-	836,961	AC
Borrowings		AC	43,222	-	-	-	43,222	AC
Other liabilities		AC	10,573	-	-	-	10,573	AC
Other provisions			4,891	-	(1,407)	-	3,484	
Total Liabilities			905,964		(1,407)	-	904,557	
EQUITY								
Share capital			53,605				53,605	
Legal reserves			64,934	-	2,556	(2,549)	64,941	
The effect of re-measurement of assets at AC reclassified to assets at FVPL				-	-	(2,549)		
Recognition of ECL in accordance with IFRS 9				-	2,556	-		
Revaluation reserves - financial assets AFS			384	(384)	-	-	N/A	
To: Revaluation reserves - financial assets according at FVOCI				(384)	-	-		
Revaluation reserves – financial assets at FVOCI			N/A	384	583	-	967	
From: Revaluation reserves - financial assets AFS				384	-	-		
Recognition of ECL in accordance with IFRS 9 for assets at FVOCI				-	583	-		
Other revaluation reserves			(673)	-	-	-	(673)	
Retained earnings			15,186	-	-	-	15,186	
Total equity			133,436	-	3,139	(2,549)	134,026	
Total equity and liabilities			1.039.400	-	1.732	(2.549)	1.038.583	

[4]L&R – Loans and receivables
[5]AC – Amortized cost
[6]FVPL – Fair value through profit and loss
[7]AFS –Available for sale
[8]FVOCI – Fair value through other comprehensive income

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

3. Summary of significant accounting policies (continued)

3.32. Review of effects of the first application of IFRS 9 (continued)

- Comments (explanations) of certain positions from the previous overview are given below:

A - Certain loans and receivables from customers other than banks, which have been classified as Loans and receivables measured at amortized cost in accordance with IAS 39, and in accordance with IFRS 9 meet the requirements for obligatory measurement at fair value through profit and loss (FVPL), since contracted cash flows of these assets don't represent only payment of principal and interest on outstanding principal (do not pass the SPPI test).

B - The Bank has certain debt securities that serve as a liquidity reserve. In accordance with IFRS 9, the Bank holds these securities as a part of a business model with the goal of ownership of assets for the purpose of collecting cash flows and the sale of financial assets, and they are measured at fair value through other comprehensive income (FVOCI).

C - Equity securities, held by the Bank in its portfolio, in accordance with IFRS 9 are measured through other comprehensive income (FVOCI) because they do not represent strategic investment. Changes in the fair value of these securities will not be recognized in profit and loss, even in case of disposal. Before the application of IFRS 9, these securities were classified as available for sale.

Following table presents adjustment of total impairment losses/provisions for loan losses under IAS 39 and for potential liabilities in accordance with IAS 37 to impairment for credit losses under IFRS 9:

Impairment losses / provisions:	Value adjustment / provisions under IAS39/IAS37 December 31, 2017	Remeasurements	Expected credit losses under IFRS 9 January 1, 2018
Loans and receivables under IAS 39 / Financial assets at amortized cost under IFRS 9	76,301	(1,716)	74,585
AFS financial assets under IAS 39/ Financial assets at fair value through OCI under IFRS 9	16	567	583
	76,317	(1,149)	75,168
Guarantees	1,572	(437)	1,135
Letters of credit	47	(39)	8
Undrawn credit commitments	1,642	(931)	711
	3,261	(1,407)	1,854
	79,578	(2,556)	77,022

4. Bank's financial risk management

4.1. 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 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, and as directed by NLB d.d., including the requirements of the Bank of Slovenia and ECB at the level of the NLB Group.
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 Profile, ICAAP, ILAAP, Budgeting and Equity Planning Process).

Based on the Business Strategy and Risk Appetite, the Risk Management and Transfer Strategy defines in more detail the key risk-taking principles that relate to the type of risk (and related segments or types of activities) that the Bank is prepared to take and which are not acceptable/or only acceptable to the very limited extent.

Key principles of the 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;
- system of three lines of defense.

The main risks include: credit risk, liquidity risk, market risk (including currency risk and interest rate risk exposure), operational risk and equity risk.
Standards for risk management of the NLB Group represent the basis for implementation, organization and activities related to the Bank's risk management as a member of NLB Group. The described guidelines, or "minimal standards" in the area of management of credit, non-credit and operating risks, represent basic starting points to all members of the NLB Group which need to adapt their business policies, organization, operating activities and reporting systems.
Standards define basic guidelines, as well as specific short-term and long-term tasks, implementation deadlines and persons/departments in charge of such activities.
The guidelines of the standards for risk management of the NLB Group, are incorporated in the following acts:
- Criteria and procedures for placement approval in the NLB Bank d.d. Sarajevo (with Attachments);
- Loan Policy for Non-Financial Companies in NLB Bank d.d. Sarajevo;
- Program for credit risk management;
- Program for foreign currency risk management;
- Policies and procedures for monitoring interest rate risk exposure;
- Policies for operating risk management;
- Policies and procedures for liquidity risk management;
- Policies for financial instruments management NLB Bank d.d., Sarajevo;
- Methodology of credit rating - general methodology.

4. Bank's financial risk management (continued)

4.1. Risk management and transfer strategy (continued)

Risk Appetite is a comprehensive act 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 strategy with quantitative measures. It represents the basis for the ICAAP (Internal Capital Adequacy Assessment Process), the ILAAP (Internal Liquidity Adequacy Assessment Process), 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 can be exposed while estimating ability of the Bank to maintain capital requirements and effective risk management. ICAAP is a result of relevant business units processes within the Bank, including Management and Supervisory board.

ILAAP estimates overall liquidity requirements with aim to secure good liquidity risk management. ILAAP is result of relevant business units processes including Management and Supervisory board. Annual Management board statement (ILAAP statement) gives clear position of current and future liquidity of the bank, and liquidity risk and liquidity process management.

In 2018 the Bank has developed a Recovery Plan of the Bank with aim to secure financial sustainability, as well as restoring sustainable business functioning and appropriate Bank’s financial position in case of worsening its financial position.

4.2. Credit risk management

The Bank is exposed to credit risk, which is the risk of loss due to debtors’ inability to settle its cash commitments towards the Bank. Through the categorization of placements, loan takers into appropriate risk groups, the Bank identifies and determines the possible level of credit losses, i.e. general credit risk and potential credit loss.
The Bank makes an assessment of credit losses for both, individual borrowers and groups of related-party borrowers. The Bank monitors such risks on a continuous basis and reviews them in accordance with internal programs and policies, as well as Banking Agency of the FB&H decisions.
Determination of impairment includes significant level of management’s assessment. Prior years’ experience show that banks can face significant losses during the crisis which can have significant effect on financial statements and even affect the going concern.
The Bank manages the credit risk by regular analysis of the existing and potential borrowers’ ability to repay their principal and interest obligations and by changing credit limits as required in accordance with established procedures for approving loans, other placements, making investments and taking over of potential off-balance sheet liabilities. In addition, its exposure to credit risk it partially manages aby minimizing all forms of risk related to quality, concentration, insurance of collection i.e. collateral or collection instruments (majority of the loans are secured by collateral, guarantees, mortgages and other types of insurance), maturity and currency.

The credit rating is determined not only for financially important clients (exposure exceeding 5.0 million EUR), and those clients whose placement approval is under the responsibility of the Supervisory Board of the NLB Group members (exposure over 10% of the Bank's share capital), but also for all clients of NLB Group and clients who are exclusively in jurisdiction of NLB Group members.

The credit rating of clients is determined in accordance with internal acts that regulate determination of clients' rating.

4. Bank's financial risk management (continued)

4.2. Credit risk management (continued)

Determination of credit rating for legal entities according to which the Bank has exposure up to 400 thousand BAM is performed in accordance with the General Methodology of the rating classification, following the steps:

Preliminary limitations
Preliminary limitations represent limitations for determining credit rating: delays in payments, blockages, failure to provide key information for credit rating classification and insolvency;

Financial credit rating – financial indicators participate with share of 75% in the calculation of credit rating. The basis for calculating financial credit rating are financial indicators such as FO/EBITDA; Financial security level, EBIT/interest expense, Average turnover days of: inventory (Z), short term receivables (P), short term liabilities (O). Each of these indicators has a weight of 25% in the calculation of the financial credit rating.

Qualitative credit rating
Qualitative credit rating is based on the Know-Your-Client principle and it relates to market conditions, expected plans, strategy towards clients, cooperation with NLB Group, etc. Qualitative indicators have a weight of 25% when calculating credit rating.

Adjustment criteria
Criteria for adjustment are used when adjusting the calculated credit rating. It is necessary to evaluate them with certain caution and restraint; any adjustment of the calculated credit rating should be explained in detail in the decision materials.

Final credit rating
Based on the calculated credit rating and taking into account any previous limitations and adjustment criteria, the final credit rating is determined.
Adjustment criteria generally can affect the calculation of the basic credit rating, the maximum improvement for one credit rating and the deterioration for the two rating groups.

If the Bank's exposure to credit risk towards an individual user or a group of related parties (loans, guarantees and letters of credit etc.) exceeds 400 thousand BAM, additional analysis for the determination of creditworthiness is prepared.

The decision levels are defined by the Decision on Credit Authorization:
- Risk Management Division and the Retail Operations Division are responsible for making decisions on determining or revising the credit rating for legal entities of the Micro Segment (legal and civil legal entities) and related legal and retail entities whose total exposure does not exceed 200 thousand BAM
- Risk Management Division and the Corporate operations Division are responsible for making decisions on determining or revising the credit rating of legal entities and related legal and retail entities whose total exposure does not exceed the amount of 800 thousand BAM
- The Credit Committee of the Bank shall be responsible for making decisions on the approval or revision of the credit rating and/or individual debt of legal entities and related legal and retail entities for which the total exposure exceeds the amount of 800 thousand KM, and up to a maximum amount of 10% of the Bank's recognized equity.

Credit rating for retail clients are determined in accordance with the Instructions for credit rating classification of retail clients.

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

4. Bank's financial risk management (continued)

4.2. Credit risk management (continued)

Master Scale of credit ratings with respective PDs is shown below:

Legal Entity		Retail - housing loans		Retail - non-purpose loans		Retail -other	
Credit rating	PD	Credit rating	PD	Credit rating	PD	Credit rating	PD
A	1.115% - 7.243%	A	0.176%- 1.266%	A	0.612%- 1.846%	A	0.576%- 1.531%
B	3.068%- 8.668%	B	1.330%- 22.230%	B	1.848% - 15.622%	B	1.414%- 25.005%
C	10.148%- 29.278%	C	1.891%- 22.230%	C	1.865%- 43.340%	C	1.405%- 66.36%
D	100%	D	100%	D	100%	D	100%
E	100%	E	100%	E	100%	E	100%

(A, B and C - performing; D and E - Non performing)

Total credit risk exposure	2018.	2017.
Cash and balances with Central Bank B&H (CBBH) (Note 11)	242,299	238,335
Placements with banks (Note 12)	100,114	49,774
Loans to customers (Note 13)	694,733	651,423
Financial assets mandatory at FVPL (Note 14)	1,719	-
Financial assets available for sale (Note 15)	-	74,989
Debt instruments at FVOCI (Note 15)	76,850	-
Equity instruments at FVOCI (Note 15)	88	-
Other financial assets (Note 18)	9,648	2,301
	1,125,451	1,016,822

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

4. Bank's financial risk management (continued)

4.2. Credit risk management (continued)

The following table shows the maximum exposure to credit risk

Financial assets	Total carrying value	Impairment	Total net carrying value
31 December 2018			
Cash and balances with CBBH (Note 11)	242,499	(200)	242,299
Placements with banks (Note 12)	100,133	(19)	100,114
Loans to customers (Note 13)	767,979	(73,246)	694,733
Financial assets mandatorily at FVPL (Note 14)	1,719	-	1,719
Financial assets at FVOCI (Note 15)	76,938	-	76,938
Other financial assets (Note 18)	11,836	(2,188)	9,648
	1,201,104	(75,653)	1,125,451
Contingent liabilities (Note 26)	152,556	(2,402)	150,154
Total	1,353,660	(78,055)	1,275,605
31 December 2017			
Cash and balances with CBBH (Note 11)	238,335	-	238,335
Placements with banks (Note 12)	49,774	-	49,774
Loans to customers (Note 13)	724,684	(73,261)	651,423
Financial assets held for trading (Note 15)	75,005	(16)	74,989
Other financial assets (Note 18)	4,424	(2,123)	2,301
	1,092,222	(75,400)	1,016,822
Contingent liabilities (Note 26)	130,128	(3,261)	126,867
Total	1,222,350	(78,661)	1,143,689

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.

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

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

4. Bank's financial risk management (continued)

4.2. Credit risk management (continued)

31 December 2018	Banks		Loans to customers		Total	
	Gross	Risk provisions	Gross	Risk provisions	Gross	Risk provisions
A	55,108	(8)	433,217	(2.960)	488,325	(2,968)
B	45,025	(11)	241,556	(5.851)	286,581	(5,862)
C	-	-	30,718	(5.246)	30,718	(5,246)
D	-	-	6,200	(5.953)	6,200	(5,953)
E	-	-	56,288	(53.236)	56,288	(53,236)
Total	100,133	(19)	767,979	(73,246)	868,112	(73,265)
Total (net)		100,114		694,733		794,847

31 December 2017	Banks		Loans to customers		Total	
	Gross	Risk provisions	Gross	Risk provisions	Gross	Risk provisions
A	19,733	-	389,365	(3,892)	409,098	(3,892)
B	30,041	-	215,520	(4,667)	245,561	(4,667)
C	-	-	49,131	(7,058)	49,131	(7,058)
D	-	-	23,138	(15,300)	23,138	(15,300)
E	-	-	47,530	(42,344)	47,530	(42,344)
Total	49,774	-	724,684	(73,261)	774,458	(73,261)
Total (net)		49,774		651,423		701,197

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.

4. Bank's financial risk management (continued)

4.2. Credit risk management (continued)

IFRS 9 requires a transition from the incurred loss model to the expected loss model in a way that recognizes, not only credit losses that have already been incurred, but also losses that are expected in the future. Value adjustment for Expected Credit Losses (ECLs) are required for all loans and other debt financial assets that are not held at FVPL, together with loans and financial guarantees contracts.

Collaterals

For most placements approved to customers, the Bank requires collateral. With the application of IFRS 9 there has been no significant changes in accounting policies regarding the collateral and their valuation.

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 collaterals, the Bank also uses the following elements:
- 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 withholds the right to request any other type of collateral (or variation of above-mentioned collateral) that it considers necessary.

Assessment of fair value of impaired assets 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)

4. Bank's financial risk management (continued)

4.2. 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
31 December 2018		
Credit exposure, net	796,566	1,082,170
Loans to customers at AC	694,733	1,078,189
Loans to customers mandatory at FVPL	1,719	3,981
Placements with banks	100,114	-
Off-balance sheet exposure, net	150,154	77,199
Total	946,720	1,159,369
31 December 2017		
Credit exposure, net	701,197	1,065,232
Loans to customers at AC	651,423	1,065,232
Placement with banks	49,774	-
Off-balance sheet exposure, net	126,867	67,224
Total	828,064	1,132,456

Out of the total collateral value, as at December 31, 2018, amount of 433,840 thousand BAM relates to business and residential real estates, while the rest of the collaterals are deposits, movable assets, guarantees, administrative orders, codebtors and bills of exchange.

As at 31 December 31, 2017, out of the total value of collaterals, 472,936 thousand BAM relates to business and residential real estates.

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

4. Bank's financial risk management (continued)

4.2. Credit risk management (continued)

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

December 31, 2018	Gross exposure (1)	Fair value of collateral						Impairment (2)	Maximal exposure to credit risk (3=1-2)
		Cash deposits	Guarantee	Real estate	Movable assets	Other collateral	Total collateral		
Retail loans	417,683	2,620	29,437	388,246	104	429,046	523,150	29,437	388,246
Housing loans	58,778	110	2,650	56,128	-	35,799	85,990	2,650	56,128
Consumer loans	330,727	2,073	24,158	306,569	5	333,324	376,104	24,158	306,569
Other retail loans	28,178	437	2,629	25,549	99	59,923	61,056	2,629	25,549
Corporate loans	350,296	10,932	43,809	306,487	22,058	212,677	555,039	43,809	306,487
Corporate customers	291,346	8,073	29,011	262,335	15,472	162,120	455,870	29,011	262,335
SME	39,965	2,012	10,805	29,160	5,541	25,882	65,555	10,805	29,160
Other customers	18,985	847	3,993	14,992	1,045	24,675	33,614	3,993	14,992
Loans to customers mandatory at FVPL	3,962	-	2,243	1,719	-	-	3,981	2,243	1,719
Placements with banks	100,133	-	19	100,114	-	-	-	19	100,114
Off-balance sheet exposure	152,556	3,103	2,402	150,154	6,468	38,470	77,199	2,402	150,154
Guarantees	49,332	3,103	1,431	47,901	6,468	37,750	76,479	1,431	47,901
Letters of credit	720	-	13	707	-	720	720	13	707
Approved undrawn loans	102,504	-	958	101,546	-	-	-	958	101,546
Total	1,024,630	16,655	77,910	946,720	28,630	680,193	1,159,369	77,910	946,720

December 31, 2018 Stage 3	Gross exposure (1)	Fair value of collateral						Impairment (2)	Maximal exposure to credit risk (3=1-2)
		Cash deposits	Guarantee	Real estate	Movable assets	Other collateral	Total collateral		
Retail loans	27,373	11	26,449	924	18	22,307	40,901	26,449	924
Housing loans	2,454	-	2,329	125	-	1,169	5,774	2,329	125
Consumer loans	22,433	9	21,671	762	4	19,717	33,458	21,671	762
Other retail loans	2,486	2	2,449	37	14	1,421	1,669	2,449	37
Corporate loans	41,164	530	37,716	3,448	3,721	17,421	62,073	37,716	3,448
Corporate customers	26,069	30	23,943	2,126	2,635	11,325	37,753	23,943	2,126
SME	11,467	500	10,146	1,321	576	3,729	17,540	10,146	1,321
Other customers	3,628	-	3,628	0	510	2,367	6,780	3,628	0
Loans to customers mandatory at FVPL	3,962	-	2,243	1,719	-	-	3,981	2,243	1,719
Placements with banks	-	-	-	-	-	-	-	-	-
Off-balance sheet exposure	1,153	-	661	492	6,450	1,013	21,556	661	492
Guarantees	1,038	-	554	484	6,450	1,013	21,556	554	484
Letters of credit	0	-		0	-	-	-		0
Approved undrawn loans	115	-	107	8	-	-	-	107	8
Total	73,652	541	67,069	6,583	10,189	40,741	128,511	67,069	6,583

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

4. Bank's financial risk management (continued)

4.2. Credit risk management (continued)

December 31, 2017	Gross exposure to credit risk (1)	Fair value of collateral							Impairment (2)	Maximum exposure to credit risk (3=1-2)
		Cash	Securities	Guarantees	Property	Movable assets	Other	Total collateral		
Retail loans	387,495	2,982	29,329	358,166	96,096	176	390,825	490,079	29,329	361,065
Housing loans	58,741	128	2,184	56,557	49,246	0	37,110	86,484	2,184	56,537
Consumer loans	302,175	2,096	23,929	278,246	45,852	22	295,959	343,929	23,929	278,572
Other retail loans	26,579	758	3,216	23,363	998	154	57,756	59,666	3,216	25,956
Corporate loans	337,189	14,619	43,932	293,257	356,260	32,121	171,586	575,152	43,932	290,358
Corporate lending	282,887	7,567	29,160	253,727	300,046	25,423	130,496	464,098	29,160	251,596
SME lending	38,033	6,304	9,474	28,559	46,636	5,687	21,245	79,872	9,474	28,699
Other corporate lending	16,269	748	5,298	10,971	9,578	1,011	19,845	31,182	5,298	10,063
Placements with banks	49,774	-	-	49,774	-	-	-	-	-	49,774
Off balance sheet items	130,128	2,772	3,261	126,867	20,579	4,250	39,585	67,225	3,261	126,867
Guarantees	47,765	2,772	187	47,578	20,579	4,250	39,223	66,863	187	47,578
Letters of credit	362	-	8	354	-	-	362	362	8	354
Approved undrawn loans	82,001	-	3,066	78,935	-	-	-	-	3,066	78,935
Total	904,586	20,373	76,522	828,064	472,935	36,547	601,996	1,132,456	76,522	828,064

Overview of LTV (loan to value) ratios for 2018 and 2017 is presented below:

LTV ratio December 31, 2018	0-30%	30-60%	60-90%	90-100%	100-120%	120-%	Amount of uncovered loans	Total
Housing loans	2,190	7,002	9,583	4,633	1,713	581	33,076	58,778
Consumer loans	3,127	3,933	3,627	2,067	435	387	317,151	330,727
Total	5,317	10,935	13,210	6,700	2,148	968	350,227	389,505

LTV ratio December 31, 2017	0-30%	30-60%	60-90%	90-100%	100-120%	120-%	Amount of uncovered loans	Total
Housing loans	2,297	7,148	8,068	3,880	1,251	700	35,377	58,721
Consumer loans	3,825	3,948	2,733	2,565	280	342	288,808	302,501
Total	6,122	11,096	10,801	6,445	1,531	1,042	324,185	361,222

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

4. Bank's financial risk management (continued)

4.2. Credit risk management (continued)

Maturity and impairment of loan receivables, which include loans to customers and placements with banks, may be presented as follows:

	Receivables not due not value adjusted	Overdue receivables not value adjusted	Receivables not due with individual value adjustment	Overdue receivables with individual value adjustment	Receivables not due with group value adjustment	Overdue receivables with group value adjustment	Individual value adjustment	Group value adjustment	Total
December 31, 2018									
Governments	-	-	-	-	6,258	-	-	(11)	6,247
Companies	6,716	4	3,602	33,744	290,725	4,131	(33,872)	(9,897)	295,153
Banks	-	-	-	-	100,133	-	-	(19)	100,114
Non-banking financial institutions	-	-	-	-	5,116	-	-	(28)	5,088
Retail	1,615	3	98	926	396,146	18,895	(1,025)	(28,413)	388,245
Total	8,331	7	3,700	34,670	798,378	23,026	(34,897)	(38,368)	794,847
December 31, 2017									
Governments	-	-	-	-	5,284	-	-	(90)	5,194
Companies	9,936	220	20,836	36,441	257,624	456	(38,123)	(7,867)	279,523
Banks	49,774	-	-	-	-	-	-	-	49,774
Non-banking financial institutions	-	-	-	-	3,493	-	-	(58)	3,435
Retail	1,708	8	10,400	18,852	358,430	996	(22,151)	(4,972)	363,271
Total	61,418	228	31,236	55,293	624,831	1,452	(60,274)	(12,987)	701,197

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

4. Bank's financial risk management (continued)

4.2. Credit risk management (continued)

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.

		2018.		2017.
	BAM	%	BAM	%
Retail	416,690	48.07	388,648	50.25
Trade	179,105	20.66	165,965	21.46
Mining and industry	91,346	10.54	98,745	12.77
Financial institutions	106,334	12.27	54,192	7.01
Building construction industry	20,572	2.37	16,069	2.08
Transportation and communications	19,794	2.29	20,472	2.65
Trading in real estate	10,224	1.18	5,670	0.73
Services, tourism, catering	2,840	0.33	6,301	0.81
Agriculture, forestry and fishing	7,621	0.88	6,996	0.90
Other	12,251	1.41	10,380	1.34
	866,777	100.00	773,438	100.00
Interests and fees	3,318		3,450	
Deferred fees for loans processing (IAS 18)	(1,983)		(2,430)	
	868,112		774,458	
Less: Impairment allowance	(73,265)		(73,261)	
	794,847		701,197	

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.
As of June 1, 2017, 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.

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

4. Bank's financial risk management (continued)

4.2. Credit risk management (continued)

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).

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

	December 31, 2018		
Segment	Performing portfolio	Non-performing portfolio	Total
Corporate clients	16	12,404	12,419
SME clients	-	5,939	5,939
Other clients	71	291	363
Retail	88	60	148
	175	18,694	18,869

	December 31, 2017		
Segment	Performing portfolio	Non-performing portfolio	Total
Corporate clients	76	15,964	16,040
SME clients	138	6,509	6,647
Other clients	20	357	377
Retail	174	64	239
	409	22,894	23,303

Value adjustments for loans with forborne status are presented in the table by segment:

	December 31, 2018			
Segment	Stage 1	Stage 2	Stage 3	Total
Corporate clients	-	-	9,259	9,259
SME clients	-	-	4,654	4,654
Other clients	-	-	297	297
Retail	-	-	81	81
	-	-	14,291	14,291

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

4. Bank's financial risk management (continued)

4.2. Credit risk management (continued)

	December 31, 2017		
Segment	Performing portfolio	Non-performing portfolio	Total
Corporate clients	10	12,567	12,577
SME clients	3	4,784	4,787
Other clients	3	342	345
Retail	14	63	77
	30	17,756	17,786

Reprograms and restructuring

Restructuring the debt has the aim to adjust the repayment to be in line with the client's real capabilities, ensuring more efficient and safer collection of the Bank's receivables. In this sense restructuring the debt represents a change in the terms agreed during loan approval (prolonged repayment period, decrease in interest rate, etc.). The decision on restructuring is made by the competent body of the Bank in accordance with the Decision on responsibilities in the lending process. Loans to clients rated in group E cannot be refinanced/reprogrammed.

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, 2018		
Corporate	62	22,184
Retail and entrepreneurs	35	508
Total	97	22,692
December 31, 2017		
Corporate	78	29,680
Retail and entrepreneurs	45	541
Total	123	30,221

Intensive monitoring of clients

The Bank introduces intensive monitoring for clients that require careful treatment and monitoring. Such clients are placed on the intensive monitoring list, due to different operating elements (large placement volumes, extensively negative operating trends, an increase in debt and establishment of the capital adequacy, the non-payment or irregular payment of liabilities). The initiative for placing a specific client on the intensive monitoring list may come from, apart from the competent business administrator, the WLC (Watch Loan Committee), the Centre of risk management of the Bank during the creditworthiness classification and setting the upper indebtedness limit, the members of the Bank's Credit committee, and Bank management. Reasons which initiated placing the client on the intensive monitoring list must be stated.

4. Bank's financial risk management (continued)

4.2. Credit risk management (continued)

Client monitoring on ICL contributes to reducing credit risk and transition to NPL, as by adopting measures and further activities to be undertaken towards the client, it tries to achieve:

- Reduction of Bank's exposure to client,
- Possible acquisition of additional security instruments (collateral),
- Consideration of various workout options (restructure, repossession, recovery),
- Discussion on client' key business issues,
- Verification of the adequacy of the credit rating of the client.

Intensive client monitoring is terminated in following cases:

- Due to the dismissal of all placements of the Bank (by collection or write-off),
- Due to an improvement of the client’s status and rating into higher rating class (if the client accomplishes main indicators’ values or other given goals),
- Due to the transfer of a client into the categories D or E,
- By initiating insolvency proceedings over the client,
- In all other cases when the Bank’s management brings the decision on the termination of intensive client monitoring.

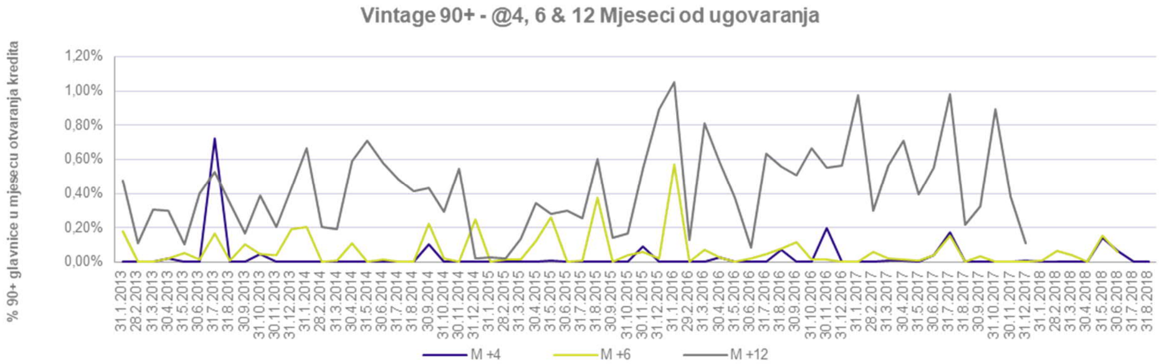
The decision to classify a client into the intensive monitoring is within the competence of the Watch Loan Committee.

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. 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.

The average percentage of delay of 90+ 12 months after approval is observed on a monthly and quarterly level of up to 0.5% on Retail placements where a mass portfolio can derive legitimacy.

Vintage 90+ analysis Retail entities



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

4. Bank's financial risk management (continued)

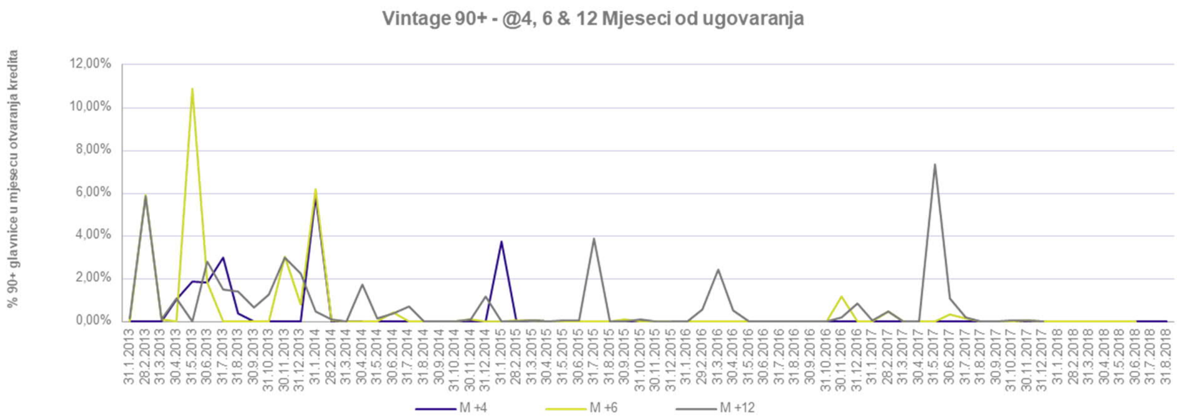
4.2. Credit risk management (continued)

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. The stability of a one-year PD as well as the quality of loan repayment in the following periods is visible.

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Vintage @ 12 M	0,31%	0,62%	0,44%	0,27%	0,07%	0,31%	0,31%	0,53%	0,63%	0,33%	0,57%	0,59%	0,57%	0,56%	0,55%	0,44%
Vintage @18 M	0,46%	1,33%	0,72%	0,49%	0,19%	0,42%	0,46%	1,27%	0,99%	1,01%	0,89%	0,82%	1,32%	0,75%		
Vintage @24 M	0,84%	1,27%	0,71%	0,34%	0,65%	0,79%	0,80%	1,48%	1,29%	1,08%	1,25%	1,06%				
Vintage @36 M	0,79%	1,47%	1,33%	0,47%	1,00%	1,07%	0,95%	2,27%								

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



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 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Vintage @ 12 M	0,15%	0,68%	0,21%	0,52%	0,01%	0,04%	0,96%	0,02%	1,43%	0,16%	0,00%	0,44%	0,10%	3,32%	0,07%	0,04%
Vintage @18 M	0,37%	0,64%	0,18%	4,30%	0,49%	0,15%	4,60%	3,36%	0,75%	0,44%	0,03%	0,59%	0,13%	1,25%		
Vintage @24 M	0,35%	0,60%	1,06%	4,25%	0,67%	0,13%	4,54%	3,32%	0,75%	0,43%	0,01%	0,59%				
Vintage @36 M	0,29%	0,57%	0,49%	4,36%	0,30%	0,12%	4,34%	3,31%								

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

4. Bank's financial risk management (continued)

4.2. Credit risk management (continued)

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, 2018				
Loan liabilities	101,627	837	40	102,504
As of December 31, 2017				
Loan liabilities	81,476	485	40	82,001

(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, 2018				
Other financial facilities	33,343	16,706	3	50,052
As of December 31, 2017				
Other financial facilities	35,758	12,364	5	48,127

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 forms. 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.

4. Bank's financial risk management (continued)

4.2. Credit risk management (continued)

4.3. Market risk

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. 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.

Risk mitigation

The department for trading daily currency conversions maintains the foreign exchange position within legally and internally established limits. The asset liability management department of the Bank 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.

4.4. 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 and internal limits defined by the Methodology of the NLB Group.

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

4. Bank's financial risk management (continued)

4.4. Foreign currency risk management (continued)

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 Bank had the following currency position:

December 31, 2018	EUR	USD	BAM	Other currencies	Total
Financial assets					
Cash and balances with the CBBH	4,188	280	236,687	1,144	242,299
Placements to banks and loans to customers	421,279	7,262	281,608	4,865	715,014
Placements to banks and loans to customers with a foreign currency clause	79,833	-	-	-	79,833
Financial assets at fair value through profit or loss with a foreign currency clause	1,719	-	-	-	1,719
Financial assets at fair value OCI	24,023	-	44,790	-	68,813
Financial assets at fair value OCI with a foreign currency clause	8,125	-	-	-	8,125
Other financial assets	1,823	-	7,824	1	9,648
	540,990	7,542	570,909	6,010	1,125,451
Financial Commitments					
Financial liabilities at amortized cost	327,188	7,171	445,256	5,667	785,282
Financial liabilities at amortized cost with foreign currency clause (EUR)	200,733	-	-	-	200,733
Other financial liabilities	3,835	317	7,163	95	11,410
	531,756	7,488	452,419	5,762	997,425
Foreign exchange position, net	9,234	54	118,490	248	128,026

December 31, 2017	EUR	USD	BAM	Other currencies	Total
Financial assets					
Cash and balances with the CBBH	3,986	287	233,011	1,051	238,335
Placements to banks and loans to customers	109	6,966	199,030	4,467	210,572
Placements to banks and loans to customers with foreign currency clause	490,625	-	-	-	490,625
Financial assets available-for-sale	54	-	69,094	-	69,148
Financial assets available-for-sale with foreign currency clause	5,841	-	-	-	5,841
Other financial assets	703	1	1,597	-	2,301
	501,318	7,254	502,732	5,518	1,016,822
Financial Commitments					
Financial liabilities at amortized cost	304,496	7,091	392,982	4,965	709,534
Financial liabilities at amortized cost with foreign currency clause (EUR)	180,966	-	-	-	180,966
Other financial liabilities	1,903	46	8,405	114	10,468
	487,365	7,137	401,387	5,079	900,968
Foreign exchange position, net	13,953	117	101,345	439	115,854

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

4. Bank's financial risk management (continued)

4.5. Foreign currency risk management (continued)

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 the 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. The policy has been updates by the requirements of the local regulations according which the change in the economic value of the banking book is estimated as of 2018, using the standard interest rate on banking book positions.

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 2018 and 2017 are shown in the table at the book value and in accordance with the agreed interest rate and the date of repricing.

In the column non-interest bearing 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)

4. Bank's financial risk management (continued)

4.5. Foreign currency 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, 2018							
Financial assets							
Cash and balances with the CBB&H	197,241					45,058	242,299
Placements with banks	95,684	-	-	4,430	-	-	100,114
Loans to customers	53,981	78,007	239,066	204,530	109,169	9,980	694,733
Financial assets mandatory at FVPL	-	-	1,719	-	-	-	1,719
Financial assets at fair value through OCI	-	-	34,104	39,623	1,957	1,254	76,938
Other financial assets	9,648	-	-	-	-	-	9,648
Non-financial assets							
Tangible and intangible assets	-	-	-	-	-	25,179	25,179
Other non-financial assets	851	-	-	-	-	-	851
	357,405	78,007	274,889	248,583	111,126	81,471	1,151,481
Financial liabilities							
Banks' deposits	4,936	2,956	14,713	147	-	-	22,752
Customers' deposits	107,295	38,751	129,334	202,409	250	445,694	923,733
Borrowings	3	1,045	11,152	27,330	-	-	39,530
Other financial liabilities	11,410	-	-	-	-	-	11,410
Non-financial liabilities							
Other provisions	2,607	-	-	-	1,380	-	3,987
Deferred income	-	-	-	100	-	-	100
	126,251	42,752	155,199	229,986	1,630	445,694	1,001,512
Exposure to interest rate risk, net	231,154	35,255	119,690	18,597	109,496	(364,223)	149,969

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

4. Bank's financial risk management (continued)

4.5. Foreign currency 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, 2017							
Financial assets							
Cash and balances with the CBB&H	196,819	-	-	-	-	41,516	238,335
Placements with banks	49,364	-	-	410	-	-	49,774
Loans to customers	391,743	75,271	162,399	13,209	3,742	5,059	651,423
Financial assets available-for-sale	-	4,985	50,404	18,159	1,266	175	74,989
Other financial assets	2,301	-	-	-	-	-	2,301
Non-financial assets							
Tangible and intangible assets	-	-	-	-	-	21,691	21,691
Other non-financial assets	887	-	-	-	-	-	887
	641,114	80,256	212,803	31,778	5,008	68,441	1,039,400
Financial liabilities							
Banks' deposits	4,312	-	5,858	147	-	-	10,317
Customers' deposits	351,200	6,660	21,157	58,271	455	399,218	836,961
Borrowings	9	1,627	12,195	28,659	732	-	43,222
Other financial liabilities	10,440	6	22	-	-	-	10,468
Non-financial liabilities							
Other provisions	3,311	-	1,160	208	212	-	4,891
Deferred income	-	-	-	105	-	-	105
	369,272	8,293	40,392	87,390	1,399	399,218	905,964
Exposure to interest rate risk, net	271,842	71,963	172,411	(55,612)	3,609	(330,777)	133,436

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.

4. Bank's financial risk management (continued)

4.6. Foreign currency 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, 2018

Increase in interest rates	Impact on profit or loss in BAM	Increase in interest rates	Impact on profit or loss in BAM
+100 b.p.	1,172	-100 b.p.	(31)

Profit or loss sensitivity to change in interest rates as at December 31, 2017.

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.	1,699	-100 b.p.	(765)

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, 2017 was 0.65% of capital, while at December 31, 2018 0.03%.

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. The effects of the simulation, calculated based on core deposit starting 2016, cannot exceed 10% of the Bank's capital. Core deposits are deposits presumed to remain with the Bank regardless of a change in market interest rates. They are calculated based on the movements of corporate and retail demand deposits over a period of several years.

Sensitivity of the market value of financial instruments at December 31, 2018

Change of interest rates	Effect of simulation in 000 BAM	Effect of simulation in relation to capital
200 bp	303	0.25%

Sensitivity of the market value of financial instruments oat December 31, 2017

Change of interest rates	Effect of simulation in 000 BAM	Effect of simulation in relation to capital
200 bp	659	0.56%

4. Bank's financial risk management (continued)

4.6. Foreign currency risk management (continued)

Definition

Liquidity is the ability of a bank to finance an increase in assets on the one hand and also fulfill 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.

Risk measurement

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 the new 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.
The Bank conducts liquidity stress tests on a regular basis.
Measurement of risk exposure is also performed through the Scoring model.

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:

- Share of NLB resources in the total balance sheet sum,
- Amount of NLB resources in relation to the Bank’s equity,
- Share of non-bank liabilities in the balance sum,
- Share of resources of 30 largest non-banking depositors in total balance sheet sum,
- The ratio of net loans (decreased for value adjustment) and deposits (net loans to non-banking sector/deposits of non-banking sector),
- 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.

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

4.6. Foreign currency risk management (continued)

- The share unmortgaged liquid reserves in unstable liabilities,
- Unmortgage assets / potential outflows in strong stress test (3 months),
- Stable demand deposits.

The Bank prepares monthly LGST (Liquidity Gap Stress Test) reports that are also used to monitor the maturity structure of assets and liabilities per periods of remaining maturity, and influence of stress scenarios on the static liquidity gap structure (cash flows from contracted activities) that is within the responsibility of the Non-credit Risk Management Department. A dynamic projection is added to the static one, and it includes the plan of future inflows and outflows for the following year (dynamic projection is the responsibility of the Bank's Asset/Liability Management Department). Established Stress scenarios are applied to static projection, and taking into account the future inflows and outflows, the level of necessary liquid assets needed for the Bank to be able to continue the normal course of its operations under special circumstances, resulting from possible increased outflows, is calculated.

With the aim to establish early warning system, the Bank monitors the exposure to liquidity risk through Scoring models. Scoring models are composed of 22 indicators divided to six groups: regulatory indicators, internal liquidity and financing source indicators, indicators of assets, capital indicators, stress test and systemic risks.

The final result is determined by the percentage that shows in which group of risk the Bank is:

1.	Low liquidity risk	0% - 20%
2.	Acceptable liquidity risk	20% - 40%
3.	Moderate liquidity risk	40% - 60%
4.	High liquidity risk	60% - 80%
5.	Extremely high liquidity risk	80% - 100%

The Bank’s exposure to liquidity risk as of December 31, 2018 is low as a result of a Scoring model result of 14,51%.

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

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

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

4. U Bank's financial risk management (continued)

4.6. Foreign currency risk management (continued)

December 31, 2018	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 CBB&H	197,241	-	-	-	-	45,058	242,299
Placements with banks	95,684	-	-	4,430	-	-	100,114
Loans to customers	28,056	52,848	197,898	295,163	120,768	-	694,733
Financial assets at fair value through profit and loss	-	-	-	1,719	-	-	1,719
Financial assets at fair value through OCI	526	-	34,104	40,355	1,865	88	76,938
Other	9,648	-	-	-	-	-	9,648
Other financial assets							
Non-financial assets	-	-	-	-	-	25,179	25,179
Tangible and intangible assets	851	-	-	-	-	-	851
Other non-financial assets	377,064	52,848	232,002	341,667	122,633	25,267	1,151,481
Financial liabilities							
Banks' deposits	4,936	2,956	14,713	147	-	-	22,752
Customers' deposits	541,266	41,331	130,349	209,498	1,289	-	923,733
Borrowings	3	1,045	11,152	27,330	-	-	39,530
Other financial liabilities	11,410	-	-	-	-	-	11,410
Non-financial liabilities							
Other provisions	2,607	-	-	-	1,380	-	3,987
Deferred income	-	-	-	100	-	-	100
Total	560,222	45,332	156,214	237,075	2,669	-	1,001,512
Exposure to liquidity risk, net	(183,158)	7,516	75,788	104,592	119,964	25,267	149,969

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

4. Bank's financial risk management (continued)

4.6. Foreign currency risk management (continued)

December 31, 2017	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 CBB&H	196,819	-	-	-	-	41,516	238,335
Placements with banks	49,363	-	-	411	-	-	49,773
Loans to customers	42,595	55,780	183,036	252,068	117,944		651,423
Financial assets available-for-sale	74	4,996	50,423	18,145	1,268	83	74,989
Other financial assets	2,301	-	-	-	-	-	2,301
Non-financial assets							
Tangible and intangible assets	-	-	-	-	-	21,691	21,691
Other non-financial assets	887	-	-	-	-	7	887
Total	292,039	60,776	233,459	270,624	119,212	63,290	1,039,400
Financial liabilities							
Banks' deposits	4,312	-	5,858	147	-	-	10,317
Customers' deposits	489,782	28,491	96,007	220,955	1,726	-	836,961
Borrowings	9	1,627	12,195	28,659	732	-	43,222
Other financial liabilities	10,440	6	22	-	-	-	10,468
Non-financial liabilities							
Other provisions	3,311	-	1,160	208	212	-	4,891
Deferred income	-	-	-	105	-	-	105
Total	507,854	30,124	115,242	250,074	2,670	-	905,964
Exposure to liquidity risk, net	(215,815)	30,652	118,217	20,550	116,542	63,290	133,436

4. Bank's financial risk management (continued)

4.7. Fair value of financial assets and liabilities

Placements with banks

Deposits with other banks include inter-banking placements. The fair value of placements with the fluctuating interest and fixed interest represents their carrying value (the Bank has a limited portfolio of placements to banks with a fixed interest rate and usually these placements have a short maturity date).

Loans and advances to customers

The fair value of loans and advances given to clients represents a discounted amount of expected future cash flows from principal and interest. After initial recognition, loans are subsequently measured at amortized cost using the effective interest rate method. At each balance sheet date, the Bank assesses whether there is objective evidence that a financial asset or groups of financial assets should be impaired. It is considered that financial assets or group of financial assets are impaired when there is objective evidence of impairment which arises as a consequence of one or more loss events arising after the initial recognition of assets and if said events (losses) will surely impact on future estimated cash flows.

The fair value of a loan with a fixed interest rate is estimated by discounting cash flows applying the interest rates currently valid on loans with similar terms and characteristics. Fair value of loans with variable yield whose price is reviewed on a regular basis and with no significant changes in credit risk, are calculated on the basis of discounted cash flows by applying interest rates increased by the credit risk margin, in order to recognize the impact of specific credit risk of the counterpart.

Deposits of other banks, clients, other deposits, other borrowings and subordinated liabilities

For a vista deposits and deposits without a defined maturity fair value is an amount payable on the reporting date. The estimated fair value of deposits with fixed maturity and variable interest rate is close to the book value on the date of reporting and it is based on cash flows discounted at currently offered interest rates on deposits with a similar remaining maturity. The value of long-term relationships with depositors is not taken into account for the assessment of fair value.

The fair value of received loans is calculated by discounting the future cash flows (the remaining debt and future interest rates) to their present value. Future interest rates are calculated by applying the current value of Euribor, if loans are with variable interest rate.

Financial assets available-for-sale

Debt securities and equity securities are measured at fair value in the Bank's balance sheet (Bank's investments in equity of other legal entities). Remeasurement at fair value is performed at the end of each month and the difference compared to the purchased value is credited/debited to equity. As of December 31, 2018, the total market value of securities, including accrued interest, amounts to 76,938 thousand BAM.

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

4. Bank's financial risk management (continued)

4.7.1. 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

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).

<table>
<tr><th colspan="2">Fair value as of</th><th rowspan="2">Fair value hierarchy</th></tr>
<tr><th>December 31, 2018</th><th>December 31, 2017</th></tr>
<tr><td>Debt securities:
• Kingdom of Belgium (long-term bonds) – BAM 5,927 thousand
• Republic of France (long-term bonds) – BAM 4,203 thousand</td><td>Debt securities:
-</td><td>Level 1</td></tr>
<tr><td>Debt securities:
• Ministry of Finance FB&H (long-term bonds) – BAM 15,997 thousand
• Ministry of Finance FB&H (short-term treasury bills) – BAM 30,179 thousand
• Ministry of Finance RS (long-term bonds) – BAM 17,654 thousand
• Canton Sarajevo (long-term bonds) - BMA 931 thousand
• City Banja Luka (long-term bonds) – BAM 1,959 thousand</td><td>Debt securities:
• Ministry of Finance FB&H (long-term bonds) – BAM 26,628 thousand
• Ministry of Finance FB&H (short-term treasury bills) – BAM 34,492 thousand
• Ministry of Finance RS (long-term bonds) – BAM 2,893 thousand
• Ministry of Finance RS (short-term treasury bills) – BAM 9,977 thousand
• Canton Sarajevo (long-term bonds) – BAM 916 thousand</td><td>Level 2</td></tr>
<tr><td>Equity securities:
• Registry of securities of FB&H – BAM 14 thousand
• UBBIH – BAM 14 thousand
• SWIFT Belgium – BAM 60 thousand</td><td>Equity securities:
• Registry of securities of FB&H – BAM 14 thousand
• UBBIH – BAM 14 thousand
• SWIFT Belgium – BAM 55 thousand</td><td>Level 3</td></tr>
</table>

As of December 31, 2018, all securities are classified as financial assets at fair value through other comprehensive income (FVOCI) in Stage 1 and serve as secondary liquidity reserves. Measurements under fair value are in compliance with IAS and IFRS. Effects of valuation are disclosed in the Statement of changes in equity within the item Other comprehensive income/loss (Revaluation reserves).

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

4. Bank's financial risk management (continued)

4.7.2. Fair value of financial assets and financial liabilities of the Bank which are not measured at fair value on a recurring basis

Fair value of loans and deposits is calculated on different segments, products, type of interest rate rebate and remaining maturities. Calculations are based on the net value of the loan increased by future interest rates. All future cash flows from equity and interest are discounted to the present value. Fair value reflects the price at which an individual financial instrument could be sold, but it does not affect the balance sheet and income statement of the Bank.

		December 31, 2018		December 31, 2017	
Financial assets	Fair value hierarchy	Book value	Fair value	Book value	Fair value
Placements with banks	Level 3	100,114	100,094	49,774	49,745
Loans to clients	Level 3	694,733	677,971	651,423	640,048
Total		794,847	778,065	701,197	689,793
Financial liabilities					
Banks' deposits	Level 3	22,752	22,777	10,317	10,325
Deposits of parties that are not banks	Level 3	923,733	922,325	836,961	835,179
Borrowings	Level 3	39,530	41,089	43,222	44,788
Total		986,015	986,279	890,500	890,292

4.8. 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,
- Reporting on follow-up and suppressing operational risks on quarterly basis.

4. Bank's financial risk management (continued)

4.8. Operational risk management (continued)

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 for the Bank,
- 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,
- Holding meetings of the Operational risk management board on a quarterly 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.

4. Bank's financial risk management (continued)

4.9. Capital risk management

In accordance with the Law on Banks of Federation of Bosnian and Herzegovina (Official gazette of FB&H, 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.

At October 13, 2017 FBA adopted the new Decisions about calculation of capital (Official gazette FB&H, No. 81/17) (hereinafter: Decision), whose implementation, in terms of execution of the Bank according to the FBA, is mandatory as of March 31, 2018. The financial statements for 2017 have been reported to FBA in accordance with previous decisions, which ceased to be valid with the date when the new Decision became effective. In the transaction period from January 1 to December 31, 2018, all statements are reported to the FBA in accordance with the previous decisions and new Decision.
When new Decision became effective, the following decisions are no longer effective:

- Decision on minimum standard for bank capital management and capital protection (Official gazette FB&H , No. 46/14), except the Article 18, which prescribes the method and deadlines for reporting in the defined transitional period,
- Decision on minimum standard for operational risk management in banks (Official gazette FB&H , no. 6/08, 53/08, 40/09), except Article 14, which prescribes the method and deadlines for reporting in the defined transitional period,
- Decision on minimum standard for market risks management in banks (Official gazette FB&H , No. 55/07, 81/07, 06/08, 52/08, 79/09), and related Instruction manual for this decision.

In accordance with this Decision, the Bank must meet the following minimum capital requirements:

1. The rate of common core capital of 6.75% (CET1 rate), as a ratio of common core capital and a total amount of risk exposure,
2. The rate of core capital of 9.00% (T1 rate), as a ratio of core capital and a total amount of risk exposure,
3. The rate of regulatory capital of 12.00%, as ratio of regulatory capital and a 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, general reserves for credit losses and other items of additional capital after deduction for regulatory compliance, which can not be more than one-third of the core capital.
3. The amount of missing reserves for credit losses under regulatory requirements represents a deductible item in the calculation of capital adequacy.

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

4. Bank's financial risk management (continued)

4.9. 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 new Decision, the Bank maintains a regulatory capital rateabove 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 new Decision as of December 31, 2018:

	December 31, 2018
Regulatory capital of the Bank	123,200
Exposure weighted with credit risk	658,488
Risk exposure for valuation risk	10,988
Risk exposure for operational risk	83,232
Total risk exposure	752,708
Regular core capital ratio	16.37%
Core capital ratio	16.37%
Regulatory capital ratio	16.37%
Regular Core Capital Rate including adjustments from Tier 2	7.14%
Core capital rate including adjustments from Tier 2	9.51%
Regulatory capital rate including adjustments from Tier 2	12.69%

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

4. Bank's financial risk management (continued)

4.9. Capital risk management (continued)

At 31 December 2018, regulatory capital of the Bank is equal to core capital, i.e. regular core capital, and regular core and core capital ratios are the same as regulatory capital ratio.

One of the basic processes that the Bank implements in the context of strategic risk management is the Internal Capital Adequacy Assessment Process (ICAAP). The main objective of this process is to determine the positive amount of capital that is sufficient to cover all the risks that the Bank is exposed to and which are assessed as material. ICAAP serves as a tool for internal capital adequacy assessment in relation to the Bank's risk profile and implementation of the Bank's strategy appropriate for maintaining an adequate amount of capital.

In accordance with the previous Decision on Minimum Standards for the Management of Capital of Banks and Capital Protection (Official gazette FB&H. No. 46/14) (hereinafter: the previous Decision), Bank's equity includes core capital less core capital deductible items and additional capital.

The Bank's core capital, in accordance with the old Decision, comprises paid-in share capital, the Bank's reserves and retained unallocated earnings from previous years. Deductible items of core capital are: intangible assets, uncovered losses from previous years and from the current year, the carrying amount of the Bank's shares owned by the Bank and the amount of negative revaluation reserves from the change in the fair value of assets.
Additional capital of the Bank comprises: the general provision for risk for balance sheet items classified in category A, revaluation reserves resulting from a change in the fair value of assets, subordinated debts in accordance with the FBA decision, and other equity instruments.

At December 31, 2017 indicators of Bank's capital in accordance to the old Decision are presented in following table:

	31 December 2017
Core Capital	113,666
Supplementary Capital	9,725
Missing reserves for losses from loans per regulatory requirements	(5,359)
Net capital	118,032
Total risk-weighted assets	654,415
Total risk-weighted off-balance sheet items	68,635
Total risk-weighted assets and off-balance sheet items	723,050
Weighted operating risk	52,970
Capital adequacy ratio as of 31 December	15.2%

Data presented on December 31, 2018 at the time of preparation of these reports have not yet been reviewed given that the regulatory audit deadline is May 31, 2019.

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

5. Net Interest Income

a. Interest Income

	2018	2017
Loans	40,268	42,088
Financial assets at FVOCI	1,323	844
Placements with banks	102	58
Unwinding (Note 13)	210	443
Other interest and similar income	13	13
Interest Income	41,916	43,446

b. Interest Expense

	2018	2017
Deposits	5,715	6,848
Loan liabilities	1,011	889
Discount amount of provision under IAS 19 (Note 232a)	52	70
Other interest expenses	591	359
Interest Expense	7,369	8,166
Net Interest Income	34,547	35,280

6. Net fee and commission income

a. Fee and commission income

	2018	2017
Income from domestic and international payment transactions	18,329	17,113
Income from guarantees and letters of credit	1,134	1,150
Income from other activities	2,596	2,417
Fee income	22,059	20,680

b. Fee and commission expense

	2018	2017.
Payment transactions and other banking services expenses	6,180	5,263
Deposit insurance expenses	1,929	1,782
Fee Expense	8,109	7,045
Net fees	13,950	13,635

7. Foreign exchange gains

	2018	2017
Fee income from foreign exchange transactions	1,286	1,166
Fee expense from foreign exchange transactions	(179)	(141)
	1,107	1,025
Foreign exchange differences, net	(2)	(328)
	1,105	697

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

8. Impairment provisions for general credit risk and contingent credit and other losses (net)

	2018.				2017.
	Stage 1	Stage 2	Stage 3	Total	
Cash and accounts at CBB&H i (Note 11)	(195)	-	-	(195)	-
Placements with banks (Note 12)	(59)	-	-	(59)	-
Loans to customers (Note 13)	(296)	(1,156)	6,535	5,083	3,963
Financial assets AFS (Note 15)	-	-	-	-	16
Debt securities at fair value through OCI (Note 15)	(281)	-	-	(281)	-
Other assets (Note 18)	41	(2)	236	275	252
Contingencies and commitments (Note 26)	373	12	163	548	640
Provisions for general credit risk and potential credit losses (net)	(417)	(1,146)	6,934	5,371	4,871
Provisions for litigations (net) (Note 23b)	340	-	-	340	-
	(77)	(1,146)	6,934	5,711	4,871

9. General and administrative expenses

	2018.	2017.
Rent	1,788	1,871
Amortization of tangible and intangible asset	1,577	1,588
Maintenance	1,280	1,183
Security costs	1,098	1,127
Postal and telecommunications services cost	1,057	1,016
Services	892	1,016
Marketing costs	756	850
Utilities	691	727
Fees to FBA	667	634
Office supplies and small inventory	439	606
Cleaning costs	238	277
Insurance of property and employees	314	292
Other taxes and contributions	176	243
Legal expenses and other administrative expenses	163	185
Other employees' expenses	152	140
	11,288	11,755

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

9. General and administrative expenses (continued)

9.a. Employees' expenses

	2018	2017
Net salaries	8,741	8,584
Taxes and contributions	5,336	5,270
Unpaid bonuses from the previous year	-	(224)
Meal and transport	1,077	1,080
Holiday allowance	524	510
Other	387	478
	16,065	15,698
Provision for jubilee awards, released provisions for jubilee awards, provisions for regular severance payments, provisions for unused vacation (Note 23a)	465	73
	16,530	15,771

Provisions for regular severance payments in 2018 amounted to BAM 89 thousand, provisions for severance stimulations are BAM 384 thousand. Released provision for holiday allowance amounts to BAM 8 thousand.
The average number of employees by calculated hours in 2018 was 441 (in 2017: 442).

9.b. Other operating income

	2018	2017
Dividend income	13	10
Subsequently determined revenue by decisions	9	100
Income from disposal (sale) of fixed assets	29	24
Income from sale of acquired tangible assets	147	-
Subsequently determined interest and fee income	151	178
Revenue from early payment of received loan	497	-
Other revenues	499	537
	1,345	849

10. Income tax

	2018	2017
Profit before income tax	17,396	17,491
Non-deductible expenses	1,487	5,529
Taxable profit	18,883	23,020
Income tax at the prescribed rate of 10%	1,888	2,302
Income tax in Brčko District not recognized under the regulations of the Federation B&H	-	3
Total calculated income tax	1,888	2,305
Effective tax rate	10.85%	13.18%

In 2018 major part of non-deductible expenses refer to provision for risks and liabilities, which are not considered as deductible expenses (Note 3.31).

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

11. Cash and balances with the Central Bank of B&H

	2018	2017
Cash in hand	45,257	41,516
Balances with the Central Bank of Bosnia and Herzegovina	197,242	196,819
- Obligatory reserve	96,418	90,584
- Liquidity reserves in excess of obligatory reserve	100,824	106,235
	242,499	238,335
Less: Value adjustment	(200)	-
	242,299	238,335

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. 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 50% of the rate applied by the European Central Bank on deposits of commercial banks (Deposit Facility Rate).

12. Placements with banks

	2018.				2017
	Stage 1	Stage 2	Stage 3	Total	
Current accounts with banks	92,288	-	-	92,288	45,286
Items in the course of collection	-	-	-	-	-
Interest-bearing deposits	7,845	-	-	7,845	4,488
	100,133	-	-	100,133	49,774
Less: Value adjustment	(19)	-	-	(19)	-
	100,114	-	-	100,114	49,774

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:

	2018.				2017
	Stage 1 Collective assessment	Stage 2 Collective assessment	Stage 3	Total	
Internal classification					
A	55,100	-	-	55,100	19,733
B	45,014	-	-	45,014	30,041
C	-	-	-	-	-
D and E	-	-	-	-	-
	100,114	-	-	100,114	49,774

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

12. Placements with banks (continued)

Change in gross carrying amount value and related value adjustment in 2018 is, as follows:

	Stage 1 Collective assessment	Stage 2 Collective assessment	Stage 3	Total
Gross carrying value 1 January 2018	49,774	-	-	49,774
New assets originated or purchased	50,359	-	-	50,359
Assets derecognized or matured (excluding write-offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 December 2018	100,133	-	-	100,133

	Stage 1 Collective assessment	Stage 2 Collective assessment i	Stage 3	Total
Impairment losses at 1 January 2018	78	-	-	78
New assets originated or purchased	93	-	-	93
Assets derecognized or matured (excluding write-offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Unwind of discount	-	-	-	-
Changes to contractual cash flows due to modification not resulting in de-recognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	(152)	-	-	(152)
Write-offs	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	19	-	-	19

13. Loans to customers

	Short-term loans		Long-term loans		Total	
	2018	2017	2018	2017	2018	2017
Retail loans	30,046	31,631	387,637	358,763	417,683	390,394
Corporate loans	171,878	176,932	178,418	157,358	350,296	334,290
	201,924	208,563	566,055	516,121	767,979	724,684
Less: Allowance for impairment losses	(25,022)	(28,810)	(48,224)	(44,451)	(73,246)	(73,261)
	176,902	179,753	517,831	471,670	694,733	651,423

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

13. Loans to customers (continued)

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:

	2018							2017		
	Stage 1		Stage 2		Stage 3		Total	Individual assessment	Collective assessment	Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment				
Internal rating										
A	-	404,364	-	27,830	-	1,023	433,217	-	389,365	389,365
B	-	211,751	-	27,896	-	1,909	241,556	106	215,414	215,520
C	-	11,509	-	16,091	402	2,716	30,718	3,254	45,877	49,131
D and E	-	-	-	-	37,973	24,515	62,488	47,245	23,423	70,668
	-	627,624	-	71,817	38,375	30,163	767,979	50,605	674,079	724,684

Customers with A and B rating which are in the Stage 3 are in default, which is possible in accordance with local regulations.

Movement in the value adjustment of loans in 2017 is presented in following table:

	2018	2017
1 January 2017	71,139	76,884
Charge for the year	32,253	43,477
Decrease in provisions	(27,193)	(39,541)
Charge for the year, net (Note 8)	5,060	3,936
Decrease in provisions on the basis of unwinding (Note 5a)	(210)	(443)
Net impairment of interest receivables (Note 8)	23	(27)
Write-offs	(2,766)	(7,089)
31 December	73,246	73,261
Effect of first application of IFRS 9	-	(2,122)
January 1, 2019	-	71,139

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

13. Loans to customers (continued)

In the following text are presented loans to customers per segments and credit risk levels at December 31, 2018:

	2018							2017		
	Stage 1		Stage 2		Stage 3					
	Individual	Collective	Individual	Collective	Individual	Collective	Total	Individual	Collective	Total
Retail loans										
Housing loans	-	50,386	-	5,938	429	2,025	58,778	547	58,174	58,721
Consumer loans	-	281,592	-	26,702	591	21,842	330,727	1,289	301,212	302,501
Other retail loans	-	23,436	-	2,256	5	2,481	28,178	163	29,009	29,172
	-	355,414	-	34,896	1,025	26,348	417,683	1,999	388,395	390,394
Corporate loans										
Corporate clients	-	237,092	-	28,185	25,521	548	291,346	34,674	246,082	280,756
SME clients	-	22,130	-	6,368	11,140	327	39,965	11,757	26,416	38,173
Other clients	-	12,988	-	2,368	690	2,939	18,985	2,150	13,211	15,361
	-	272,210	-	36,921	37,351	3,814	350,296	48,581	285,709	334,290
	-	627,624	-	71,817	38,376	30,162	767,979	50,580	674,104	724,684
Less: Impairment allowance	-	(5,265)	-	(3,816)	(34,928)	(29,237)	(73,246)	(38,268)	(34,993)	(73,261)
Total loans (net)	-	622,359	-	68,001	3,448	925	694,733	12,312	639,111	651,423

Changes in the gross carrying amount and the related impairment allowances for loans to customers in 2018 are presented in note 13.1. and 13.2, below.

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

13. Loans to customers (continued)

13.1. Retail loans

Changes in the gross carrying amount and the related value adjustments for retail loans in 2018 are, as follows:

	Stage 1		Stage 2		Stage 3		Total
	Individual	Collective	Individual	Collective	Individual	Collective	
Gross carrying amount as at 1 January 2018.	-	355,488	-	6,043	1,998	26,865	390,394
New assets originated or purchased	-	136,317	-	10,920	-	462	147,699
Assets derecognized or matured (excluding write-offs)	-	(113,196)	-	(1,844)	(751)	(3,564)	(119,355)
Transfers to Stage 1	-	2,445	-	(1,160)	(93)	(1,192)	-
Transfers to Stage 2	-	(21,343)	-	21,967	(129)	(495)	-
Transfers to Stage 3	-	(4,294)	-	(1,011)	-	5,305	-
Changes to contractual cash flows due to modification not resulting in derecognition	-		-	7	-	147	154
Amounts written off	-	(3)	-	(26)	-	(1,180)	(1,209)
Foreign exchange adjustments	-		-		-		
At 31 December 2018	-	355,414	-	34,896	1,025	26,348	417,683

	Stage 1		Stage 2		Stage 3		Total
	Individual	Collective	Individual	Collective	Individual	Collective	
ECL allowance as at 1 January 2018	-	1,148	-	846	1,601	25,734	29,329
New assets originated or purchased	-	622	-	364	-	397	1,383
Assets derecognized or matured (excluding write-offs)	-	4,310	-	420	(543)	(4,385)	(198)
Transfers to Stage 1	-	16	-	(5)	(5)	(6)	-
Transfers to Stage 2	-	(717)	-	820	(28)	(75)	-
Transfers to Stage 3	-	(3,850)	-	(955)	-	4,805	-
Unwind of discount	-	-	-	-	-	-	-
Changes to contractual cash flows due to modification not resulting in de-recognition	-	-	-	-	-	133	133
Changes to models and inputs used for ECL calculations	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Amounts written off	-	(3)	-	(26)	-	(1,180)	(1,209)
Foreign exchange adjustments	-	-	-	-	-	-	-
AT 31 December 2018	-	1,526	-	1,464	1,025	25,423	29,438

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

13. Loans to customers (continued)

13.2. Corporate loans

Changes in the gross carrying amount and the related value adjustments for corporate loans in 2018 are, as follows:

	Stage 1		Stage 2		Stage 3		Total
	Individual	Collective	Individual	Collective	Individual	Collective	
Gross carrying amount as at 1 January 2018.	-	264,721	-	17,055	44,448	3,932	330,156
New assets originated or purchased	-	195,062	-	26,116	1,109	85	222,372
Assets derecognized or matured (excluding write-offs)	-	(185,502)	-	(9,649)	(20,576)	(617)	(216,344)
Transfers to Stage 1	-	648	-	(648)		-	-
Transfers to Stage 2	-	(2,356)	-	4,054	(1,698)	-	-
Transfers to Stage 3	-	(363)	-	(41)	190	214	-
Changes to contractual cash flows due to modification not resulting in de-recognition	-	-	-	34	15,141	494	15,669
Amounts written off	-	-	-	-	(1,263)	(294)	(1,557)
Foreign exchange adjustments	-	-	-	-	-	-	-
At December 31, 2018	-	272,210	-	36,921	37,351	3,814	350,296

	Stage 1		Stage 2		Stage 3		Total
	Individual	Collective	Individual	Collective	Individual	Collective	
ECL allowance as at 1 January 2018	-	2,577	-	898	34,545	3,790	41,810
New assets originated or purchased	-	2,345	-	873	1,016	75	4,309
Assets derecognized or matured (excluding write-offs)	-	(745)	-	202	(12,246)	(448)	(13,237)
Transfers to Stage 1	-	6	-	(6)			0
Transfers to Stage 2	-	(148)	-	426	(278)		0
Transfers to Stage 3	-	(296)	-	(41)	129	208	0
Unwind of discount	-	-	-	-	(210)		(210)
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-	12,210	483	12,693
Changes to models and inputs used for ECL calculations	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	(1,263)	(294)	(1,557)
Foreign exchange adjustments	-	-	-	-	-	-	-
AT 31 December 2018	-	3,739	-	2,352	33,903	3,814	43,808

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

13. Loans to customers (continued)

13.3. Loans to customers per days past due

Loans and receivables – STAGE 1

At December 31, 2018	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	46,417	3,969	-	-	-	50,386
Consumer loans	255,127	26,313	152	-	-	281,592
Other retail loans	19,303	4,033	78	16	6	23,436
Total Retail loans	320,847	34,315	230	16	6	355,414
Corporate lending	229,187	7,905	-	-	-	237,092
SME lending	21,492	638	-	-	-	22,130
Other loans	12,776	179	33	-	-	12,988
Total Corporate loans	263,455	8,722	33	-	-	272,210
Total Loans to customers	584,302	43,037	263	16	6	627,624
of which: restructured	-	-	-	-	-	-
Due from banks	100,133	-	-	-	-	100,133

At January 1, 2018	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	51,228	4,164	195	-	-	55,587
Consumer loans	249,096	24,923	276	1	-	274,296
Other retail loans	21,137	4,217	224	24	3	25,605
Total Retail loans	321,461	33,304	695	25	3	355,488
Corporate lending	255,038	5,514	798	-	-	231,350
SME lending	23,076	624	90	99	-	23,889
Other loans	9,188	253	42	-	-	9,483
Total Corporate loans	287,302	6,391	930	99	-	264,722
Total Loans to customers	608,761	39,695	1,625	124	3	620,210
of which: restructured	-	-	-	-	-	-
Due from banks	49,774	-	-	-	-	49,774

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

13. Loans to customers (continued)

13.3. Loans to customers per days past due (continued)

Loans and receivables – STAGE 2

At December 31, 2018	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	4,652	789	393	104	-	5,938
Consumer loans	20,217	2,969	2,933	463	120	26,702
Other retail loans	1,806	313	91	31	15	2,256
Total Retail loans	26,675	4,071	3,417	598	135	34,896
Corporate lending	23,361	4,790	34	-	-	28,185
SME lending	5,864	504	-	-	-	6,368
Other loans	2,192	105	71	-	-	2,368
Total Corporate loans	31,417	5,399	105	-	-	36,921
Total Loans to customers	58,092	9,470	3,522	598	135	71,817
of which: restructured	41	-	-	-	-	41
Due from banks	-	-	-	-	-	-

At January 1, 2018	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	202	-	307	152	-	661
Consumer loans	1,979	219	2,192	487	35	4,912
Other retail loans	320	33	63	24	30	470
Total Retail loans	2,501	252	2,562	663	65	6,043
Corporate lending	12,939	-	1,201	-	-	14,140
SME lending	1,716	67	570	-	-	2,353
Other loans	299	94	169	-	-	562
Total Corporate loans	14,954	161	1,940	-	-	17,055
Total Loans to customers	17,455	413	4,502	663	65	23,098
of which: restructured	125	-	-	-	-	125
Due from banks	-	-	-	-	-	-

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

13. Loans to customers (continued)

13.3. Loans to customers per days past due (continued)

PERFORMING LOANS PER DAYS PAST DUE

At December 31, 2017	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	51,430	4,164	502	152	-	56,248
Consumer loans	251,075	25,142	2,468	488	35	279,208
Other retail loans	21,457	4,250	287	48	33	26,075
Total Retail loans	323,962	33,556	3,257	688	68	361,531
Corporate lending	237,976	5,514	1,999	-	-	245,489
SME lending	24,792	691	660	99	-	26,242
Other loans	9,487	347	211	-	-	10,045
Total Corporate loans	272,255	6,552	2,870	99	-	281,776
Total Loans to customers	596,217	40,108	6,127	787	68	643,307
of which: restructured	125	-	-	-	-	125
Due from banks	49,774	-		-	-	49,774

LOANS AND RECEIVABLES – STAGE 3

At December 31, 2018	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	438	235	146	81	1,554	2,454
Consumer loans	2,017	1,608	784	584	17,440	22,433
Other retail loans	103	21	25	15	2,322	2,486
Total Retail loans	2,558	1,864	955	680	21,316	27,373
Corporate lending	607	703	181	244	24,334	26,069
SME lending	3	194	-	190	11,080	11,467
Other loans	78	60	-	36	3,455	3,629
Total Corporate loans	688	957	181	470	38,869	41,165
Total Loans to customers	3,246	2,821	1,136	1,150	60,185	68,538
of which: restructured	625	786	-	16	14,354	15,782
Due from banks	-	-	-	-	-	-

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

13. Loans to customers (continued)

13.3. Loans to customers per days past due (continued)

Loans and receivables – STAGE 3

At January 1, 2018	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	293	450	85	66	1,579	2,473
Consumer loans	1,882	2,244	1,263	885	17,019	23,293
Other retail loans	100	32	10	12	2,943	3,097
Total Retail loans	2,275	2,726	1,358	963	21,541	28,863
Corporate lending	7,879	705	-	380	22,167	31,131
SME lending	60	-	333	217	11,321	11,931
Other loans	135	31	19	15	5,117	5,317
Total Corporate loans	8,074	736	352	612	38,605	48,379
Total Loans to customers	10,349	3,462	1,710	1,575	60,146	77,242
of which: restructured	4,704	723	300	520	13,539	19,786
Due from banks	-	-	-	-	-	-

IMPAIRED LOANS PER DAYS PAST DUE –
NON-PERFORMING RECEIVABLES

At December 31, 2017	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	293	450	85	66	1,579	2,473
Consumer loans	1,882	2,244	1,263	885	17,019	23,293
Other retail loans	100	32	10	12	2,943	3,097
Total Retail loans	2,275	2,726	1,358	963	21,541	28,863
Corporate lending	12,013	705	-	380	22,167	35,265
SME lending	60	-	333	217	11,321	11,931
Other loans	135	31	19	15	5,118	5,318
Total Corporate loans	12,208	736	352	612	38,606	52,514
Total Loans to customers	14,483	3,462	1,710	1,575	60,147	81,377
of which: restructured	8,838	723	300	520	13,539	23,920
Due from banks	-			-	-	-

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

14. Financial assets compulsory measurement at fair value through profit and loss

Certain loans to customers. which were classified as Loans and receivables measured at amortized cost in accordance with IAS 39, 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, 2018	Nominal value	Deviation	Fair value
Financial assets mandatory at FVPL			
Loans to customers	3,962	(2,243)	1,719
	3,962	(2,243)	1,719

January 1, 2018	Nominal value	Deviation	Fair value
Financial assets mandatory at FVPL			
Loans to customers	4,122	(2,549)	1,573
	4,122	(2,549)	1,573

15. Financial assets at fair value through OCI per IFRS 9/ Financial assets AFS per IAS 39

As of January 1, 2018, financial assets classified as available for sale (debt and equity securities) per IAS 39, the Bank classifies as financial assets at fair value through other comprehensive income in accordance with IFRS 9.

Debt securities	2018	2017
Government of Federation of B&H – Federal Ministry of Finance	46,176	61,120
Republic of Srpska - Ministry of Finance	17,654	12,870
Kingdom of Belgium	5,927	-
Republic of France	4,203	-
Canton Sarajevo	931	932
City Banja Luka	1,959	-
	76,850	74,922
Equity securities		
S.W.I.F.T.. Belgium	60	55
Registry of Securities of FB&H, Sarajevo	14	14
Banks' Association of B&H, Sarajevo	14	14
MasterCard Incorporated	-	-
	88	83
	76,938	75,005
Less: Expected credit losses through OCI / Value adjustment	(302)	(16)
	76,636	74,989

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

15. Financial assets at fair value through OCI per IFRS 9/ Financial assets AFS per IAS 39 (continued)

The Bank has classified equity securities. previously classified as available for sale, under IFRS 9 as equity financial instruments at FVOCI, since the Bank does not hold for sale these instruments.

In the table below are presented the gross exposure of the Bank in a form of financial instruments at FVOCI by their internal credit rating system (internal classification) and by levels of credit risk (stage classification) at the end of the year:

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
Internal classification							
A	-	10,218	-	-	-	-	10,218
B	-	66,720	-	-	-	-	66,720
C	-	-	-	-	-	-	-
D and E	-	-	-	-	-	-	-
	-	76,938	-	-	-	-	76,938

Changes in gross carrying amount and related value adjustments for financial assets measured at FVOCI in 2018 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 January 1, 2018	-	75,005	-	-	-	-	75,005
New assets originated or purchased	-	52,352	-	-	-	-	52,352
Assets derecognized or matured (excluding write-offs)	-	(50,419)	-	-	-	-	(50,419)
Transfers to Stage 1	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-
Transfers zo Stage 3	-	-	-	-	-	-	-
Changes due to modifications not derecognized	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	-	-
December 31, 2018	-	76,938	-	-	-	-	76,938

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

15. Financial assets at fair value through OCI per IFRS 9/ Financial assets AFS per IAS 39 (continued)

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
ECL at January 1, 2018	-	583	-	-	-	-	583
New assets originated or purchased	-	275	-	-	-	-	275
Assets derecognized or matured (excluding write offs)	-	(556)	-	-	-	-	(556)
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, 2018	-	302	-	-	-	-	302

Structure of investments	Activity	Country of business	% of ownership December 31, 2018	% of ownership December 31, 2017
Banks' Association of B&H	Activity of other member organisations	Bosnia and Herzegovina	4.18	4.18
Registar vrijednosnih papira 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	USA	0.11	0.0614

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

15. Financial assets at fair value through OCI per IFRS 9/ Financial assets AFS per IAS 39 (continued)

The Bank has the following debt securities in its portfolio:

Debt securities	December 31, 2018	December 31, 2017
Bonds of Government of the Federation of B&H - war claims	1,147	796
Bonds of the Ministry of Finance FB&H	14,850	25,832
Bonds of the Ministry of Finance RS	17,654	2,893
Bonds of the Ministry of Finance of Canton Sarajevo	931	932
Bonds of City Banja Luka	1,959	-
Bonds of Kingdom Belgium	5,927	-
Bonds of Republic of France	4,203	-
Treasury bills of Ministry of Finance of FB&H	30,179	34,492
Treasury bills of Ministry of Finance of RS	-	9,977
Total	76,850	74,922

In 2018 Bank bought the following securities:

- Bonds of Government of the Kingdom of Belgium with nominal value of BAM 5.93 million. The interest rate on purchased bonds is 0.2% per annum, maturity date October 22, 2023.
- Bonds of Government of the Republic of France with nominal amount BAM 2.93 million. The interest rate on purchased bonds is 8.5% per annum, maturity date April 25, 2023.
- Bonds of old foreign currency savings issued by Government of Republic Srpska with nominal value of BAM 0.6 million. The interest rate on purchased bonds is 2.5% per annum, maturity date October 3. 2023.
- Bonds of Ministry of Finance of RS in EUR currency with nominal value of BAM 13.69 million. The interest rate on purchased bonds is 4.75% per annum, maturity date Jun 28, 2023.
- Bonds of City Banja Luka with nominal value of BAM 2 million. The interest on purchased bonds is 4.5% per annum, maturity date April 26, 2025.
- Treasury bills of the Federation of BiH with nominal value of BAM 30 million with yield to maturity in range -0.16% to 0.09%.
- Treasury bills of the Republic of Srpska with nominal value of BAM 5 million with yield to maturity of 0.301%.
- At December 21, 2018 the has Bank paid in advances in the amount of BAM 5.502 thousand for the purchase of bonds of JP Autoceste BiH. Due to the fact the bonds are not registered in Securities Registry of FBiH to December 31, 2018 this amount is booked on the transfer account 2874115.

U 2018. the following securities became due:

- Bonds of the Federation of BiH. withnominal value and maturity date as follows: BAM 2.9 million – May 13, 2018, BAM 3 million – Jun 3, 2018 and BAM 5 million – December 18, 2018,
- The treasury bills of the Federation of BiH with nominal value and maturity as follows: BAM 3,5 million – Jun 13, 2018, BAM 8 million – July 18, 2018, BAM 8 million – November 7, 2018 and BAM 15 million – November 28, 2018,
- The treasury bills of the Republic of Srpska with nominal value and maturity as follows: BAM 3 million – February 7, 2018, BAM 2 million – March 16, 2018, BAM 5 million – July 5, 2018 and BAM 5 million – July 11, 2018,

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

15. Financial assets at fair value through OCI per IFRS 9/ Financial assets AFS per IAS 39 (continued)

Overview of securities per fair value hierarchy levels as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Debt securities	10,130	66,720	-	76,850
Equity securities	-	-	88	88
Total	10,130	66,720	88	76,938

Overview of securities per fair value hierarchy levels as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Debt securities	-	74,906	-	74,906
Equity securities	-	-	83	83
Total	-	74,906	83	74,989

In 2018 the Bank bought long-term bonds of Kingdom of Belgium in amount of BAM 5,927 thousands and Republic of France in amount of BAM 4,203 that are listed in Level 1.

The portfolio of debt securities at level 2 consists of long-term bonds of the Federal Ministry of Finance in amount of BAM 15,997 thousand, short-term treasury bills of the Federal Ministry of Finance in amount of BAM 30,179 thousand, short-term bonds of the Ministry of Finance of the Republic of Srpska in amount of BAM 17,654 thousand long-term bonds of Canton Sarajevo in amount of BAM 931 thousand and long-term bonds of City Banja Luka in amount of BAM 1,959 thousand.

Level 3 includes equity securities. The increase in the value compared to previous year was due to the increase in share value of Swift by BAM 5 thousand.

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

16. Tangible assets

	Land and buildings	Vehicles	Computer equipment	Other equipment	Assets in the course of construction	Total
Cost						
At January 1, 2017	28,751	826	6,099	5,747	195	41,618
Additions	-	-	-	-	2,653	2,653
Transfers	180	243	458	305	(1,186)	-
Disposals						
- Write-offs	-	-	(262)	(470)	-	(732)
- Disposal under IAS 36	(255)					(255)
- Sale of tangible assets	-	(126)	-	-	-	(126)
At December 31, 2017	28,676	943	6,295	5,582	1,662	43,158
At January 1, 2018	28,676	943	6,295	5,582	1,662	43,158
Additions	-	-	-	-	4,987	4,987
Transfers	2,217	251	770	488	(3,726)	-
Disposals	-	-	-	-	-	-
- Write-offs	-	-	(369)	(578)	-	(947)
- Disposal under IAS 36	-	-	-	-	-	
- Sale of tangible assets	-	(149)	-	-	-	(149)
At December 31, 2018	30,893	1,045	6,696	5,492	2,923	47,049
Accumulated depreciation						
At January 1, 2017	12,065	409	4,572	4,485	-	21,531
Depreciation charge for the year	373	110	582	324	-	1,389
- Write-offs	-	-	(260)	(469)	-	(729)
- Disposal under IAS 36	(46)	-	-	-	-	(46)
- Sale of tangible assets	-	(126)	-	-	-	(126)
At December 31, 2017	12,392	393	4,894	4,340	-	22,019
At January 1, 2018	12,392	393	4,894	4,340	-	22,019
Depreciation charge for the year	394	128	558	313	-	1,393
- Write-offs	-	-	(369)	(420)	-	(789)
- Disposal under IAS 36	-	-	-	-	-	-
- Sale of tangible assets	-	(121)	-	-	-	(121)
At December 31, 2018	12,786	400	5,083	4,233	-	22,502
Net book value at December 31, 2018	18,107	645	1,613	1,259	2,923	24,547
Net book value at December 31, 2017	16,284	550	1,401	1,242	1,662	21,139

In 2018 and 2017, 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 6,616 thousand as at December 31, 2018, while as at December 31, 2017 it was BAM 6,577 thousand

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

17. Intangible assets

	Licenses and software
Cost	
At January 1, 2017	4,810
Additions	310
Disposals-Write-offs	-
At December 31, 2017	5,120
At January 1, 2018	5,120
Additions	265
Disposals-Write-offs	(83)
At December 31, 2018	5,302
Accumulated depreciation	
At January 1, 2017	4,372
Deprecation (Note 9)	196
Disposals-Write-offs	-
At December 31 2017	4,568
At January 1, 2018	4,568
Deprecation (Note 9)	185
Disposals-Write-offs	(83)
At December 31, 2018	4,670
Net book value at December 31, 2018	632
Net book value at December 31, 2017	552

The total cost of fully depreciated intangible assets still in use amounts to BAM 4,224 thousand as at December 31, 2018 while as at December 31, 2017 it was BAM 4,047 thousand.

18. Other assets

	2018	2017
Other financial assets		
Service fees accrued	484	474
Receivables from card operations	4,281	-
Other assets	7,071	3,950
	11,836	4,424
Less: Impairment allowance	(2,188)	(2,123)
	9,648	2,301
Other assets		
Repossessed tangible assets	1,106	1,598
Prepaid costs	141	188
Small inventory	17	17
Advance for income tax	502	-
	1,766	1,803
Less (impairment/value adjustment):		
Repossessed tangible assets	(914)	(914)
Other non-financial assets	(1)	(2)
Other non-financial assets	851	887
	10,499	3,188

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

18. Other assets (continued)

Movement in value adjustment:

	2018	2017
1 January	2,972	2,839
Increase for the year, net (Note 8)	275	252
Write-offs	(144)	(52)
31 December	3,103	3,039

Repossessed tangible assets are presented within Other assets of the Bank in the amount of BAM 1.106 thousand as at December 31, 2018. and they relate to real estate repossessed for unsettled debts. Appraisal of all properties were done in 2018 (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.

19. Banks' deposits

	2018	2017
Nova Ljubljanska banka d.d.. Ljubljana	16,087	7,060
NLB Banka AD Skopje	3,315	1,627
NLB Banka AD Beograd	45	-
NLB Banka AD Podgorica	5	5
NLB Banka AD Banja Luka	3,000	1,041
Other banks	300	584
	22,752	10,317

20. Customers' deposits

	2018	2017
Companies:		
Current accounts		
- in BAM	254,825	223,839
- in foreign currencies	30,673	28,259
Term deposits		
- in BAM	64,852	47,412
- in foreign currencies	24,776	26,205
	375,126	325,715
Retail:		
Current accounts		
- in BAM	178,215	165,120
- in foreign currencies	60,005	56,355
Term deposits		
- in BAM	144,194	126,387
- in foreign currencies	166,193	163,384
	548,607	511,246
	923,733	836,961

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

21. Borrowings

	2018	2017
Nova Ljubljanska banka d.d.. Ljubljana	31,710	23,955
European Fund for South-East Europe (EFSE)	7,820	9,791
Federal Ministry of Finance	-	9,476
	39,530	43,222

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 obtained from NLB d.d.. Ljubljana and investment funds EFSE. Liabilities for other long-term loans which were early paid in the first quarter of 2018, relate to subsidiary financing from the World Bank funds through the Federal Ministry of Finance.

Interest rates on the entire portfolio of long-term credit lines from banks and non-banking financial institutions for the year ended December 31, 2017 were fixed interest rate of 2.92% per annum, while variable interest rates ranged from 6M EURIBOR + 1.65% to 6M EURIBOR + 3.90%. Interest rates on other long-term loans were 6M EUROLIBOR + 1.00%.

Interest rates on long-term credit lines from banks and non-banking financial institutions for the year ended December 31, 2018 were fixed interest rates ranging from 2.20% to 2.92% per annum, while variable interest rates ranged from 6M EURIBOR + 1.85% to 6M EURIBOR + 2.01%.

In the first quarter of 2018 the Bank made early payment off loan to the Federal Ministry of Finance per Subsidiary Financing Agreements from 2010 and 2013 and in accordance with the Government of the Federation of B&H Statement No. 1090/2017 dated July 28,2017, according to which Federal Ministry of Finance is authorized to perform the sale of undue loan receivables placed to the commercial banks or to allow commercial banks to make an early repayment at a discount rate.

In order to provide the Bank with access to diversified sources of assets, as at December 31, 2017 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)

22. Other liabilities

	2018	2017
Other financial liabilities		
Paid amount for not due loan receivables	3,309	2,782
Unallocated payments received	4,373	2,018
Liabilities to employees	477	750
Liabilities to suppliers	717	2,162
Liabilities from commission operations	26	-
Liabilities for taxes and contributions	30	55
Liabilities for other banking fees	48	16
Other liabilities	2,430	2,685
	11,410	10,468
Other non-financial liabilities		
Deferred income	100	105
	100	105
	11,510	10,573

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

	2018	2017
Corporate	13,282	13,756
Retail	8,866	8,186
Total placements	22,148	21,942
Government of Tuzla Canton	14,032	14,558
Government of Sarajevo Canton	7,081	4,215
Other non-banking financial institutions	1,035	3,169
Total sources (liabilities)	22,148	21,942
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.

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

23. Other provisions

	2018	2017
Provisions for employees	1,345	1,527
Provisions for litigations	240	103
Provisions for off-balance sheet exposures (Note 26)	2,402	3,261
	3,987	4,891

a. Movement of provisions in accordance with IAS 19

	2018	2017
Opening balance as of January 1	1,527	1,378
Expenses during the year	473	73
Release in provisions for unused vacation and jubilee awards	(8)	-
Increase for the year. net (Note 9a)	465	73
Discount amount of provision under IAS 19 (Note 5b)	52	70
(Additional provisions)/ Release through equity	(100)	84
Utilization	(599)	(78)
	1,345	1,527

b. Movement of provisions for litigations

	2018	2017
Opening balance as of January 1	103	126
Increase for the year, net (Note 8)	340	-
Utilization	(203)	(23)
	240	103

24. Share capital

	2018	2017
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. 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.

	2018	2017
Net profit of the Bank after tax (in BAM)	15,507,422	15,186,577
Weighted number of shares	382,712	382,712
Basic earnings per Share (in BAM)	40.42	39.68

25. 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 2018 and 2017.

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)

25. Transaction with related parties (continued)

The volume of transactions with the related party and the balance at the end of December 31. 2018 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	OBS Receivables (Contingent liabilities)	Revenue	Expense
			NLB Banka d.d.. Sarajevo at 31.12.2018 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	47,921	3,831	550	38	758
NLB BANKA AD. BANJA LUKA	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	3,027	4,781	-	178	1
NLB BANKA AD. PODGORICA	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	5	2,121	-	-	-
NLB BANKA AD. SKOPJE	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	3,315	3,915	-	-	-
NLB BANKA AD BEOGRAD	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	45	12,289	-	-	-
NLB LEASING DOO SARAJEVO	FINANCE LEASING	COMMON OWNER	8,759	-	5	21	5
PRVI FAKTOR DOO	OTHER FINANCIAL SERVICE ACTIVITIES	COMMON OWNER	31	-	-	1	-
CBS INVEST DOO	REAL ESTATE AGENCY	COMMON OWNER	29	-	-	-	-
BH-RE DOO SARAJEVO	REAL ESTATE	COMMON OWNER	43	-	-	-	-
INDIVIDUALS	MEMBERS OF THE MANAGEMENT AND MANAGEMENT AUTHORITY AND MEMBERS OF THEIR FAMILIES		691	820	99	49	7

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

25. Transaction with related parties (continued)

The volume of transactions with related parties as well as the balance at the end of December 31. 2017 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	OBS Receivables (Contingent liabilities)	Revenue	Expense
			NLB Banka d.d.. Sarajevo at 31.12.2018 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	31,123	3,970	3,000	19	488
NLB BANKA AD. BANJA LUKA	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	1,068	597	-	157	1
NLB BANKA AD. PODGORICA	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	5	465	-	-	-
NLB BANKA AD. SKOPJE	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	1,627	441	-	-	-
NLB BANKA AD Belgrade	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	286	562	-	-	-
THE MINISTRY OF FINANCE OF THE REPUBLIC OF SLOVENIA	GOVERNMENT INSTITUTION	SAME OWNER OR CO-OWNER	-	-	-	-	2
NLB LEASING DOO SARAJEVO	FINANCE LEASING	COMMON OWNER	1,357	1	4	33	7
PRVI FAKTOR DOO	OTHER FINANCIAL SERVICE ACTIVITIES	COMMON OWNER	172	-	2	1	-
CBS INVEST DOO	REAL ESTATE AGENCY	COMMON OWNER	96	-	-	1	-
BH-RE DOO SARAJEVO	REAL ESTATE	COMMON OWNER	17	-	-	-	-
INDIVIDUALS	MEMBERS OF THE MANAGEMENT AND MANAGEMENT AUTHORITY AND MEMBERS OF THEIR FAMILIES		65	367	27	13	1

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

25. Transaction with related parties (continued)

Management remuneration

	2018	2017
Net salaries	547	473
Taxes and contributions	334	289
Other remunerations	179	179
Taxes and contributions	108	112
	1,168	1,053

Net salaries, taxes and contributions, including and bonuses, are the higher in 2018 compared to 2017 because in 2017 bonuses to Bank's Management Board were not paid.

Remunerations of Bank's Supervisory and Audit Committees' members

	2018	2017
Fees paid to SB an AC members	20	18
Taxes and contributions	5	4
	25	22

During 2018 and 2017 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.

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

26. Contingencies and Commitments

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

	2018							
	Stage 1		Stage 2		Stage 3			
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total	2017
Guarantees	-	44,622	-	3,671	914	125	49,332	47,765
Letters of credit	-	147	-	573	-	-	720	362
Granted loans not withdrawn	-	93,418	-	8,971	5	110	102,504	82,001
	-	138,187	-	13,215	919	235	152,556	130,128
Less: Value adjustment for potential losses	-	(1,541)	-	(171)	(510)	(180)	(2,402)	(3,261)
	-	136,646	-	13,044	409	55	150,154	126,867

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:

	2018.							
	Stage 1		Stage 2		Stage 3			
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total	2017
Internal classification								
A	-	70,149	-	3,597	-	27	73,773	61,155
B	-	62,083	-	4,865	-	7	66,955	55,232
C	-	5,955	-	4,753	292	22	11,022	13,268
D i E	-	-	-	-	627	179	806	473
	-	138,187	-	13,215	919	235	152,556	130,128

Change in gross carrying value and related provisions for potential losses in 2018 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 01 January. 2018	-	124,893	-	4,537	536	162	130,128
New exposure	-	43,519	-	6,605	282	158	50,564
Exposures derecognized or matured (excluding write off))	-	(24,804)	-	(3,172)	-	(160)	(28,136)
Transfer to Stage 1	-	173	-	(124)	(49)	-	-
Transfer to Stage 2	-	(5,388)	-	5,388		-	-
Transfer to Stage 3	-	(206)	-	(19)	150	75	-
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-
Write offs	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	-	-	-
Balance at 31 December. 2018	-	138,187	-	13,215	919	235	152,556

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

26. Contingencies and Commitments (continued)

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
ECL at January 1, 2018	-	1,168	-	159	365	162	1,854
New exposure	-	476	-	239	136	152	1,003
Exposures derecognized or matured (excluding write off)	-	120	-	(356)	(13)	(206)	(455)
Transfer to Stage 1	-	4	-	(3)	(1)	-	-
Transfer to Stage 2	-	(152)	-	152	-	-	-
Transfer to Stage 3	-	(75)	-	(20)	23	72	-
Balance at December 31, 2018	-	1,541	-	171	510	180	2,402

In the next table is presented movements of provision for potential losses in 2017 as follows:

	2017
Balance as at January 1	2,637
(Decrease)/Increase for the year, net (Note 8)	640
Exchange rates. net	(16)
	3,261

Operating leases

The Bank leases business premises in the whole of Bosnia and Herzegovina.
Based on lease contracts. commitments are as follows:

	2018	2017
Commitments for leases	1,788	1,878
	1,788	1,878

		2017
Maturity up to 1 year	927	413
Maturity from 2 to 5 years	727	1,175
Maturity over 5 years	134	290
	1,788	1,878

Ongoing court cases

As of December 31, 2018, there were 81 cases against the Bank for which assessment of legal risk is performed. The total value of these court cases against the Bank as at December 31, 2018 amounts to BAM 19,911 thousand; EUR 292 thousand; CHF 5 thousand and USD 1 thousands.

In 2018 there were 16 new legal actions against the Bank.

In the period from January 1 to December 31, 2018 the Bank won 26 cases.

The Bank continuously monitors the legal risk. estimates expected costs based on the legal risk and sets adequate provisions on that basis. The amount of the provisions is disclosed in Note 23b.

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

27. Operation by segments

Segment analysis is used for internal financial reporting of business results. Segments include Corporate and SME, Micro and Retail, Treasury and Collection. Interest income is allocated on segments applying the internal transfer prices (ITP) determined by the Treasury sector depending on prevailing market conditions. Allocation of joint expenses, services and overhead costs is performed according to appropriate keys, i.e. based on the plan weighted indices.

Statement of financial position per segments as of December 31, 2018:

	Corporate and SME	Micro and Retail	Treasury	Collection	Other	Bank
ASSETS						
Cash and balances with the CBB&H	-	33,519	197,042	-	11,738	242,299
Loans and placements with banks	289,883	401,596	100,114	3,254	-	794,847
Financial assets mandatory FVPL	-	-	-	1,719	-	1,719
Financial assets at fair value through OCI	-	-	76,938	-	-	76,938
Tangible and intangible assets	-	-	-	-	25,179	25,179
Other assets	158	502	5,482	193	4,164	10,499
Total assets	290,041	435,616	379,576	5,167	41,081	1,151,481
LIABILITIES						
Deposits	227,932	692,842	22,599	2,965	147	946,485
Borrowings	-	-	39,530	-	-	39,530
Other liabilities	1,677	3,790	3,617	59	2,367	11,510
Provisions for contingencies and commitments. for employees and legal risk	1,500	559	-	348	1,580	3,987
Total liabilities	231,109	697,191	65,746	3,372	4,094	1,001,512

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

27. Operations by segments (continued)

Statement of financial position per segments as of December 31, 2017:

	Corporate and SME	Micro and Retail	Treasury	Collection	Other	Bank
ASSETS						
Cash and balances with the CB B&H	-	31,199	196,819	-	10,317	238,335
Loans and placements with banks	266,969	371,954	49,774	12,500	-	701,197
Financial assets available-for-sale	-	-	74,989	-	-	74,989
Tangible and intangible assets	-	-	-	-	21,691	21,691
Other assets	127	689	7	684	1,681	3,188
Total assets	267,096	403,842	321,589	13,184	33,689	1,039,400
LIABILITIES						
Deposits	187,504	647,721	10,166	1,735	152	847,278
Borrowings	-	-	43,222	-	-	43,222
Other liabilities	1,109	3,371	2,164	101	3,828	10,573
Provisions for contingencies and commitments. for employees and legal risk	2,154	879	-	329	1,529	4,891
Total liabilities	190,767	651,971	55,552	2,165	5,509	905,964

Income statement by segments for the year 2018:

	Corporate and SME	Micro and Retail	Treasury	Collection	Bank
Interest Income	9,893	29,521	1,438	1,041	41,893
Interest Expense	(1,321)	(4,416)	(1,611)	(21)	(7,369)
Net Interest Income (before transfer prices)	8,572	25,105	(173)	1,020	34,524
Margin on assets	6,960	20,546	525	822	28,853
Margin on liabilities	86	2,786	(94)	4	2,782
ALM	-	-	2,889	-	2,889
Net Interest Income (by transfer prices)	7,046	23,332	3,320	826	34,524
Impairment provisions for general credit risk and contingent credit and other losses	(3,051)	(2,447)	469	(659)	(5,688)
Net Interest Income after provision for losses	3,995	20,885	3,789	167	28,836
Net non-interest income	1,715	12,911	1,512	568	16,706
Total operative income	5,710	33,796	5,301	735	45,542
Total costs	(3,681)	(20,855)	(1,890)	(1,721)	(28,147)
Profit before income tax	2,029	12,941	3,411	(986)	17,395

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

27. Operations by segments (continued)

Income statement by segments for the year 2017:

	Corporate and SME	Micro and Retail	Treasury	Collection	Bank
Interest Income	10,668	29,640	914	2,197	43419
Interest Expense	(1,465)	(5,413)	(1,260)	(28)	(8,166)
Net Interest Income (before transfer prices)	9,203	24,227	(346)	2,169	35,253
Margin on assets	6,735	19,571	336	1,731	28,373
Margin on liabilities	125	3,015	(80)	(26)	3,034
ALM	-	-	3,846	-	3,846
Net Interest Income (by transfer prices)	6,860	22,586	4,102	1,705	35,253
Impairment provisions for general credit risk and contingent credit and other losses	168	(6,560)	(17)	1,565	(4,844)
Net Interest Income after provision for losses	7,028	16,026	4,085	3,270	30,409
Net non-interest income	1,876	14,190	625	272	16,963
Total operative income	8,904	30,216	4,710	3,542	47,372
Total expense	(3,740)	(22,572)	(1,826)	(1,743)	(29,881)
Profit before income tax	5,164	7,644	2,884	1,799	17,491

28. Events after the date of reporting

After the balance sheet date. until the date of submission of the report. there have been no events with a significant impact on the Bank's position or requiring an additional explanation.