NLB Banka d.d., Sarajevo

Financial Statements
For the year ended December 31, 2019

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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
NLB
01

Lidija Žigić, Chairman of Management board

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

March 31, 2020

Ernst & Young d.o.o.
Fra. Anđela Zvizdovića 1
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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 2019, 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 2019 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 the 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 this matter. 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.

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Independent auditor's report *(continued)*

Key audit matters *(continued)*

1. Individual impairment of Loans

The carrying amount of loans to customers amounts to BAM 773 million (or 62% of total assets) as at 31 December 2019. 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 Summary of significant accounting policies - Impairment of financial assets and off-balance sheet contingent liabilities, impairment of loans to customers is determined under application of IFRS 9 Financial Instruments.

This is a key audit matter as significant judgement is involved to determine the individual impairment of loans to customers which are classified as Stage 3 instruments.

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.

For further information please refer to Note 3.22 Summary of significant accounting policies - Impairment of financial assets and off-balance sheet contingent liabilities, Note 13 Loans to customers and Note 4.2. Financial risk management of the accompanying financial statements.

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 for mathematical accuracy. 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 3.22 Summary of significant accounting policies - Impairment of financial assets and off-balance sheet contingent liabilities, Note 13 Loans to customers and Note 4.2. Financial risk management of the accompanying financial statements.

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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.

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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.

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

Zvonimir Madunić, Director

Ivana Lazarević Soldat, Licensed auditor

1 April 2020

Ernst & Young d.o.o. Sarajevo
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Bosnia and Herzegovina

Statement of profit and loss and other comprehensive income

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

	Note	2019	2018
Interest income calculated using the effective interest method	5a	42,838	41,781
Other interest income not calculated using effective interest rate method	5a	124	135
Interest expense	5b	(7,532)	(7,369)
Net Interest Income	5	**35,430**	**34,547**
Fee and commission income	6a	26,170	22,059
Fee and commission expense	6b	(9,316)	(8,109)
Net Fee and commission income	6	**16,854**	**13,950**
Impairment provisions for general credit risk and potential credit losses (net)	7	(3,777)	(5,371)
Impairment provisions for litigation (net)	7, 24	(485)	(340)
Gains from financial assets recognized at fair value through P&L[1] (net)		710	306
Foreign exchange gains	8	1,117	1,105
Other operating income	9b	1,032	1,345
Employees' expenses	9a	(16,386)	(16,530)
General and administrative expenses	9	(12,433)	(11,288)
Other operating expenses		(988)	(329)
Profit before income tax		**21,074**	**17,395**
Income tax	10	(2,520)	(1,888)
Net profit for the year		**18,554**	**15,507**
Other comprehensive income/loss:			
Profit from equity instruments recognized at fair value through OCI[2] (net)		3	6
Profit from debt instruments recognized at fair value through OCI (net)		1,444	913
Profit/(Loss) from provisions for severances (IAS 19) (net)		(122)	100
Other comprehensive Income for the year		**1,325**	**1,019**
Total comprehensive income for the year		**19,879**	**16,526**
Earnings per Share (in BAM)	25	**48,48**	**40,52**

Notes on pages from 10 to 115 form an integral part of these financial statements.

[1] Profit and loss

[2] Other comprehensive income

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

	Note	December 31, 2019	December 31, 2018
ASSETS			
Cash and balances with the Central Bank of B&H	11	228,414	242,299
Placements with banks	12	100,093	100,114
Loans to customers	13	772,828	694,733
Financial assets at fair value through PL	14	1,448	1,719
Debt instruments at fair value through OCI	15	98,291	76,850
Equity instruments at fair value through OCI	15	91	88
Property, Plant, Equipment and rights of use assets	16	34,261	24,547
Intangible assets	17	1,082	632
Other assets	18	4,540	10,499
Total assets		**1,241,048**	**1,151,481**
LIABILITIES			
Banks' deposits	19	16,774	22,752
Customers' deposits	20	1,007,697	923,733
Borrowings	21	34,338	39,530
Subordinated debt	22	5,997	-
Other liabilities	23	18,232	11,510
Other provisions	24	4,897	3,987
Total liabilities		**1,087,935**	**1,001,512**
EQUITY			
Share capital	25	53,605	53,605
Statutory reserves		78,899	74,260
Revaluation reserves – financial assets at fair value through OCI		2,750	1,303
Other revaluation reserves		(695)	(573)
Retained earnings		18,554	21,374
Total equity		**153,113**	**149,969**
Total equity and liabilities		**1,241,048**	**1,151,481**

Notes on pages from 10 to 115 form an integral part of these financial statements.

The Management has authorized these financial statements on March 31, 2020 and signed them accordingly:

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

			Other comprehensive income					
	Share capital	**Statutory reserves**	**Measurement of financial assets AFS**	**Measurement of financial assets at FVOCI**	**Expected credit loss for assets at FVOCI**	**Other revaluation reserves**	**Retained earnings**	**Total**
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**
Allocation of profit for 2018	-	4,639	-	-	-	-	(4,638)	1
Dividends paid	-	-	-	-	-	-	*(16,736)*	*(16,736)*
Net profit for the year	-	-	-	-	-	-	*18,554*	*18,554*
Other comprehensive income	-	-	-	*1,522*	*(75)*	*(122)*	-	*1,325*
Total comprehensive income	-	-	-	*1,522*	*(75)*	*(122)*	*18,554*	*19,879*
Balance as of December 31, 2019	**53,605**	**78,899**	**-**	**1,522**	**227**	**(695)**	**18,554**	**153,113**

Notes on pages from 10 to 115 form an integral part of these financial statements

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

	Note	2019	2018
Cash flows from operating activities			
Interest income from loans		39,224	37,525
Fees and commission income from loans and commission from foreign exchange business		34,011	29,708
Interest paid on deposits to customers		(9,702)	(9,239)
Cash payments to employees and suppliers		(40,686)	(39,620)
Payments upon off-balance contracts		(533)	(74)
Incoming and outgoing payments under extraordinary items		156	875
(Increase) in operating assets:			-
(Increase) in loans to customers		(81,016)	(47,110)
Increase in operating liabilities:			
Increase in clients' deposits and other liabilities from ordinary business activities		90,740	92,468
Paid income tax		(2,083)	(2,724)
Net cash from operating activities:		**30,111**	**61,809**
Cash flows from investing activities			
Interest received from placements to financial institutions		1,403	1,098
Dividends received		23	13
(Purchase) of AFS financial assets, net		(18,350)	(553)
(Purchase) of intangible assets		(1,269)	(351)
(Purchase) of property and equipment		(5,514)	(4,901)
Disposal of other assets		(3)	(6)
Net cash (used in) investing activities		**(23,710)**	**(4,700)**
Cash flows from financing activities			
Proceeds from issuance of shares		(3,488)	(2,953)
Borrowings received		13,690	18,580
Repayment of borrowings		(13,007)	(22,232)
Paid lease of right of use assets		(1,125)	-
Payment of dividends		(16,541)	-
Net cash used in financing activities:		**(20,471)**	**(6,605)**
Net increase in cash and cash equivalents:		**(14,070)**	**50,504**
Cash and cash equivalents at the beginning of the year:	**11, 12**	**338,201**	**287,698**
Effects of changes in foreign exchange currency rates:		9	(1)
Cash and cash equivalents at the end of the year:	11, 12	**324,140**	**338,201**

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	2019.	2018.
Cash and balances with the Central Bank of B&H (gross)	11	228,598	242,499
Placements with banks (gross)	12	100,112	100,133
Less:			
Cash equivalents with maturity more than 30 days		(4,570)	(4,431)
Total		**324,140**	**338,201**

Notes on pages from 10 to 115 form an integral part of these financial statements

1. General information

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

The Bank was initially registered with the Registry of Companies with the Cantonal Court in Tuzla, and 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.
On November 28, 2019, the Shareholders Assembly adopted a decision to change the address of the Bank's headquarters from the former address in Džidžikovac 1 Sarajevo, to the new address od Bank's Headquarters Koševo 3 Sarajevo. The change was entered in the Register of Business Entities of the Municipal Court of Sarajevo on December 24, 2019.

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

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

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

1. General information *(continued)*

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, 2019		December 31, 2018	
	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 Koševo 3, 71000 Sarajevo, Bosnia and Herzegovina.
The majority owner of the Bank is Nova Ljubljanska banka d.d., Ljubljana, with 97.34% of share capital as of December 31, 2019, which is also ultimate owner of the Bank.

Employees

As of December 31, 2019, NLB Banka d.d., Sarajevo had 450 employees (December 31, 2018: 455 employees).

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

1. General information *(continued)*

The Supervisory Board

December 31, 2019:

President	Blaž Brodnjak	30.5.2017-29.5.2021
Deputy President	Boštjan Kovač	30.5.2017-29.5.2021
Member	Igor Zalar	6.10.2017-29.5.2021
Independent member	Ayda Šebić	30.5.2017-29.5.2021
Independent member	Dragan Kovačević	30.5.2017-29.5.2021

Audit Committee

December 31, 2019:

President	Tatjana Jamnik Skubic	2.6.2018-1.6.2022
Member	Suzana Žigon	2.6.2018-1.6.2022
Member	Andreja Golubić	2.6.2018-1.6.2022
Member	Polona Kurtevski	1.7.2019-1.6.2022
Member	Zoran Blagojević	2.6.2018-1.6.2022

Risk Committee

December 31, 2019:

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, 2019:

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

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
6. AmCham Slovenia (American Chaimber of Commerce), Member of the Board of Governers

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

1. General information *(continued)*

1.1. Macroeconomic environment

The current year has seen a slowdown in economic growth, which has a negative impact on faster development convergence towards more developed countries. Economic growth was recorded in the first half of 2019, although at a slightly lower intensity compared to the previous year. In the first three quarters, industrial production recorded a sharp decline year-on-year due to the slowdown in the economic activities of its main foreign trade partners, as well as the difficult business of some strategic companies. This slowdown in industrial production is also expected to reflect in the intensity of economic activity in the coming period.

Inflationary pressures, measured by consumer price index, stagnate compared to the second quarter of 2019, but are significantly weaker than in the same period of 2018. According to the administrative data, the trend of declining unemployment and growth in numbers of employees continued in the third quarter, with increasingly negative demographic changes affecting the labor market.

Foreign exchange reserves were significantly increased in the third quarter of 2019, among other things, due to seasonal factors. Although there have been some fluctuations between quarters, monetary multiplication has been of relatively constant intensity since early 2018.

The reduction in the ECB deposit rate, in the third quarter of 2019, automatically increased the fee charged by the CBBH to commercial banks for holding funds above the mandatory reserve in central bank accounts. The rate on required reserve has remained unchanged. Due to the growth of the base for calculation of the obligatory reserve, primarily transferable deposits of domestic sectors in BAM, the obligatory reserve continued its upward trend. The trend of surplus growth above the reserve requirement also continued despite the increase in the negative compensation rate in September from -40 to -50 b.p. Previously, the rate on excess over the reserve requirement was changed from -20 b.p. to -40 b.p. in May 2019.

In the first half of 2019, the current account deficit deepened as a result of the growth in the commodity account deficit. The negative effects of deepening trade deficits have been somewhat mitigated by the surplus in services accounts. The foreign trade deficit for the first nine months deepened, compared to the same period in 2018, but it is important to note that in the third quarter, both exports and imports declined. The current account deficit was, in the first half of the year, financed, to a large extent, by new borrowing in the form of trade loans and the inflow of foreign direct investment. Reserve assets continue to record an upward trend.[3]

According to its analysis on September 6, 2019, credit rating agency Standard & Poor’s confirmed to the Bosnia and Herzegovina credit rating of “B with positive outlook “. In February 2019 agency Moody’s Investors Service confirmed credit rating of “B3 with stable outlook”[4]

Banking system

In FB&H on September 30, 2019, there were 15 commercial Banks with 539 organizational units where 6,745 people has been employed.

Total net assets of banking system in FB&H as of September 30, 2019 amounted to 23.7 billion BAM which is increase of 1.6 billion BAM or 7,5% comparing to December 31, 2018.

[3] Bilten 3 CBBH 2019
[4]www.cbbh.ba

1. General information (*continued*)

1.1. Macroeconomic environment (*continued*)

Loans, with a share of 62.8% in the structure of total assets, recorded an increase compared to the end of 2018 in the amount of BAM 580.9 million or 4.1%, thus amounting to 14.9 billion as of September 30, 2019. As of September 30, 2019, loans to households, private companies, non-banking financial institutions and other sectors have increased, as compared to the end of 2018, while lending to government institutions, banking institutions and public enterprises has decreased.

NPL participation decreased from 8.5% to 7.6% as a result of credit growth and collection activity. The NPL share of legal entities in relation to total loans to legal entities amounts to 9.4%, which is by 1.2 p.p. less than at the end of 2018, and the NPL's share of households in total loans to households is 5.8%, which is 0.4 p.p. less in the observed period.

Deposits had reached amount of 19 billion BAM with increase in amount of 1.4 billion BAM or 7,7%, and had remained the most significant source of financing, with share of 79,9% of total balance sum. Savings deposits, as the largest and most significant part of total financial potential of banks, have increased by 517.8 million BAM or 5.9% and amount to 9.3 billion BAM.

Total equity of Banks in FB&H on September 30, 2019 amounts to 3.2 billion BAM, 188 million or 6,3% higher compared to the end of 2018, out of which shareholders equity amounts to 1.3 billion BAM. The share of total capital in sources at the level of the FB&H banking sector is 13.3%. Regulatory capital amounts to 2.7 billion BAM and has increased by 201.5 million BAM or 8.1% when compared to the end of 2018.

FB&H Banking Sector Regulatory Capital Rate as of September 30, 2009 18.0% and is higher than the statutory minimum of 12%. It is the same for 0.5 p.p. higher than at the end of 2018. At the level of the FB&H banking sector, higher and other capital rates (the rate of ordinary share capital and share capital) are reported in relation to the prescribed minimums. Financial leverage rate at the level of the FB&H banking sector as of September 30, 2019. year is 10.3% (prescribed minimum 6%) and is higher by 0.2 p.p. compared to the end of 2018.

Looking at the basic indicators of liquidity, qualitative and quantitative requirements, as well as other factors affecting the position of banks' liquidity, it can be concluded that the banking sector liquidity in the FB&H as of September 30, 2019. is satisfactory.

At the level of the banking sector in the FB&H, according to the reporting data of banks as of September 30, 2019, a positive financial result was reported - profit in the amount of BAM 250.9 million, which is by BAM 4.3 million or 1.7% more than in the same period in 2018.[5]

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

[5] Information on banking system of Federation of Bosnia and Herzegovina 30 September 2019

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 2019:

- **IFRS 16: Leasing**
  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.

  In accordance with IFRS 16, the Bank has established contracts that meet the definition of a lease. The most important types of leases are office space leases, a small number of parking spaces and the lease of equipment, namely POS devices. One of the most important assumptions for calculating net present value was a lease term signed indefinitely. For these leases, the Bank has assumed a 5-year lease term. The Bank assessed that there were no strategic leased facilities. Another important assumption for calculating the net present value of future leases was the discount rate at which the Bank applied an internal transfer price for retail deposits. At the date of transition to IFRS 16, that rate was between 0.97% and 2.2%, depending on the contract term. In transition to IFRS 16, the Bank has opted for a modified retrospective approach, where the rights to use the right are measured as being equal to the lease obligation. The first application resulted in the recording of lease liabilities in the amount of BAM 5,170 thousand and accordingly, taking into account the rents paid in advance, the rights to use the asset in the amount of BAM 5,180 thousand. The impact on regulatory capital is not significant. See Note 16 for the effects of the application of this Standard and detailed

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  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. The adoption of this standard had no significant impact on the Bank's financial statements.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  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. The adoption of amendments to this standard had no significant impact on the 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*)

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**
  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. The adoption of interpretation of this standard had no significant impact on the Bank's financial statements.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
  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. The adoption of amendments to this standard had no significant impact on the 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. Management has assessed that the adoption of these amendments does not affect the 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 the Bank borrows generally.

2. Adoption of new and revised standards (continued)

2.2. Standards issued by the International Standards Board but not translated and published by the Alliance of Accountants, Auditors and Financial Professionals in the Federation which have in turn not yet entered into force and have not been adopted before

- **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. Management has assessed that the adoption of amendments to this standard will have no impact on the Bank's financial statements.

- **Conceptual Framework in IFRS standards**
  The IASB 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. Management has assessed that the adoption of the Conceptual Reporting Framework will have no impact on the Bank's financial statements.

- **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. Management has assessed that the adoption of amendments to this standard will have no impact on the 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. Management has assessed that the adoption of amendments to this standard will have no impact on the Bank's financial statements.

2. Adoption of new and revised standards (continued)

2.2. Standards issued by the International Standards Board but not translated and published by the Alliance of Accountants, Auditors and Financial Professionals in the Federation which have in turn not yet entered into force and have not been adopted before

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The Bank is in the process of determining the effects, but the Management Board believes that the adoption of these amendments will not have a material impact on the financial statements.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. Management has assessed that the adoption of these amendments will not have a material impact on the financial statements.

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, 2019 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 = BAM 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	December 31, 2019	December 31, 2018
	BAM	**BAM**
USD	1.747994	1.707552
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 comprehensive income 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, costs of card operations and deposit insurance costs.

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

3.9. Dividend Income

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

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 comprehensive income 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%,

3. Summary of significant accounting policies *(continued)*

3.10. Employee compensations *(continued)*

- 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.

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 2019 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 regulations of the Federation of Bosnia and Herzegovina and Brčko District.

The starting point in determining the income tax base is the business result reported in the income statement.
The tax balance includes both current and temporary (deferred) tax differences.
Taxable temporary tax differences result in deferred tax liabilities.
Deductible temporary differences result in deferred tax assets.
Deferred tax assets may arise from:
• deductible temporary differences,
• transferred unused tax losses and
• transferred unused tax credits.

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

The tax rate is 10%.

Since the Bank is in the VAT system, it has an obligation to charge and pay VAT as an indirect tax on taxable services. VAT is recorded at the associated cost of the service for which it is charged.

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 2018 and 2019 there have been no dilution effects.

3. Summary of significant accounting policies *(continued)*

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

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.

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,
- 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.

(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 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 restructuring or annex are contracted. For the mentioned clients, the modified gain/loss calculation at the date of restructuring is mandatory. The calculation is an integral part of a loan proposal for the amendment of a contract or agreement and a credit file.

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:

	2019	**2018**
Buildings	1.3%	1.3%
Leasehold improvements	20%	-20%
Computer equipment	14.3-50%	14,3-50%
Vehicles	15%	15%
Furniture and other office equipment	7-15%	7-15%

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

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

3. Summary of significant accounting policies *(continued)*

3.16. Property and equipment (continued)

During 2019, the Bank made adjustments to the fair value of real estate and recognized decrease in the value of 6 business premises in which it conducts business activities, in a total net value of BAM 257 thousand.

Overview of tangible assets in 2019 and 2018 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.

3.16.a Operating Lease

Leases in the financial statements are disclosed in accordance with IFRS 16 Lease. A contract is a lease contract if it transfers the right to control the use of a particular asset for a specified period in exchange for a fee. The right to use the identified property is considered when the lessee has a full period of use:
- the right to receive all significant economic benefits from the use of a particular asset, and
- the right to direct the use of certain assets.

The right to receive economic benefit and the right to direct the use of a given asset are assessed in the context of the right to use as defined in the contract.

The lessee recognizes at the commencement of the lease the asset that represents the right of use and the lease obligation that represents the present value of future leases. The exceptions are short-term leases (up to one year) and leases for which there is a low value lease (up to EUR 5,000). In these cases, rentals are treated as a cost based on a linear timing method over the lease term.

Right to use the lease
The lessee measures the property that represents the right of use from the first day of the lease on the acquisition cost, which includes:
- amount of initial measurement of the lease obligation,
- payment of rent made on or before the start of the lease, less any lease incentives received,
- the initial direct costs incurred by the lessee and
- an estimate of the costs that the lessee will incur in dismantling and removing the leased property, in rebuilding the leased property or in returning the leased property to the situation required under the terms of the lease agreement. The lessee assumes an obligation for these costs either on the commencement date or as a consequence of using the asset for a specified period.

The duration of the lease is the period during which it cannot be canceled and in which the lessee has the right to use the leased property, including:
- deadlines covered by the option to extend the lease if the lessee is reasonably certain that it will exercise this option, and
- periods to which the termination of the lease agreement applies, if there is a realistic likelihood that the lessee will not use this option. In cases where the final lease (lease) date is not defined, the following rules apply:
- for flats for members of the Board of Directors, the duration of their term of office shall be taken into account as a lease term,
- the expected period of renting office space is estimated by the Investment, Supply, Security and General Affairs Sector in cooperation with the Business Network,
- if there are no circumstances on the basis of which it would be possible to determine fairly the different lease term, a period of 5 years will be taken into account in accordance with the Bank's planning period.

3. Summary of significant accounting policies *(continued)*
3.16.a Operating Lease (continued)

On the first day of the lease, the lessee measures the lease liability at the present value of the rent, which has not yet been paid at that date. Rents are discounted at an interest rate, which is the internal transfer price for retail deposits at the start of the lease, taking into account the maturity and currency. After the first day of the lease, the lessee measures the property that represents the right to use, using the cost model and depreciates it over the estimated lease period.

The lessee will apply IAS 36 Impairment to determine whether an asset that represents a right of use is impaired.

Lease liabilities

After the first day of the lease, the lessee should measure the lease liability so that:
- increases carrying values to take into account interest on the lease liability,
- decreases carrying values to take into account rentals paid; and
- remeasures carrying values to take account of any changes in estimates or changes in rent.

Modification of the lease

The lessee calculates the lease modification as a separate lease when:
- this modification extends the scope of the lease by giving it the right to use one or more additional items of property and at the same time
- the rent increases in proportion to the extension of the rental volume (both conditions must be met).

In that case, the recognition of assets and liabilities under the existing lease is derecognized, the difference between the obligation and the right to use at the date of derecognition is recorded as gain or loss from derecognition of the right to use.

Changing rental conditions
To change a lease that is not accounted for as a separate lease (change of lease term, change of option to purchase property, change of index or rate used to determine rents ...), the lessee is obliged to enter into force these modifications:
- award compensation from the amended contract,
- determine the duration of the modified lease,
- re-measure the lease liability by discounting the revised rental payments at a revised discount rate, and
- the carrying amount of the asset representing the right of use is adjusted to change the lease liability.

The Bank has chosen to use the standard-provided exemptions related to short-term leases (up to one year) and leases for which it is a low-value lease (up to EUR 5,000).

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 2019 and 2018 is presented in the *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.

In accordance with the Decision of the Banking Agency of the Federation of B&H 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.

3. Summary of significant accounting policies *(continued)*

3.18. Acquired financial and nonfinancial assets *(continued)*

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.

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 (continued)

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

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

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

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

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

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)*

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.

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.

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:

3. Summary of significant accounting policies *(continued)*

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

- 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.

Write-off of loans and receivables

The authority to make a decision on the write-off and the procedure for writing off non-performing loans are prescribed by the Bank's internal procedures. According to the applicable regulations, write-offs of receivables can be made when all legal actions related to collection of receivables are completed or the Bank concludes that further proceedings are not profitable, that is, when all collection options are exhausted. Loans and receivables are written off which have 100% of the allowance for impairment charged to the bank's expenses.

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.

As of January 1, 2020, the Bank has implemented the Decision on Credit Risk Management and Determination of Expected Credit Losses, published by the Banking Agency of the Federation of Bosnia and Herzegovina. The Bank modified the methodology for determining expected losses, in accordance with the aforementioned Decision, and calculated the effects of additional expected credit losses in the amount of BAM 3.7 million.

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, 2019, the statutory reserves of the Bank amounted to 147.19% of the share capital.

The Bank's legal reserves as of December 31, 2019 amounted to 78,899 thousand BAM, out of which 19,725 thousand BAM relate to the legally prescribed 25% of the share capital, and 59,174 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.

3.28. 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 22*) 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 2019, the authorized actuary has made a calculation of provisions for severances for 2019 in accordance with IAS 19 and the Bank has made the required adjustments.

An assessment of short-term provisions for unused vacation days is done in accordance with the number of days of unused annual holidays as of balance sheet date and the Bank's average 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 24*.

Income tax

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

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

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 general strategy of the Bank.

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

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

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

Basic goals and principles of Risk Taking and Risk Management Strategy are:

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

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 management strategy with quantitative measures. It represents the basis for the ICAAP, the ILAAP, the Recovery Plan and other risk-limiting systems and the underlying foundation in multi-year budgeting and capital planning.

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

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

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

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

The Bank is exposed to various risks in its operations, of which the following risks are crucial for the Bank's overall operations:
- credit risk,
- market risk,
- liquidity risk,
- operational risk.

4. Bank's financial risk management *(continued)*
4.2. Credit risk management

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

General requirements

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

The key principles of risk taking and risk management are related to lending to clients, legal entities (non-financial corporations) and individuals targeting the domestic market. The principles and rules for lending to different segments are defined by the Bank's internal acts. The emphasis is mainly on:
- defining the main conditions relating to the approval of placements and collateral
- defining target segments that the Bank is prepared to finance, as it sees potential, taking into account the aspect of the risks taken
- defining segments that the Bank does not want to finance, either because of risks being too high or too low profitability, taking into account assumed risks or other reasons
- a projection of expected losses the Bank is prepared to assume upon approval of the placements, and
- defining the approach by which the Bank proactively manages risks arising from low-quality exposures

Risk mitigation

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

Risk control and monitoring

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

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

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

4.2. Credit risk management *(continued)*

Total credit risk exposure	**December 31, 2019**	**December 31, 2018**
Cash and balances with CBBH (*Note 11*)	228,414	242,299
Placements with banks (*Note 12*)	100,093	100,114
Loans to customers (*Note 13*)	772,828	694,733
Financial assets at FVPL *(Note 14)*	1,448	1,719
Financial assets at FVOCI *(Note 15)*	98,291	76,850
Other financial assets (Note 18)	3,801	9,648
	1,204,875	**1,125,363**

The following table shows the maximum exposure to credit risk

Financial assets	**Total carrying value**	**Impairment**	**Total net carrying value**
December 31, 2019			
Cash and balances with CBBH (*Note 11*)	228,598	(184)	228,414
Placements with banks (*Note 12*)	100,112	(19)	100,093
Loans to customers (*Note 13*)	845,235	(72,407)	772,828
Financial assets at FVPL *(Note 14)*	1,448	-	1,448
Financial assets at FVOCI *(Note 15)*	98,291	-	98,291
Other financial assets (*Note 18*)	5,963	(2,162)	3,801
	1,279,647	**(74,772)**	**1,204,875**
Contingent liabilities (*Note 27*)	**148,000**	**(2,718)**	**145,282**
Total	**1,427,647**	**(77,490)**	**1,350,157**
December 31, 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 at FVPL *(Note 14)*	1,719	-	1,719
Financial assets at FVOCI *(Note 15)*	76,850	-	76,850
Other financial assets (*Note 18*)	11,836	(2,188)	9,648
	1,201,016	**(75,653)**	**1,125,363**
Contingent liabilities (*Note 27*)	**152,556**	**(2,402)**	**150,154**
Total	**1,353,572**	**(78,055)**	**1,275,517**

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

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

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

4.2. Credit risk management *(continued)*

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

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

December 31, 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**

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)*

Collaterals

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

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

In addition to the above-mentioned 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
December 31, 2019		
Credit exposure, net	874,369	1,102,860
Loans to customers at AC	*772,828*	*1,098,879*
Loans to customers FVPL	*1,448*	*3,981*
Placements with banks	*100,093*	-
Off-balance sheet exposure, net	145,282	93,346
Total	**1,019,651**	**1,196,206**

	Maximum credit risk exposure (net)	Fair value of collaterals
December 31, 2018		
Credit exposure, net	796,566	1,082,170
Loans to customers at AC	*694,733*	*1,078,189*
Loans to customers 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**

Out of the total collateral value, as at December 31, 2019, amount of 377,161 thousand BAM relates to business and residential real estates, while the rest of the collaterals are deposits, movable assets, administrative orders, codebtors and bills of exchange.

As at December 31, 2018, out of the total value of collaterals, 433,840 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, 2019 Stage 1, 2 and 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	Total collateral		
Retail loans	**449,832**	**2,526**	**-**	**88,494**	**128**	**91,148**	**31,333**	**418,499**
Housing loans	60,640	118	-	51,773	-	51,891	2,180	58,460
Consumer loans	358,856	2,130	-	36,228	2	38,360	27,261	331,595
Other retail loans	30,336	278	-	493	126	897	1,892	28,444
Corporate loans	**395,403**	**7,622**	**-**	**267,505**	**16,897**	**292,024**	**41,074**	**354,329**
Corporate customers	313,522	5,970	-	214,539	11,753	232,262	10,129	303,393
SME	49,537	894	-	35,994	3,512	40,400	12,946	36,591
Other customers	32,344	758	-	16,972	1,632	19,362	17,999	14,345
Loans to customers FVPL	**2,927**	**-**	**-**	**3,981**	**-**	**3,981**	**1,479**	**1,448**
Placements with banks	**100,112**	**-**	**-**	**-**	**-**	**-**	**19**	**100,093**
Off-balance sheet exposure	**148,000**	**3,404**	**-**	**17,181**	**1,129**	**21,714**	**2,718**	**145,282**
Guarantees	68,245	3,386	-	17,065	1,129	21,580	1,877	66,368
Letters of credit	3,128	-	-	-	-	-	21	3,107
Approved undrawn loans	76,627	18	-	116	-	134	820	75,807
Total	**1,196,386**	**13,552**	**-**	**377,161**	**18,154**	**408,867**	**76,642**	**1,119,744**

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

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

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

4.2. Credit risk management *(continued)*

December 31, 2018 Stage 1, 2 and 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	Total collateral		
Retail loans	**417,683**	**2,620**	**29,437**	**388,246**	**104**	**523,150**	**29,437**	**388,246**
Housing loans	58,778	110	2,650	56,128	-	85,990	2,650	56,128
Consumer loans	330,727	2,073	24,158	306,569	5	376,104	24,158	306,569
Other retail loans	28,178	437	2,629	25,549	99	61,056	2,629	25,549
Corporate loans	**350,296**	**10,932**	**43,809**	**306,487**	**22,058**	**555,039**	**43,809**	**306,487**
Corporate customers	291,346	8,073	29,011	262,335	15,472	455,870	29,011	262,335
SME	39,965	2,012	10,805	29,160	5,541	65,555	10,805	29,160
Other customers	18,985	847	3,993	14,992	1,045	33,614	3,993	14,992
Loans to customers 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**	**77,199**	**2,402**	**150,154**
Guarantees	49,332	3,103	1,431	47,901	6,468	76,479	1,431	47,901
Letters of credit	720	-	13	707	-	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**	**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	Total collateral		
Retail loans	**27,373**	**11**	**26,449**	**924**	**18**	**40,901**	**26,449**	**924**
Housing loans	2,454	-	2,329	125	-	5,774	2,329	125
Consumer loans	22,433	9	21,671	762	4	33,458	21,671	762
Other retail loans	2,486	2	2,449	37	14	1,669	2,449	37
Corporate loans	**41,164**	**530**	**37,716**	**3,448**	**3,721**	**62,073**	**37,716**	**3,448**
Corporate customers	26,069	30	23,943	2,126	2,635	37,753	23,943	2,126
SME	11,467	500	10,146	1,321	576	17,540	10,146	1,321
Other customers	3,628	-	3,628	-	510	6,780	3,628	-
Loans to customers 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**	**21,556**	**661**	**492**
Guarantees	1,038	-	554	484	6,450	21,556	554	484
Letters of credit	-	-	-	-	-	-	-	-
Approved undrawn loans	115	-	107	8	-	-	107	8
Total	**73,652**	**541**	**67,069**	**6,583**	**10,189**	**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)*

Overviews of LTV (loan to value) ratios for 2019 and 2018 are presented below:

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

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**

(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, 2019									
Governments	-	-	-	-	8,557	-	-	(95)	8,462
Companies	6,212	3	5,200	30,525	333,704	3,301	(32,383)	(8,541)	338,021
Banks	-	-	-	-	100,112	-	-	(19)	100,093
Non-banking financial institutions	-	-	-	-	7,901	-	-	(55)	7,846
Retail	1,749	7	107	488	428,970	18,511	(545)	(30,788)	418,499
Total	**7,961**	**10**	**5,307**	**31,013**	**879,244**	**21,812**	**(32,928)**	**(39,498)**	**872,921**
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**

(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.

	31 December 2019		31 December 2018	
	BAM	%	BAM	%
Retail	449,042	47.56	416,690	48.07
Trade	197,457	20.91	179,105	20.66
Mining and industry	107,094	11.34	91,346	10.54
Financial institutions	108,101	11.45	106,334	12.27
Building construction industry	28,281	3.00	20,572	2.37
Transportation and communications	24,832	2.63	19,794	2.29
Trading in real estate	11,550	1.22	10,224	1.18
Services, tourism, catering	3,084	0.33	2,840	0.33
Agriculture, forestry and fishing	3,618	0.38	7,621	0.88
Other	11,143	1.18	12,251	1.41
	944,202	**100.00**	**866,777**	**100.00**
Interests and fees	3,241		3,318	
Deferred fees for loans processing (IAS 18)	(2,096)		(1,983)	
	945,347		**868,112**	
Less: Impairment allowance	(72,426)		(73,265)	
	872,921		**794,847**	

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).

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

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

4.2. Credit risk management *(continued)*

If the clients under the jurisdiction of Collection department and NPL management establish the continuity in payment without delays and exit financial difficulties after the recovery period, than they are returned to Performing portfolio under the jurisdiction of Corporate department and Retail department.
In the process of collection of receivables, the clients, for which restructuring measures were taken, are included. Measures for restructuring debt include a "concession" to a debtor which is caused by deterioration in economic and financial situation of the customer and his inability to service the debt under previously agreed terms and conditions. A client with financial difficulties may be performing or non-performing.
Restructured receivables represent the "forborne" exposure of the Bank that needs to be considered in the sectors for PE - performing entities of the Sector for Corporate and the Sector for Retail or NPE - non-performing entities of the Sector for collection and non-performing asset management. "R" represents receivables with granted concessions due to financial difficulties (concessions would not have been approved if client didn't have financial difficulties).

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

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

	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**

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

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

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

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

4.2. Credit risk management *(continued)*

	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**

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, 2019		
Corporate	47	17,096
Retail and entrepreneurs	28	368
Total	**75**	**17,464**
December 31, 2018		
Corporate	62	22,184
Retail and entrepreneurs	35	508
Total	**97**	**22,692**

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.

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

4.2. Credit risk management *(continued)*

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.

Client monitoring on ICL[6] 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 Committee for monitoring potentially problematic loans - 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. The Vintage 30+ report starts after at least 2 months have passed since contracting, while the 90+ report records delays after 4 months have elapsed since contracting. Vintage reports are updated on a monthly basis, so that they consistently number all the previous months from the contracting date to the reporting date, and for the purposes of simpler reporting, cross sections 4, 6, 12, 18, 24 and 36 months from the moment of contracting are used, significant changes are also taken into account in other time periods. For a Retail loans segment, it is diversified into 4 types of residential mortgage, consumer, credit card and overdraft facilities, while for corporate loans diversification refers to maturity, i.e. long-term loans, short-term and overdrafts and business cards.

The average percentage of delay of 90+ 12 months after approval is observed on a monthly and quarterly level of up to 0.62% on Retail placements where a mass portfolio can derive legitimacy.

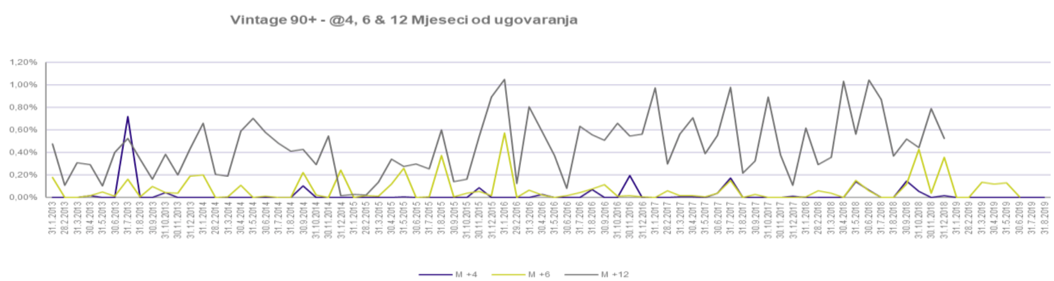
[6] ICL-Intensive care list

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

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

4.2. Credit risk management *(continued)*

Vintage 90+ analysis Retail entities

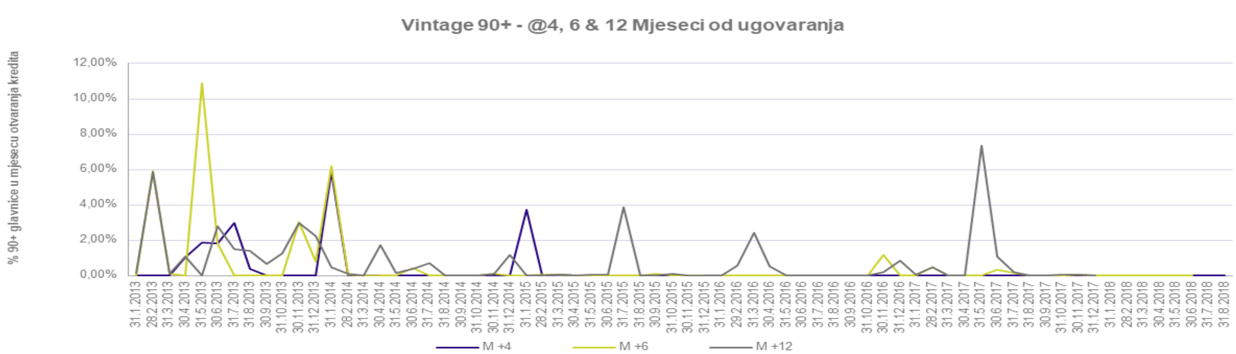


The table below shows quarterly movements of share of exposures in 90+ days past due, compared to the quarter in which it is contracted, with sections of 12, 18, 24, and 36 months after contracting.

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Vintage @12 M	0.07%	0.31%	0.31%	0.53%	0.63%	0.33%	0.57%	0.59%	0.57%	0.56%	0.55%	0.44%	0.41%	0.88%	0.60%	0.58%
Vintage @18 M	0.19%	0.42%	0.46%	1.27%	0.99%	1.01%	0.89%	0.82%	1.32%	0.75%	1.00%	0.80%	0.65%	1.46%	-	-
Vintage @24 M	0.65%	0.79%	0.80%	1.48%	1.29%	1.08%	1.25%	1.06%	1.53%	0.60%	1.27%	0.73%	-	-	-	-
Vintage @36 M	1.00%	1.07%	0.95%	2.27%	1.40%	1.35%	1.25%	1.74%	-	-	-	-	-	-	-	-

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 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Vintage @12M	0.01%	0.04%	0.96%	0.02%	1.43%	0.16%	0.00%	0.44%	0.10%	3.32%	0.07%	0.04%	0.61%	0.83%	0.00%	0.04%
Vintage @18 M	0.49%	0.15%	4.60%	3.36%	0.75%	0.44%	0.03%	0.59%	0.13%	1.25%	0.07%	0.15%	0.71%	0.56%	-	-
Vintage @24 M	0.67%	0.13%	4.54%	3.32%	0.75%	0.43%	0.01%	0.59%	0.10%	1.25%	0.07%	0.12%	-	-	-	-
Vintage @36 M	0.30%	0.12%	4.34%	3.31%	0.56%	0.27%	0.00%	0.45%	-	-	-	-	-	-	-	-

(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, 2019				
Loan liabilities	76,078	549	-	**76,627**
As of December 31, 2018				
Loan liabilities	101,627	837	40	**102,504**

(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, 2019				
Other financial facilities	50,125	21,248	-	**71,373**
As of December 31, 2018				
Other financial facilities	33,343	16,706	3	**50,052**

Risk measurement

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

General requirements

The Bank is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rates, foreign currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. 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.

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

4.4 Market risk

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.

4.5 Foreign currency risk management

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

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

	2019	**2018**
USD Profit/(loss)	5/(5)	1/(1)

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

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

4.4. Foreign currency risk management *(continued)*

The Bank had the following currency position:

December 31, 2019	**EUR**	**USD**	**BAM**	**Other currencies**	**Total**
Financial assets					
Cash and balances with the CBBH	4,130	159	222,958	1,167	228,414
Placements to banks and loans to customers	78,039	7,202	310,577	10,322	406,140
Placements to banks and loans to customers with a foreign currency clause	466,781	-	-	-	466,781
Financial assets at fair value through profit or loss with a foreign currency clause	1,448	-	-	-	1,448
Financial assets at fair value through OCI	49,321	1,756	30,338	-	81,415
Financial assets at fair value through OCI with a foreign currency clause	16,967	-	-	-	16,967
Other financial assets	1,230	-	2,569	2	3,801
	617,916	**9,117**	**566,442**	**11,491**	**1,204,966**
Financial Commitments					
Financial liabilities at amortized cost	329,181	9,027	498,394	11,233	847,835
Financial liabilities at amortized cost with foreign currency clause (EUR)	216,971	-	-	-	216,971
Other financial liabilities	6,596	15	11,450	9	18,070
	552,748	**9,042**	**509,844**	**11,242**	**1,082,876**
Foreign exchange position, net	**65,168**	**75**	**56,598**	**249**	**122,090**

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 through OCI	24,023	-	44,790	-	68,813
Financial assets at fair value through 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**

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

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

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

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

As a protection from interest rate risk exposure, the Bank contracts the variable interest rate, adjusts the structure of interest-bearing assets and liabilities subject to interest payment, and uses other interest rate risk management instruments.
The Bank manages the interest rate risk in the following manner:
- By adequately determining the level of the interest margin, by adjusting the interest rates on positions of interest-sensitive assets and liabilities to be within the same maturity and time intervals within which the re-establishment of the interest rate is being performed; and/or
- By securing maturity alignment of interest-sensitive assets and liabilities (when the fixed interest rate is used), or by adjusting the deadline (time interval for re-establishment of the interest rates in cases where variable interest rate is being used).

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

The positions of assets and liabilities with the balance as at 31 December 2019 and 2018 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, 2019							
Financial assets							
Cash and balances with the CBB&H	180,754	-	-	-	-	47,660	228,414
Placements with banks	95,523	130	-	4,440	-	-	100,093
Loans to customers	70,832	94,818	257,406	232,094	115,710	1,968	772,828
Financial assets FVPL	-	-	1,448	-	-	-	1,448
Financial assets at fair value through OCI	-	1,756	16,362	69,201	4,253	6,810	98,382
Other financial assets	3,801	-	-	-	-	-	3,801
Non-financial assets							
Tangible and intangible assets	-	-	-	-	-	35,343	35,343
Other non-financial assets	739	-	-	-	-	-	739
	351,649	**96,704**	**275,216**	**305,735**	**119,963**	**91,781**	**1,241,048**
Financial liabilities							
Banks' deposits	5,870	3,912	6,992	-	-	-	16,774
Customers' deposits	128,582	29,574	141,526	223,942	248	483,825	1,007,697
Borrowings	-	1,041	13,094	20,203	-	-	34,338
Subordinated debt	11	22	5,964	-	-	-	5,997
Other financial liabilities	18,070	-	-	-	-	-	18,070
Non-financial liabilities							
Other provisions	3,245	-	-	-	1,652	-	4,897
Deferred income	-	-	-	162	-	-	162
	155,778	**34,549**	**167,576**	**244,307**	**1,900**	**483,825**	**1,087,935**
Exposure to interest rate risk, net	**195,871**	**62,155**	**107,640**	**61,428**	**118,063**	**(392,044)**	**153,113**

(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 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**

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)*

4.5. 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, 2019

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.	1,005	-100 b.p.	(10)

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

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, 2018 was 0.03% of capital, while at December 31, 2019 0.10%.

In line with the Policies and procedures for the monitoring of interest rate risk exposure, the Bank must meet the criteria of impact of a parallel shift in interest rates by 200 basis points, which is applied to the existing open interest rate position in accordance with certain time intervals. During 2019, a new Policy and Procedure for Monitoring Interest Rate Risk Exposure was adopted and implemented. The most significant change relates to the change in the EVE limit (from 10% to 8%), and the treatment of administratively variable interest rates, which are observed at maturity rather than the date of interest rate change.

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

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

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

4.6. Liquidity risk management

Sensitivity of the market value of financial instruments oat 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%

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.

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

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

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

4.6. Liquidity risk management

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.
- 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, 2019 is low as a result of a Scoring model result of 13.97% (31 December 2018: 14.51%).

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

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

4.6. Liquidity risk management *(continued)*

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.

December 31, 2019	**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	180,754	-	-	-	-	47,660	228,414
Placements with banks	95,880	130	-	4,083	-	-	100,093
Loans to customers	45,007	67,929	228,708	306,110	125,074	-	772,828
Financial assets at fair value through profit and loss	-	-	161	1,287	-	-	1,448
Financial assets at fair value through OCI	1,929	-	22,042	70,070	4,250	91	98,382
Other financial assets	3,801	-	-	-	-	-	3,801
Non-financial assets							
Tangible and intangible assets	-	-	-	-	-	35,343	35,343
Other non-financial assets	739	-	-	-	-	-	739
Total	**328,110**	**68,059**	**250,911**	**381,550**	**129,324**	**83,094**	**1,241,048**
Financial liabilities							
Banks' deposits	5,870	3,912	6,993	-	-	-	16,775
Customers' deposits	597,284	32,133	145,547	237,486	1,513	-	1,013,963
Borrowings	9	128	12,691	22,688	-	-	35,516
Subordinated debt	144	22	228	1,046	7,173	-	8,613
Other financial liabilities	12,218	310	1,395	4,147	-	-	18,070
Non-financial liabilities							
Other provisions	3,245	-	-	-	1,652	-	4,897
Deferred income	-	-	-	162	-	-	162
Total	**618,770**	**36,505**	**166,854**	**265,529**	**10,338**	**-**	**1,097,997**
Exposure to liquidity risk, net	**(290,660)**	**31,554**	**84,057**	**116,021**	**118,986**	**83,094**	**143,051**

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

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

4.6. Liquidity 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 financial assets	9,648	-	-	-	-	-	9,648
Non-financial assets							
Tangible and intangible assets	-	-	-	-	-	25,179	25,179
Other non-financial assets	851	-	-	-	-	-	851
Total	**377,064**	**52,848**	**232,002**	**341,667**	**122,633**	**25,267**	**1,151,481**
Financial liabilities							
Banks' deposits	4,936	2,956	14,716	149	-	-	22,757
Customers' deposits	541,663	42,094	132,975	212,061	1,317	-	930,110
Borrowings	79	1,197	11,726	28,175	-	-	41,177
Other financial liabilities	11,410	-	-	-	-	-	11,410
Non-financial liabilities							
Other provisions	2,607	-	-	-	1,380	-	3,987
Deferred income	-	-	-	100	-	-	100
Total	**560,695**	**46,247**	**159,417**	**240,485**	**2,697**	**-**	**1,009,541**
Exposure to liquidity risk, net	**(183,631)**	**6,601**	**72,585**	**101,182**	**119,936**	**25,267**	**141,940**

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, 2019, the total market value of securities, including accrued interest, amounts to 98,382 thousand BAM (December 31, 2018: 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).

Fair value as of		Fair value hierarchy
December 31, 2019	**December 31, 2018**	
Debt securities: • Republic of Slovenia (short-term treasury bills) BAM 11,763 thousand • Republic of Slovenia (long-term bonds) BAM 8,967 thousand • Kingdom of Belgium (long-term bonds) – BAM 9,381 thousand • Republic of France (long-term bonds) – BAM 3,392 thousand • United States of America (long-term bonds) BAM 1,756 thousand	**Debt securities:** • Kingdom of Belgium (long-term bonds) – BAM 5,927 thousand • Republic of France (long-term bonds) – BAM 4,203 thousand	Level 1
Debt securities: • Ministry of Finance FB&H (long-term bonds) – BAM 31,995 thousand • Ministry of Finance RS (long-term bonds) – BAM 21,944 thousand • JP Autoceste FB&H (long-term bonds) – BAM 5,723 thousand • City Banja Luka (long-term bonds) – BAM 1,768 thousand • Canton Sarajevo (long-term bonds) – BAM 1,002 thousand	**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	Level 2
Equity securities: • Registry of securities of FB&H – BAM 14 thousand • UBBIH – BAM 14 thousand • SWIFT Belgium – BAM 63 thousand	**Equity securities:** • Registry of securities of FB&H – BAM 14 thousand • UBBIH – BAM 14 thousand • SWIFT Belgium – BAM 60 thousand	Level 3

(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 (continued)

As of December 31, 2019, 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 IFRS. Effects of valuation are disclosed in the Statement of changes in equity within the item Other comprehensive income/loss (Revaluation reserves).

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, 2019		December 31, 2018	
Financial assets	**Fair value hierarchy**	**Book value**	**Fair value**	**Book value**	**Fair value**
Placements with banks	Level 3	100,093	100,115	100,114	100,094
Loans to clients	Level 3	772,828	765,050	694,733	677,971
Total		**872,921**	**865,165**	**794,847**	**778,065**
Financial liabilities					
Banks' deposits	Level 3	16,774	16,789	22,752	22,777
Deposits of parties that are not banks	Level 3	1,007,697	1,007,564	923,733	922,325
Borrowings	Level 3	34,338	35,496	39,530	41,089
Subordinated debt	Level 3	5,997	6,018	-	-
Total		**1,064,806**	**1,065,867**	**986,015**	**986,279**

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,

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

4.8 Operational risk management (continued)

- Monthly data collection and reporting on negative events,
- Reporting on follow-up and suppressing operational risks on quarterly basis.

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 d.d. Ljubljana,
- Holding meetings of the Operational risk management board on a monthly basis,
- Continuous education of employees on processes of identification of operational risks and reporting on recorded harmful events, potential harmful events and increasing awareness on the presence of such risks in the working environment of all Bank employees.

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.

The Bank, in accordance with the Decision on Calculating the Capital of the Bank (FB&H Official Gazette, No. 81/17) (hereinafter: the Decision), must at all times meet the following minimum capital requirements: 1. regular share capital rate of 6.75% (CET1 rate), as a ratio of ordinary share capital to total risk exposure, 2. a fixed capital rate of 9% (T1 rate), as a ratio of share capital to total risk exposure, and 3. a regulatory capital rate of 12%, as the ratio of regulatory capital to the total amount of risk exposure.

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 cannot 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 Decision on the calculation of Bank capital, the Bank maintains a regulatory capital rate above the required minimum of 12% and fulfills requirement for maintenance of capital conservation buffer of 2.5%, as well as an additional requirement for Risk Appetite of the Bank of 0.5%.
The following table presents regulatory capital items, amount of exposure to risk, and capital ratios in accordance with the Decision as of December 31, 2019:

	December 31, 2019	December 31, 2018
Regulatory capital of the Bank	**134,798**	**123,200**
Exposure weighted with credit risk	734,708	658,488
Risk exposure for valuation risk	21,588	10,988
Risk exposure for operational risk	86,955	83,232
Total risk exposure	**843,251**	**752,708**
Regular core capital ratio	**15.74%**	**16.37%**
Core capital ratio	**15.74%**	**16.37%**
Regulatory capital ratio	**15.99%**	**16.37%**
Regular Core Capital Rate including adjustments from Tier 2	8.00%	7.14%
Core capital rate including adjustments from Tier 2	10.66%	9.51%
Regulatory capital rate including adjustments from Tier 2	14.22%	12.69%

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

4.9. Capital risk management *(continued)*

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

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

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

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

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

Data presented on December 31, 2019 at the time of preparation of these reports have not yet been audited given that the regulatory audit deadline is May 31, 2020.

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

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

5. Net Interest Income

a. Interest Income calculated using the effective interest rate

	2019	2018
Loans measured at amortized cost	40,455	40,133
Financial assets at FVOCI	1,972	1,323
Placements with banks	162	102
Unwinding (*Note 13*)	237	210
Other interest and similar income	12	13
Interest Income	**42,838**	**41,781**
Other interest income not calculated using the effective interest rate		
Loans measured at fair value	124	135
Total interest income	**42,962**	**41,916**

b. Interest Expense

	2019	2018
Deposits	4,948	5,715
Loan liabilities	1,008	1,011
Subordinated debt	130	-
Discount amount of provision under IAS 19 (*Note 23a*)	48	52
Other interest expenses	1,398	591
Interest Expense	**7,532**	**7,369**
Net Interest Income	**35,430**	**34,547**

6. Net fee and commission income

a. Fee and commission income

	2019	2018
Income from domestic and international payment transactions	21,049	18,329
Income from guarantees and letters of credit	1,210	1,134
Income from other activities	3,911	2,596
Fee and commission income	**26,170**	**22,059**

b. Fee and commission expense

	2019	2018
Payment transactions and other banking services expenses	7,232	6,180
Deposit insurance expenses	2,084	1,929
Fee and commission Expense	**9,316**	**8,109**
Net fees and commission income	**16,854**	**13,950**

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

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

	2019				2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
Cash and accounts at CBB&H i (*Note 11*)	(16)	-	-	(16)	(195)
Placements with banks (*Note 12*)	-	-	-	-	(59)
Loans to customers (*Note 13*)	(1,784)	1,152	3,959	3,327	5,083
Financial assets AFS (*Note 15*)	(75)	-	-	(75)	(281)
Debt securities at fair value through OCI (*Note 15*)	(15)	(9)	251	227	275
Other assets (*Note 18*)	524	55	(265)	314	548
Contingencies and commitments (*Note 26*)					
Provisions for general credit risk and potential credit losses (net)	(1,366)	1,198	3,945	3,777	5,371
Provisions for litigations (net) (*Note 24b*)	485	-	-	485	340
	(881)	**1,198**	**3,945**	**4,262**	**5,711**

8. Foreign exchange gains

	2019	**2018**
Fee income from foreign exchange transactions	1,222	1,286
Fee expense from foreign exchange transactions	(113)	(179)
	1,109	1,107
Foreign exchange differences, net	8	(2)
	1,117	**1,105**

9. General and administrative expenses

	2019	**2018**
Depreciation of tangible and intangible asset and rights of use assets	2,772	1,577
Maintenance	1,746	1,280
Security costs	1,114	1,098
Postal and telecommunications services cost	1,073	1,057
Services	939	892
Marketing costs	831	756
Fees to FBA	743	667
Utilities	717	691
Rent	712	1,788
Office supplies and small inventory	582	439
Other taxes and contributions	321	176
Insurance of property and employees	303	314
Cleaning costs	236	238
Legal expenses and other administrative expenses	156	163
Other employees' expenses	188	152
	12,433	**11,288**

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

9.a. Employees' expenses

	2019	2018
Net salaries	8,732	8,741
Taxes and contributions	5,364	5,336
Meal and transport	1,110	1,077
Holiday allowance	507	524
Other	562	387
	16,275	**16,065**
Provision for regular severance payments, provisions for unused vacation (*Note 24*)	111	465
	16,386	**16,530**

Provisions for regular severance payments in 2019 amounted to BAM 94 thousand (2018: BAM 89 thousand), provisions for holiday allowance amounted to BAM 17 thousand.
The average number of employees by calculated hours in 2019 was 434 (2018: 441).

9.b. Other operating income

	2019	2018
Dividend income	23	13
Subsequently determined revenue by decisions	7	9
Income from disposal (sale) of fixed assets	19	29
Income from sale of acquired tangible assets	188	147
Subsequently determined interest and fee income	249	151
Revenue from early payment of received loan	-	497
Other revenues	546	499
	1,032	**1,345**

10. Income tax

	2019	2018
Profit before income tax	21,074	17,396
Adjustments to tax items	4,122	1,487
Capital gains	3,755	723
Temporary tax differences	935	799
Permanent tax differences	651	374
Tax relief	(1,219)	(409)
Taxable profit	**25,196**	**18,883**
Income tax at the prescribed rate of 10%	**2,520**	**1,888**
Effective tax rate	**11.96%**	**10.85%**

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

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

	December 31, 2019	December 31, 2018
Cash in hand	47,844	45,257
Balances with the Central Bank of Bosnia and Herzegovina	180,754	197,242
- Obligatory reserve	107,402	96,418
- Liquidity reserves in excess of obligatory reserve	73,352	100,824
	228,598	**242,499**
Less: Value adjustment	(184)	(200)
	228,414	**242,299**

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

Central bank on the account of reserves in the reporting period:

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

12. Placements with banks

	December 31, 2019				2018
	Stage 1	Stage 2	Stage 3	Total	
Current accounts with banks	93,794	-	-	93,794	92,288
Items in the course of collection	-	-	-	-	-
Non-interest bearing deposit	4,000	-	-	4,000	4,000
Interest-bearing deposits	2,318	-	-	2,318	3,845
	100,112	-	-	**100,112**	**100,133**
Less: Value adjustment	(19)	-	-	(19)	(19)
	100,093	-	-	**100,093**	**100,114**

Interest-bearing deposits include a deposit of BAM 4 million, which was deposited within NLB Bank a.d. Banja Luka on November 18, 2018 for a period of 40 months. This deposit serves as a security for the Contract on participation in risk and performance of agency activities for securing participation in a syndicated loan. If the syndicated loan beneficiary fails to meet its obligations, NLB Bank a.d. Banja Luka will collect the receivables from the deposited deposit. No interest is charged on the deposit.

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

12. Placements with banks (continued)

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

	December 31, 2019				2018
	Stage 1 Collective assessment	Stage 2 Collective assessment	Stage 3	Total	
Internal classification					
A	54,210	-	-	54,210	55,100
B	45,883	-	-	45,883	45,014
	100,093	**-**	**-**	**100,093**	**100,114**

Change in gross carrying amount value and related value adjustment in 2019 is, as follows:

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

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

(All amounts are given in thousand BAM unless otherwise stated)
12. Placements with banks (continued)

	Stage 1 Collective assessment	Stage 2 Collective assessment	Stage 3	Total
Gross carrying value December 31, 2017	***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 December 31, 2018	**100,133**	**-**	**-**	**100,133**

	Stage 1 Collective assessment	Stage 2 Collective assessment i	Stage 3	Total
Impairment losses at December 31, 2017	***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	-	-	-	-
Improvements without transfer to Stage	(152)	-	-	(152)
Write-offs	-	-	-	-
Exchange rate differences	-	-	-	-
At December 31, 2018	**19**	**-**	**-**	**19**

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

13. Loans to customers

	Short-term loans December 31, 2019	Short-term loans December 31, 2018	Long-term loans December 31, 2019	Long-term loans December 31, 2018	Total 2019	Total 2018
Retail loans	32,720	30,046	417,112	387,637	449,832	417,683
Corporate loans	221,550	171,878	173,853	178,418	395,403	350,296
	254,270	**201,924**	**590,965**	**566,055**	**845,235**	**767,979**
Less: Allowance for impairment losses	(25,172)	(25,022)	(47,235)	(48,224)	(72,407)	(73,246)
	229,098	**176,902**	**543,730**	**517,831**	**772,828**	**694,733**

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:

	December 31, 2019							**December 31, 2018**						
	Stage 1		**Stage 2**		**Stage 3**		**Total**	**Stage 1**		**Stage 2**		**Stage 3**		**Total**
	Individual assessment	**Collective assessment**	**Individual assessment**	**Collective assessment**	**Individual assessment**	**Collective assessment**		**Individual assessment**	**Collective assessment**	**Individual assessment**	**Collective assessment**	**Individual assessment**	**Collective assessment**	
Internal rating														
A	-	434,068	-	29,444	-	927	464,439	-	404,364	-	27,830	-	1,023	433,217
B	-	252,885	-	32,228	112	1,830	287,055	-	211,751	-	27,896	-	1,909	241,556
C	-	10,730	-	19,736	-	3,097	33,563	-	11,509	-	16,091	402	2,716	30,718
D and E	-	-	-	-	36,214	23,964	60,178	-	-	-	-	37,973	24,515	62,488
	-	**697,683**	**-**	**81,408**	**36,326**	**29,818**	**845,235**	**-**	**627,624**	**-**	**71,817**	**38,375**	**30,163**	**767,979**

Customers with A, B and C 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 2019 and 2018 is presented in following table:

	2019	**2018**
1 January	**73,246**	**71,139**
Charge for the year	27,432	32,253
Decrease in provisions	(24,183)	(27,193)
Charge for the year, net (*Note 7*)	3,249	5,060
Decrease in provisions on the basis of unwinding (*Note 5a*)	(237)	(210)
Net impairment of interest receivables (*Note 7*)	78	23
Write-offs	(3,929)	(2,766)
31 December	**72,407**	**73,246**

(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, 2019:

	2019							2018						
	Stage 1		Stage 2		Stage 3			Stage 1		Stage 2		Stage 3		
	Individual	Collective	Individual	Collective	Individual	Collective	Total	Individual	Collective	Individual	Collective	Individual	Collective	Total
Retail loans														
Housing loans	-	52,407	-	6,352	119	1,762	60,640	-	50,386	-	5,938	429	2,025	58,778
Consumer loans	-	307,674	-	27,478	472	23,232	358,856	-	281,592	-	26,702	591	21,842	330,727
Other retail loans	-	26,400	-	2,255	4	1,677	30,336	-	23,436	-	2,256	5	2,481	28,178
	-	386,481	-	36,085	595	26,671	449,832	-	355,414	-	34,896	1,025	26,348	417,683
Corporate loans														
Corporate clients	-	269,060	-	37,884	6,530	48	313,522	-	237,092	-	28,185	25,521	548	291,346
SME clients	-	29,244	-	5,678	14,315	300	49,537	-	22,130	-	6,368	11,140	327	39,965
Other clients	-	12,898	-	1,761	14886	2,799	32,344	-	12,988	-	2,368	690	2,939	18,985
	-	311,202	-	45,323	35,731	3,147	395,403	-	272,210	-	36,921	37,351	3,814	350,296
	-	697,683	-	81,408	36,326	29,818	845,235	-	627,624	-	71,817	38,376	30,162	767,979
Less: Impairment allowance	-	6,750	-	3,831	32,929	28,897	72,407	-	5,265	-	3,816	34,928	29,237	73,246
Total loans (net)	-	690,933	-	77,577	3,397	921	772,828	-	622,359	-	68,001	3,448	925	694,733

Changes in the gross carrying amount and the related impairment allowances for loans to customers in 2019 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 2019 are, as follows:

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

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

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

13. Loans to customers *(continued)*

13.1. Retail loans (continued)

	Stage 1		**Stage 2**		**Stage 3**		**Total**
	Individual	**Collective**	**Individual**	**Collective**	**Individual**	**Collective**	
Gross carrying amount as at December 31, 2017	**-**	***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
Write-offs	-	(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 December 31, 2017	**-**	***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	-	-	-	-	-	-	-
Write-offs	-	(3)	-	(26)	-	(1,180)	(1,209)
Foreign exchange adjustments	-	-	-	-	-	-	-
At December 31, 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 2019 are, as follows:

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

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

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

13. Loans to customers *(continued)*

13.2. Corporate loans (continued)

	Stage 1		Stage 2		Stage 3		Total
	Individual	Collective	Individual	Collective	Individual	Collective	
Gross carrying amount as at December 31, 2017	**-**	***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
Write-offs	-	-	-	-	(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 December 31, 2017	**-**	***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)	-	-	-
Transfers to Stage 2	-	(148)	-	426	(278)	-	-
Transfers to Stage 3	-	(296)	-	(41)	129	208	-
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 December 31, 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, 2019	Not due	Due 30 days	Due 31 - 60 days	Due 61 - 90 days	Due over 90 days	Total
Housing loans	48,785	3,487	136	-	-	52,408
Consumer loans	286,160	21,142	373	-	-	307,675
Other retail loans	21,321	4,955	99	23	-	26,398
Total Retail loans	**356,266**	**29,584**	**608**	**23**	-	**386,481**
Corporate lending	265,299	3,761	-	-	-	269,060
SME lending	29,233	11	-	-	-	29,244
Other loans	12,899	-	-	-	-	12,899
Total Corporate loans	**307,431**	**3,772**	-	-	-	**311,203**
Total Loans to customers	**663,697**	**33,356**	**608**	**23**	-	**697,684**
of which: restructured	-	-	-	-	-	-
Due from banks	**100,112**	-	-	-	-	**100,112**

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**

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

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

13. Loans to customers *(continued)*

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

Loans and receivables – Stage 2

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

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	**-**	**-**	**-**	**-**	**-**	**-**

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

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)

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

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

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

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**

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

15. Financial assets at fair value through OCI per IFRS 9

As of January 1, 2018, the Bank classifies financial assets under IFRS 9 as financial assets measured at fair value through other comprehensive income.

Debt securities	**December 31, 2019**	**December 31, 2018**
Government of Federation of B&H – Federal Ministry of Finance	31,995	46,176
Republic of Srpska - Ministry of Finance	21,944	17,654
Republic of Slovenia – Ministry of Finance	20,730	-
Kingdom of Belgium	9,381	5,927
Republic of France	3,992	4,203
United States of America	1,756	-
JP Autoceste FB&H	5,723	-
Canton Sarajevo	1,002	931
City Banja Luka	1,768	1,959
	98,291	**76,850**
Equity securities		
S.W.I.F.T.. Belgium	60	60
Registry of Securities of FB&H, Sarajevo	14	14
Banks' Association of B&H, Sarajevo	14	14
	91	**88**
	98,382	**76,938**
Less: Expected credit losses through OCI / Value adjustment	(227)	(302)
	98,155	**76,636**

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

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

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

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

December 31, 2019	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
Internal classification							
A	-	36,074	-	-	-	-	36,074
B	-	62,308	-	-	-	-	62,308
C	-	-	-	-	-	-	-
D and E	-	-	-	-	-	-	-
	-	**98,382**	**-**	**-**	**-**	**-**	**98,382**

December 31, 2018	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 2019 are presented as follows:

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
Fair Value at December 31, 2018	-	***76,938***	-	-	-	-	***76,938***
New assets originated or purchased	-	54,507	-	-	-	-	54,507
Assets derecognized or matured (excluding write-offs)	-	(33,063)	-	-	-	-	(33,063)
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, 2019	**-**	**98,382**	**-**	**-**	**-**	**-**	**98,382**

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

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

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
Fair Value at December 31, 2017	-	***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**

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

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

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

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
ECL at December 31, 2017	**-**	***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, 2019	% of ownership December 31, 2018
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	0.11

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

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

The Bank has the following debt securities in its portfolio:

Debt securities	December 31, 2019	December 31, 2018
Bonds of Government of the Federation of B&H - war claims	886	1,147
Bonds of the Ministry of Finance FB&H	31,109	14,850
Bonds of the Ministry of Finance RS	21,944	17,654
Bonds of the Ministry of Finance of Canton Sarajevo	1,002	931
Bonds of City Banja Luka	1,768	1,959
Bonds of Republic of Slovenia	8,967	-
Bonds of Kingdom Belgium	9,381	5,927
Bonds of Republic of France	3,992	4,203
Bonds of United States of America	1,756	-
Bonds of JP Autoceste FB&H	5,723	-
Treasury bills of Republic of Slovenia	11,763	-
Treasury bills of Ministry of Finance of FB&H	-	30,179
Total	**98,291**	**76,850**

In 2019, the Bank purchased securities in the total amount of BAM 58,651,699, which according to the market and maturity are divided as follows:
• domestic securities in the total amount of BAM 30,500,000
• foreign securities in the amount of BAM 28,151,699, that is,
• short-term securities in the total amount of BAM 19,894,634 and
• long-term securities in the total amount of BAM 38,757,065.

In 2019, securities totaling BAM 40,339,437 matured, which are divided according to the market and maturity as follows:
• domestic securities in the total amount of BAM 36,427,777 and
• foreign securities in the amount of 3,911,660 BAM, that is,
• short-term securities in the total amount of BAM 36,411,660 and
• long-term securities in the total amount of BAM 3,927,777.

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

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
Debt securities	35,859	62,432	-	**98,291**
Equity securities	-	-	91	**91**
Total	**35,859**	**62,432**	**91**	**98,382**

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**

Level 1 debt securities portfolio consists of bonds and treasury bills of the Ministry of Finance of the Republic of Slovenia in the amount of BAM 20,730 thousand, the Kingdom of Belgium in the amount of BAM 9,382 thousand, the Republic of France in the amount of BAM 3,992 thousand and the United States of America in the amount of BAM 1,756 thousand.

Level 2 securities portfolio consists of long-term bonds of the FB&H Ministry of Finance in the amount of BAM 31,995 thousand, RS Ministry of Finance in the amount of BAM 21,944 thousand, JP FB&H Motorway in the amount of BAM 5,723 thousand, City of Banja Luka in the amount of BAM 1,768 thousand and Canton Sarajevo in the amount of BAM 1,002 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 3 thousand.

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

16. Tangible assets

	Land and buildings	Vehicles	Computer equipment	Other equipment	Assets under-construction	Real estate and equipment leases (IFRS16)	Total
Cost							
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)
- Sale of tangible assets	-	(149)	-	-	-	-	(149)
At December 31, 2018	30,893	1,045	6,696	5,492	2,923	-	47,049
At January 1, 2019	30,893	1,045	6,696	5,492	2,923	5,180	52,229
Additions	-	-	-	-	6,085	2,340	8,425
Transfers	297	185	853	875	(2,210)	-	-
Disposals	-	-	-	-	-	(1,113)	(1,113)
- Write-offs	-	-	(370)	(389)	-	-	(759)
- Disposal under IAS 36	(315)	-	-	-	-	-	(315)
- Sale of tangible assets	-	(150)	-	-	-	-	(150)
At December 31, 2019	30,875	1,080	7,179	5,978	6,798	6,407	58,317
Accumulated depreciation							
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)
- Sale of tangible assets	-	(121)	-	-	-	-	(121)
At December 31, 2018	12,786	400	5,083	4,233	-	-	22,502
At January 1, 2019	12,786	400	5,083	4,233	-	-	22,502
Depreciation charge for the year	402	140	579	341	-	1,061	2,523
- Write-offs	-	-	(369)	(386)	-	(66)	(821)
- Value adjustment IAS 36	(58)	-	-	-	-	-	(58)
- Sale of tangible assets	-	(90)	-	-	-	-	(90)
At December 31, 2019	13,130	450	5,293	4,188	-	995	24,056
Net book value at December 31, 2019	**17,745**	**630**	**1,886**	**1,790**	**6,798**	**5,412**	**34,261**
Net book value at December 31, 2018	**18,107**	**645**	**1,613**	**1,259**	**2,923**	**-**	**24,547**

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

16. Tangible assets (continued)

In 2019 and 2018, 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 7,108 thousand as at December 31, 2019, while as at December 31, 2018 it was BAM 6,616 thousand.

Management believes that the fair value of these assets is approximately equal to the carrying amount.

Lease

a) Rent as lessee

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

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

The increase in the right to use the property during 2019 amounted to BAM 2,340 thousand.

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

Depreciation expense	2019
Real estate	865
Equipment	196
Total	**1,061**

Other expenses	2019
Interest expense	83
Short-term rental expense (Note 9)	291
Low value rental lease expense (Note 9)	313
VAT expense from leases treated under IFRS 16 (Note 9)	108
Total	**795**

The total amount of BAM 1,729 thousand was paid to suppliers for leases in 2019.

b) Rent as lessor

In 2019, the Bank leased only one smaller space for which it had a total revenue of BAM 1 thousand. The contract was terminated in October.

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

17. Intangible assets

	Licenses and software
Cost	
At January 1, 2018	*5,120*
Additions	265
Disposals-Write-offs	(83)
At December 31, 2018	**5,302**
At January 1, 2019	*5,302*
Additions	698
Disposals-Write-offs	(338)
At December 31, 2019	**5,662**
Accumulated depreciation	
At January 1, 2018	4,568
Deprecation (Note 9)	185
Disposals-Write-offs	(83)
At December 31 2018	**4,670**
At January 1, 2019	4,670
Deprecation (Note 9)	248
Disposals-Write-offs	(338)
At December 31, 2019	**4,580**
Net book value at December 31, 2019	**1,082**
Net book value at December 31, 2018	**632**

The total cost of fully depreciated intangible assets still in use amounts to BAM 3,887 thousand as at December 31, 2019 while as at December 31, 2018, it was BAM 4,224 thousand.

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

18. Other assets

	December 31, 2019	**December 31, 2018**
Other financial assets		
Service fees accrued	526	484
Receivables from card operations	3,843	4,281
Other financial assets	1,594	7,071
	5,963	11,836
Less: Impairment allowance	(2,162)	(2,188)
	3,801	**9,648**
Other assets		
Repossessed tangible assets	1,384	1,106
Prepaid costs	260	141
Small inventory	20	17
Advance for income tax	66	502
	1,730	1,766
Less (impairment/value adjustment):		
Repossessed tangible assets	(988)	(914)
Other non-financial assets	(3)	(1)
Other non-financial assets	**739**	**851**
	4,540	**10,499**

Movement in value adjustment:

	December 31, 2019	**December 31, 2018**
1 January	3,103	2,972
Increase for the year, net (*Note 7*)	227	275
Write-offs	(177)	(144)
31 December	**3,153**	**3,103**

Repossessed tangible assets are presented within Other assets of the Bank in the amount of BAM 384 thousand as at December 31, 2019 and they relate to real estate repossessed for unsettled debts. Appraisal of all properties were done in 2019 (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

	December 31, 2019	**December 31, 2018**
Nova Ljubljanska banka d.d.. Ljubljana	12,411	16,087
NLB Banka AD Skopje	3,939	3,315
NLB Banka AD Beograd	119	45
NLB Banka AD Podgorica	9	5
NLB Banka AD Banja Luka	-	3,000
Other banks	296	300
	16,774	**22,752**

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

20. Customers' deposits

	December 31, 2019	December 31, 2018
Companies:		
Current accounts		
- in BAM	281,308	254,825
- in foreign currencies	33,905	30,673
Term deposits		
- in BAM	73,213	64,852
- in foreign currencies	31,442	24,776
	419,868	**375,126**
Retail:		
Current accounts		
- in BAM	199,800	178,215
- in foreign currencies	67,001	60,005
Term deposits		
- in BAM	159,909	144,194
- in foreign currencies	161,119	166,193
	587,829	**548,607**
	1,007,697	**923,733**

21. Borrowings

	December 31, 2019	December 31, 2018
Nova Ljubljanska banka d.d.. Ljubljana	28,472	31,710
European Fund for South-East Europe (EFSE)	5,866	7,820
	34,338	**39,530**

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.

Interest rates on the entire portfolio of long-term credit facilities from banks and non-banking financial institutions for the year ended December 31, 2018 were in the range - fixed interest rates from 2.20% to 2.92% per annum, while variable interest rates rates ranged from 6M EURIBOR + 1.85% to 6M EURIBOR + 2.01%.
Interest rates on the entire portfolio of long-term credit lines from banks and non-banking financial institutions for the year ended December 31, 2019 were in the range - fixed interest rates from 2.20% to 2.40% per annum, while variable interest rates rates ranged from 6M EURIBOR + 1.85% to 6M EURIBOR + 2%.

In order to provide the Bank with access to diversified sources of assets, as at December 31, 2019 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. Subordinated debt

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

	December 31, 2019	December 31, 2018
Nova Ljubljanska banka d.d., Ljubljana	5,997	-
	5,997	**-**

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

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

23. Other liabilities

	December 31, 2019	December 31, 2018
Other financial liabilities		
Liabilities under IFRS 16	5,524	-
Paid amount for not due loan receivables	4,719	3,309
Funds paid for outstanding credit claims	3,321	4,373
Unallocated payments received	566	477
Liabilities to employees	805	717
Liabilities to suppliers	329	134
Dividend liability	8	26
Liabilities from commission operations	66	30
Liabilities for taxes and contributions	53	48
Liabilities for other banking fees	2,679	2,296
	18,070	**11,410**
Other non-financial liabilities		
Prepaid revenue	162	100
	162	**100**
	18,232	**11,510**

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

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

	December 31, 2019	December 31, 2018
Corporate	13,347	13,282
Retail	8,911	8,866
Total placements	**22,258**	**22,148**
Government of Tuzla Canton	13,672	14,032
Government of Sarajevo Canton	7,503	7,081
Other non-banking financial institutions	1,083	1,035
Total sources (liabilities)	**22,258**	**22,148**
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.

24. Other provisions

	December 31, 2019	December 31, 2018
Provisions for employees	1,546	1,345
Provisions for litigations	632	240
Provisions for off-balance sheet exposures (*Note 27*)	2,719	2,402
	4,897	**3,987**

a. Movement of provisions in accordance with IAS 19

	December 31, 2019	December 31, 2018
Opening balance as of January 1	**1,345**	**1,527**
Expenses during the year	94	473
Provisions for unused vacation	17	(8)
Increase for the year. net (*Note 9a*)	111	465
Discount amount of provision under IAS 19 (*Note 5b*)	48	52
Additional provisions through equity	122	(100)
Utilization	(80)	(599)
	1,546	**1,345**

b. Movement of provisions for litigations

	December 31, 2019	December 31, 2018
Opening balance as of January 1	240	103
Increase for the year, net (*Note 7*)	485	340
Utilization	(93)	(203)
	632	**240**

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

25. Share capital

	December 31, 2019	December 31, 2018
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.

	December 31, 2019	December 31, 2018
Net profit of the Bank after tax (in BAM)	18,554,268	15,507,422
Weighted number of shares	382,712	382,712
Basic earnings per Share (in BAM)	48.48	40.42

26. 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 2019 and 2018.

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)

26. Transactions with related parties (continued)

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

Related party	Business activity / role of individuals	Relationship of related party with NLB Banka d.d.. Sarajevo	Liabilities	Receivables	Offbalance Receivables (Contingent liabilities)	Revenue	Expense
			NLB Banka d.d.. Sarajevo at 31.12.2019 toward related party			NLB Banka d.d.. Sarajevo in 2018 Toward related party	
NOVA LJUBLJANSKA BANKA DD. LJUBLJANA	BANK ACTIVITIES	SIGNIFICANT OWNERSHIP INTEREST IN BANK	46,999	9,046	550	14	984
NLB BANKA AD. BANJA LUKA	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	22	4,923	-	201	-
NLB BANKA AD. PODGORICA	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	12	6,207	-	-	-
NLB BANKA AD. SKOPJE	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	3,939	1,514	-	-	-
NLB BANKA AD BEOGRAD	BANK ACTIVITIES	RELATED BANK (COMMON OWNER)	119	6,246	-	-	-
NLB LEASING DOO SARAJEVO	FINANCE LEASING	COMMON OWNER	956	1	4	12	3
PRVI FAKTOR DOO	OTHER FINANCIAL SERVICE ACTIVITIES	COMMON OWNER	28	-	-	1	-
BH-RE DOO SARAJEVO	REAL ESTATE	COMMON OWNER	20	-	-	-	-
REPUBLIC OF SLOVENIA – MINISTRY OF FINANCE	OTHER ACTIVITIES	SHAREHOLDER OF A PERSON WITH SIGNIFICANT OWNERSHIP INTEREST IN THE BANK	29	20,870	-	123	146
INDIVIDUALS	MEMBERS OF THE MANAGEMENT AND MANAGEMENT AUTHORITY AND MEMBERS OF THEIR FAMILIES		1,143	1,015	136	53	8

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

26. Transactions 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	Offbalance 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)

26. Transaction with related parties (*continued*)

Management remuneration

	December 31, 2019	December 31, 2018
Net salaries	630	547
Taxes and contributions on net salaries	385	334
Other remunerations	256	179
Taxes and contributions on other income	156	108
	1,427	**1,168**

Net salaries, taxes and contributions, including and bonuses, are higher in 2019 compared to 2018, the reason for this is increase in salaries and costs of education

Remunerations of Bank's Supervisory and Audit Committees' members

	December 31, 2019	December 31, 2018
Fees paid to SB an AC members	19	20
Taxes and contributions	4	5
	23	**25**

During 2019 and 2018 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, that are not connected with the majority owner of the Bank.

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

27. Contingencies and Commitments

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

	2019							
	Stage 1		Stage 2		Stage 3			
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total	2018
Guarantees	-	63,076	-	4,329	782	58	68,245	49,332
Letters of credit	-	3,049	-	79			3,128	720
Granted loans not withdrawn	-	70,867	-	5,544	110	106	76,627	102,504
	-	**136,992**	**-**	**9,952**	**892**	**164**	**148,000**	**152,556**
Less: Value adjustment for potential losses	-	2,037	-	342	180	160	2,719	2,402
	-	**134,955**	**-**	**9,610**	**712**	**4**	**145,281**	**150,154**

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:

	2019							
	Stage 1		Stage 2		Stage 3			
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total	2018
Internal classification								
A	-	64,474	-	4,032	-	17	68,523	73,773
B	-	59,555	-	1,535	-	4	61,094	66,955
C	-	12,963	-	4,385	270	11	17,629	11,022
D and E	-		-		622	132	754	806
	-	**136,992**	**-**	**9,952**	**892**	**164**	**148,000**	**152,556**

Change in gross carrying value and related provisions for potential losses in 2019 are presented below:

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

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

27. Contingencies and Commitments *(continued)*

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
Amount of exposure at 31 December 2017	-	***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**

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

	Stage 1		Stage 2		Stage 3		Total
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment	
ECL at December 31, 2017	-	***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**

27. Contingencies and Commitments (continued)

In addition, the Bank has a pledged deposit of BAM 4 million, based on the Agreement on Participation in Risk and Agency relationship, concluded with NLB Banka a.d. Banja Luka, described in Note 12.

Litigation in progress

As of December 31, 2019, 75 legal proceedings are pending against the Bank for which legal risk is assessed. The total value of these court proceedings as of December 31, 2019 amounts to BAM 13,408 thousand; EUR 292 thousand; CHF 5 thousand and $ 50.

During 2019, the Bank received 22 new lawsuits.

Between January 1, and December 31, 2019, 28 court proceedings were closed.

The Bank continually monitors legal risk and evaluates expected costs on the basis of legal risk, with the formation of adequate provisions on this basis. The amount of provisions is disclosed in Note 24b.

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

28. Operations 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 and expense 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, 2019:

	Corporate and SME	**Micro and Retail**	**Treasury**	**Collection**	**Other**	**Bank**
ASSETS						
Cash and balances with the CBB&H	-	34,474	180,570	-	13,370	228,414
Loans and placements with banks	337,940	431,466	100,093	3,422	-	872,921
Financial assets FVPL	-	-	-	1,448	-	1,448
Financial assets at fair value through OCI	-	-	98,382	-	-	98,382
Tangible and intangible assets	-	-	-	-	35,343	35,343
Other assets	179	864	11	396	3,090	4,540
Total assets	**338,119**	**466,804**	**379,056**	**5,266**	**51,803**	**1,241,048**
LIABILITIES						
Deposits	273,804	731,628	16,768	2,271	-	1,024,471
Borrowings	-	-	34,338	-	-	34,338
Subordinated debt	-	-	5,997	-	-	5,997
Other liabilities	1,149	6,269	2,749	74	7,991	18,232
Provisions for contingencies and commitments. for employees and legal risk	1,890	540	1	293	2,173	4,897
Total liabilities	**276,843**	**738,437**	**59,853**	**2,638**	**10,164**	**1,087,935**

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

28. Operations by segments *(continued)*

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 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)

28. Operations by segments *(continued)*

Income statement by segments for the year 2019:

	Corporate and SME	Micro and Retail	Treasury	Collection	Bank
Interest Income	10,053	29,535	2,146	1,228	42,962
Interest Expense	(1,398)	(3,652)	(2,463)	(19)	(7,532)
Net Interest Income (before transfer prices)	**8,655**	**25,883**	**(317)**	**1,209**	**35,430**
Margin on assets	7,372	21,364	956	956	30,648
Margin on liabilities	(179)	2,696	(712)	20	1,825
ALM	-	-	2,957	-	2,957
Net Interest Income (by transfer prices)	**7,193**	**24,060**	**3,201**	**976**	**35,430**
Impairment provisions for general credit risk and contingent credit and other losses (net)	(719)	(5,033)	67	1,423	(4,262)
Net Interest Income after provision for losses	**6,474**	**19,027**	**3,268**	**2,399**	**31,168**
Net non-interest income	1,996	15,213	1,220	1,284	19,713
Total operative income	**8,470**	**34,240**	**4,488**	**3,683**	**50,881**
Total expense	(4,117)	(21,906)	(2,045)	(1,739)	(29,807)
Profit before income tax	**4,353**	**12,334**	**2,443**	**1,944**	**21,074**

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

28. Operations by segments (*continued*)

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 (net)	(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 expense	(3,681)	(20,855)	(1,890)	(1,721)	(28,147)
Profit before income tax	**2,029**	**12,941**	**3,411**	**(986)**	**17,395**

29. Events after the date of reporting

Following the indications of a coronavirus outbreak - COVID-19 (hereinafter: coronavirus) in March, the Bank took the necessary measures to protect its investors, clients and employees, while ensuring security conditions and services without disruption. As the epidemic and spread of coronavirus continue to evolve, it is difficult to predict the full extent and duration of its business and economic implications. Therefore, these emerging circumstances may present challenges to the Bank's operations, due to measures and policies already implemented by government bodies, as well as additional measures and policies that might be implemented in the future. Such measures and policies can significantly disrupt the Bank's business activities.

The bank estimates that the coronavirus could have a negative impact on the loan portfolio, quality of financial assets, additional impairments, provisions, etc. The extent of the impact on the Bank's financial results cannot currently be assessed with a high degree of certainty, but the Bank's management believes that the possible adverse effects caused by COVID-19 will not significantly affect its liquidity and capital adequacy, or the continuity of the Bank's operations. Also, there is a high degree of uncertainty that is related to future events that will occur as a result of the coronavirus.

Except for the above, after December 31, 2019, until the date of these financial statements, there were no other events that would have a material impact on the financial statements for 2019 or are of such significance to the Bank's operations that they would require disclosure in the notes to the financial statements for 2019.