

**UNIVERSAL CAPITAL BANK AD,  
PODGORICA**

**INDAPENDANT AUDITOR'S REPORT  
31 DECEMBER 2018**

**CONTENTS**

	<b>Page</b>
Independent Auditor's Report	1-2
Income statement for the year ended 31 December 2018	3
Balance Sheet as at 31 December 2018	4
Statement of Changes in Equity for the year ended 31 December 2018	5
Statement of other Comprehensive Income for the year ended 31 December 2018	5
Statement of Cash Flows for the year ended 31 December 2018	6
Notes to the Financial Statements	7 – 102

**INDEPENDENT AUDITOR'S REPORT****To the Shareholders of Universal Capital Bank AD Podgorica**

We have audited the accompanying separate financial statements of Universal Capital Bank AD, Podgorica (hereinafter: "the Bank"), which comprise the balance sheet as at 31 December 2018, income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Separate Financial Statements*

Management is responsible for the preparation and true and objective presentation of these separate financial statements in accordance with the Law on accounting of Montenegro, and other applicable legislation that regulates financial reporting of banks in Montenegro, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the applicable legislation that regulates audit of financial statements in Montenegro. This legislation which regulates accounting and auditing require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and objective presentation of the separate financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

In our opinion, financial statements present truly and objectively financial position of the Bank as at 31 December 2018, financial performance and cash flows for the year then ended in accordance with the Law on accounting of Montenegro and other applicable legislation that regulates financial reporting of banks in Montenegro

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)****To the Shareholders of Universal Capital Bank AD Podgorica (continued)***Report on other legal and law requirements*

Management of the Bank is responsible for the preparation and presentation of the Annual Management Report.

Our opinion on financial statements does not include the Annual Management Report and except to that extent that is explicitly stated in our report we do not express any form of conclusion with the expression of an assurance about them

In connection with our audit of the financial statements, our responsibility is to read the Annual Management Report and, in doing so, consider whether the Annual Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In accordance with the requirements of the Law on Accounting in Montenegro we considered whether the Annual Management Report has been prepared in accordance with the requirements of Articles 11, 12, 13 and 14 of that Law.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedure above, in our opinion:

- the information given in the Annual Management Report for the financial year for which the financial statements are prepared, is consistent with the financial statements;
- the Annual Management Report has been prepared in accordance with the requirements of Articles 11, 12, 13 and 14 of the Law on Accounting in Montenegro.

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Annual Management Report. We have nothing to report in this respect.

Crowe MNE d.o.o. Podgorica  
25. April 2019

  
Đorđe Dimić; Certified Auditor

License no. 072 issued 9 March 2017

**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018**  
(in thousand EUR)

	<b>Note</b>	<b>2018</b>	<b>2017</b>
Interest income and similar income	3.1, 7a	3,941	3,623
Interest expense and similar expenses	3.1, 7b	(1,327)	(923)
<b>NET INTEREST INCOME</b>		<b>2,614</b>	<b>2,700</b>
Fee and commission income	3.2, 9a	3,443	1,577
Fee and commission expenses	3.2, 9b	(2,061)	(1,359)
<b>NET FEE AND COMMISSION INCOME</b>		<b>1,382</b>	<b>218</b>
Net income/expenses from reduction in impairment of financial instruments not measured at fair value through income statement.	10a	197	412
Net gain/loss of financial instruments not held for trade	3.3, 10b	(175)	(27)
Net foreign exchange gains	3.4	422	222
Net income/(expenses) based on derecognition of other assets		17	(7)
Other income	13	14	176
Staff costs	3.13, 11	(1,450)	(1,286)
Depreciation/amortization charge	3.10, 12b	(371)	(292)
General and administrative costs	12a	(1,203)	(1,143)
Net income/expenses from reduction in impairment of financial instruments not measured at fair value through income statement.	3.8.8, 8	(247)	(482)
Provision cost	3.11	-	-
Other expenses		(87)	(61)
<b>PROFIT BEFORE TAX</b>		<b>1,113</b>	<b>430</b>
Income tax	3.6, 14	(73)	(66)
<b>NET PROFIT</b>		<b>1,040</b>	<b>364</b>

Notes to the following pages form an integral part of these financial statements

Signed on behalf of Universal Capital bank AD, Podgorica, as at 30 April 2019:

Miloš Pavlović  
CEO

Željko Drinčić  
Executive Director

Lana Kalezić  
Head of Finance and Accounting

**BILANCE SHEET AS AT 31 DECEMBER 2018**  
 (in thousand EUR)

	<b>Note</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>ASSETS</b>			
Cash and assets held with the central bank	3.7, 15	93,503	108,046
<b>Financial assets at amortized cost</b>			
Loans and receivables from banks	3.8, 16a	17,113	26,070
Loans and receivables from clients	3.8, 16b	91,165	61,914
Other financial assets		10	44
Financial assets at fair value through income statement - securities	3.8, 17	54,235	22,680
Derivatives held for hedging		1	-
Investment property		163	-
Property, Plants and Equipmen0074	3.9, 18	3,320	3,464
Intangible assets	3.9, 19	685	591
Current Tax Assets		3	-
Deferred tax assets		37	-
Other assets	3.12, 20	6,593	5,851
<b>TOTAL ASSETS</b>		<b>266,828</b>	<b>228,660</b>
<b>LIABILITIES</b>			
Financial liabilities at amortized value			
- Deposits due to banks and central banks		-	206
- Deposits due to clients	21a	245,015	207,227
- borrowings due to banks and central banks		-	9
- borrowings from clients which are not banks	21b	5,175	7,789
Derivative financial liabilities as hedging instrument	22	158	84
Reserves		135	13
Current tax liabilities		64	36
Deferred tax liabilities		61	65
Other liabilities	23	1,722	727
Subordinated debt	24	5,031	2,997
<b>TOTAL LIABILITIES</b>		<b>257,362</b>	<b>219,153</b>
<b>EQUITY</b>			
Share capital	25	8,098	8,098
Retained earnings		621	364
Profit for the current year		1,040	-
Other reserves		(292)	1,045
<b>TOTAL EQUITY</b>		<b>9,467</b>	<b>9,507</b>
<b>TOTAL EQUITY AND LIABILITY</b>		<b>266,828</b>	<b>228,660</b>
<b>OFF - BALANCE SHEET</b>	27	<b>157,499</b>	<b>129,239</b>

Notes to the following pages form an integral part of these financial statements

Signed on behalf of Universal Capital bank AD, Podgorica, as at 30 April 2019

Miloš Pavlović  
CEO

Željko Drinčić  
Executive Director

Lana Kalezić  
Head of finance and accounting

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018**  
 (in thousand EUR)

	Share equity	Retained earnings/ (loss)	Other reserve	Total
Balance, as at January 1, 2017	16,002	(7,580)	602	9,024
Transfer	-	(324)	324	-
Result of the period	-	364	-	364
Coverage of losses in previous years	(7,904)	7,904	-	-
Effects on the fair value of securities available for sale, net	-	-	119	119
<b>Balance, as at December 31, 2017</b>	<b>8,098</b>	<b>364</b>	<b>1,045</b>	<b>9,507</b>
Effect of implementation of IFRS 9	-	(636)	-	(636)
<b>Corrected balance on January 1, 2018</b>	<b>8,098</b>	<b>(272)</b>	<b>1,045</b>	<b>8,871</b>
Transfer	-	893	(893)	-
Result of the period	-	1,040	-	1,040
Effects of the changes in fair value of stakes	-	-	(332)	(332)
Effects of the amendments of fair value measured at income statement, net	-	-	(112)	(112)
<b>Balance, as at December 31, 2018</b>	<b>8,098</b>	<b>1,661</b>	<b>(292)</b>	<b>9,467</b>

**STATEMENT OF OTHER COMPREHENSIVE INCOME 31 DECEMBER 2018**  
 (in thousand EUR)

	2018	2017
<b>PROFIT OF THE PERIOD</b>	<b>1,040</b>	<b>364</b>
<b>Components of other results that can be classified into profit or loss</b>		
Effects of changes in the value of debt securities valued at fair value through the total other result	(488)	131
Tax relating to the total other result of the period	44	(12)
<b>Total other result of the period</b>	<b>(444)</b>	<b>119</b>
<b>TOTAL RESULT OF THE PERIOD</b>	<b>596</b>	<b>483</b>

Notes to the following pages form an integral part of these financial statements

Signed on behalf of Universal Capital bank AD, Podgorica, as at 30 April 2019

Miloš Pavlović  
CEO

Željko Drinčić  
Executive Director

Lana Kalezić  
Head of finance and accounting

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousand EUR)

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Inflows from interest and similar income	3,593	3,333
Outflows from interest and similar expense	(1,321)	(1,013)
Inflows from fees and commissions	3,418	1,556
Outflows from fees and commissions	(2,062)	(1,359)
Outflows based on earnings of the employees and costs for suppliers	(2,846)	(2,313)
Outflows based on loans and other assets	(30,528)	(541)
Inflows from deposits	42,606	108,467
Paid tax	(36)	(45)
Other income	(257)	47
<b>Net cash inflow from operating activities</b>	<b>12,567</b>	<b>108,132</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(112)	(275)
Purchase of intangible assets	(222)	(338)
Treasury bills and treasury bonds	(31,527)	(9,391)
Income from sale of tangible and fixed assets	-	(7)
<b>Net cash outflow from investing activities</b>	<b>(31,861)</b>	<b>(10,011)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in borrowings	(2,602)	960
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(2,602)</b>	<b>960</b>
Effects of foreign exchange in cash and cash equivalents	247	194
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(21,649)</b>	<b>99,275</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>131,471</b>	<b>32,196</b>
<b>Cash and cash equivalents, end of year (note 15)</b>	<b>109,822</b>	<b>131,471</b>

Notes to the following pages form an integral part of these financial statements

Signed on behalf of Universal Capital bank AD, Podgorica, as at 30 April 2019

Miloš Pavlović  
CEO

Željko Drinčić  
Executive Director

Lana Kalezić  
Head of finance and accounting



## 1. FOUNDATION AND BUSINESS ACTIVITY OF THE BANK

Universal Capital Bank AD, Podgorica was founded under the name First Financial Bank AD, Podgorica (hereinafter: the Bank) established on October 18, 2007. The name First Financial Bank AD, Podgorica was changed to Universal Capital Bank AD, Podgorica as at June 04, 2014. The Decision of the Shareholders Assembly of the Bank's name change was adopted at the session held on May 30, 2014. The Bank is headquartered in Podgorica, at Stanka Dragojevića Street bb.

The Bank has obtained a permit from the Central Bank of Montenegro (Decision No. 0101-2933/3-2 dated July 12, 2007). The Bank is inscribed in the Register of the issuers of securities maintained by the Securities Commission under the number 472 (Decision No. 02/3-33/2-07 dated October 31, 2007).

In accordance with the Law on Banks, the Decision on Incorporation and the Articles of Incorporation, the Bank performs banking operations i.e. activities of reception of cash deposits and approval of loans for its own account.

In addition to these activities, the Bank may perform the following tasks:

1. Issuance of guarantees and undertaking of other off-balance sheet commitments;
2. The purchase, sale and collection of receivables (factoring, forfeiting and other);
3. The issuance, processing and recording of payment instruments;
4. Payments in the country and abroad, in accordance with the relevant regulations;
5. Financial leasing;
6. The activities with securities, in accordance with the law governing the securities;
7. Trading in its own name and for its own account or on behalf of clients: with foreign currencies, including exchange transactions in financial derivatives;
8. Depot operations;
9. Analysis and provision of information and advice on the creditworthiness of companies and entrepreneurs and other issues regarding operations;
10. Rental of safe deposit boxes;
11. The activities that are part of banking operations, ancillary tasks in relation to the operations of the Bank, other activities directly related to the operations of the Bank in accordance with the Articles of Incorporation.

With prior approval of the Central Bank, the Bank may perform other activities in accordance with the law.

As at December 31, 2018, the Bank comprised a Central Office located in Podgorica a branch office in Milocer, at hotel Maestral and in Podgorica street Petra Cetinjskog no 129. as well as representative office in Dubai. The Bank has 58 employees (December 31, 2017: 55 employees). The Bank has a subsidiary, Universal Capital Development d.o.o. with 100% equity stake. The main activity of the company is buying and selling of own real estate.

As at December 31, 2017, the Members of the Board of Directors were the following:

<u>Name and surname</u>	<u>Position</u>
Velibor Milošević	President of the Board of Directors
Georgios Lychnos	Member of the Board of Directors
Đorđe Đurđić	Member of the Board of Directors
Alfredo Longo	Member of the Board of Directors
Božo Milatović	Member of the Board of Directors

As at December 31, 2018, the Executive Directors were as follows:

<u>Name and surname</u>	<u>Position</u>
Đorđe Đurđić	Chief Executive Officer
Miloš Pavlović	Executive Director

As at December 31, 2017, the Members of the Board for Auditing were as follows:

<u>Name and surname</u>	<u>Position</u>
Goran Bencun	President
Sonja Burzan	Deputy President
Lazar Mišurović	Member

## 1. FOUNDATION AND BUSINESS ACTIVITY OF THE BANK (CONTINUED)

As at December 31, 2017, the Members of the Committee for Management of Assets, Equity and Liabilities were as follows

<u>Name and surname</u>	<u>Position</u>
Đorđe Đurđić	Chief Executive Officer
Miloš Pavlović	Executive Director
Mirza Redžepagić	Head of the Funds Management Department
Vesna Durković	Head of the Department for supervising, management and risk reporting
Vanja Bojanović	Head of Sales Department - Corporate

As at December 31, 2018, the internal auditor of the Bank was Edin Sehic.

## 2. BASIS FOR PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS

### 2.1. Basis for preparation and presentation of the separate financial statements

Bank prepares separate financial statements (hereinafter: financial statements) in accordance with the Law on Accounting ("Official Gazette of Montenegro", no. 052/16), the Law on banks ("Official Gazette of Montenegro", No. 17/08, 44/10, 40/11 and 73/17) and other laws governing financial reporting of banks.

The accompanying financial statements are prepared in accordance with the Decision on the Contents, Deadlines and Manner of Preparation and Submission of the financial Statements of Banks (Official Gazette of Montenegro, no. 15/12, 18/13 and 24/18).

In preparation of these financial statements the Bank applied policies in conformity with the regulations of the Central Bank of Montenegro, which however, in the part regarding recording receivables eligible for derecognition from the Bank's balance sheet and in the form for presentation of the financial statements depart from the requirements of IFRS and IAS effective as at December 31, 2018.

In accordance with the Law on Accounting of Montenegro the legal entities are preparing financial statements according to IAS i.e. IFRS published by the International Accounting Standards Board, should be adopted and published by a respective competent authority of Montenegro who got the right on translation and publishing from the International Federation of Accountants (IFAC). Therefore, only IFRS and IAS officially adopted and published by the respective and competent authority of Montenegro may be applicable. The last officially translated IAS and IFRS are those translated in 2009 (except for IFRS 7) and newly adopted IFRS 10, 11, 12 and 13, which are applicable from 2013.

Bearing in mind the effects that differences of accounting regulations of Montenegro from IFRS and IAS may have on the presentation of the Bank's financial statements, the accompanying financial statements in that section are different and differ from IFRS and IAS and cannot be treated as having been prepared in accordance with IFRS and IAS.

**2. BASIS FOR PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)****2.1. Rules of estimates**

Financial statements are prepared based on historical cost, except for the following positions measured at fair values:

- Financial instruments at fair values in income statement,
- Financial instruments at fair value in other total result (applicable after 1, January 2018),
- Financial instruments available for sale (applicable before 1 January 2018),
- Financial liabilities at fair value through income statement.

**2.3. Official currency of the reports**

The Bank's financial statements are stated in thousands of euros (EUR) which is the official reporting currency in Montenegro. Except if stated otherwise all amounts are presented in thousands of EUR.

**2.4. Use of estimates**

The presentation of financial statements requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the presented values of assets and liabilities, as well as the disclosure of contingent liabilities and receivables as at the date of the preparation of the financial statements, and the income and expenses arising during the reporting period. These estimations and assumptions are based on information available to us as at the financial statements preparation date. However, the actual results may differ from the values estimated in this manner.

The estimates as well as the assumptions on the basis of which the estimates are made are the result of regular controls. If during the control establishes that there were changes in the estimated value of the assets and liabilities the determined effects are recognized in financial statements in the period when the change in estimation occurred, if the change in estimation effects only on that accounting period or in the period when the change in estimation occurred and in following accounting period if the change in estimation and future accounting periods.

Note 4 provides information about the areas where the level of assessment is the largest and may have the most significant effect on the amounts recognized in financial statements of the Bank.

**2.5 Changes in accounting policy and disclosures***New and amended standards and interpretations*

In these financial statements, the Bank has applied IFRS 9, effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

Except for the amendments mentioned below, the accounting policies have been consistently applied in all accounting periods presented in these financial statements.

**IFRS 9 Financial Instruments**

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018.

**2. BASIS FOR PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)****2.5 Changes in accounting policy and disclosures (continued)***(i) Classification and measurement*

IFRS 9 contains a new classification and approach to the valuation of financial assets which reflects the business model for managing the assets and characteristics of the cash flow of financial assets.

In accordance with IFRS 9 the financial assets will be classified in following 4 categories:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (FVOCI),
- Financial instruments valued at fair value through comprehensive income (required by FVTPL)
- Financial assets which are optionally measured at fair value through income statement (optional at FVTPL).

Financial assets will be valued at amortized cost if the both following conditions are met and the assets are not marked as FVTPL:

- The goal of the business model for assets managements is collection of contracted cash flows;
- The contracted conditions provide the basis for collection on certain dates of cash flow which are exclusively the collection of principal and impairment on the remaining principal.

Financial asset is classified as FVOCI if it belongs to the business model whose goals are the collection of contracted cash flows and the sale of financial assets and contractual terms of financial asset give the right to the collection of the cash flow on the specific dates whereby the cash flow relate exclusively to the principal collection and interest on the remaining part of the principal.

All other financial assets – i.e. financial assets which do not meet the classification criteria which involve additional valuation at amortized cost or FVOCI are classified financial assets which are additionally measured at fair value with the recognition of the change in fair value at income statement. In addition, the Bank has an option, when initially recognizing financial asset to irrevocably identify the financial asset as FVTPL, if it eliminates or significantly reduces the inconsistency during the valuation and recognition – i.e. “Accounting discrepancy” which would otherwise arise from the valuation of the assets and liabilities i.e. the recognition of the gains and losses on another basis.

MSFI 9 largely retains criteria that were defined with IAS 39 for the classification of financial liabilities. However, although in accordance with IAS 39 all the changes in fair value of liabilities were recognized at fair value in the income statement, in accordance with IFRS 9 the changes in fair value are recognized as follows:

- The changes in fair value which are conditioned with the change of the credit risk the liability is recognized in other total result;
- The remaining part of the change in fair value the liability is recognized in income statement

The Bank's classification of the financial assets and sources of the assets is explained in Note 3.8. The quantitative impact of IFRS 9 as at 1 January 2018 is explained in Note 5.

*(ii) Impairment*

IFRS 9 replaced the IAS 39 model of realized credit losses with the expected credit loss model (hereinafter: ECL). The new impairment calculation model applies to the commitments for undrawn loans and financial guarantees, but does not apply to equity participation.

In accordance with IFRS 9, credit losses are recognized earlier than in accordance with IAS 39. A detailed explanation of impairment in accordance with the requirements of IFRS 9 is shown in Note 3.8.8. while the quantitative impact of the application of IFRS 9 as at January 1, 2018 is published in Note 5.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**31 December 2018**

**2. BASIS FOR PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)**

**2.5 Changes in accounting policy and disclosures (continued)**

*(iii)* Transitional stipulations

Amendments in the accounting policies arising from the amendments of IFRS 9 standard are applied retroactively except in the following cases:

- Comparative information for the previous period are not corrected. The differences in the value of financial assets and financial liabilities arising from initial recognition of IFRS 9 are recognized as retained earnings and reserves on 1 January 2018. The resulting data for 2017 do not reflect the requirements of IFRS 9 and therefore are not comparable with the data presented for 2018 in accordance with the requirement of IFRS 9;

The following assessments are made based on the fact and circumstances that exist on the day of initial recognition:

- Determining of the business model for managing the financial assets
- Initial appropriation and elimination of the previous initial appropriation for valuation of certain financial assets and liabilities at FVTPL;
- Appropriation of the certain strategic investments not held for trade as FVOCI
- If the debt securities had low credit risk at initial recognition of IFRS 9, the Bank assumed that the credit risk is not significantly increased from the moment of their initial recognition.

**2.6. Going concern**

The financial statements are prepared in accordance with the going concern basis, which presupposes that the Bank will continue to operate over an unlimited period of time in the foreseeable future.

**2.7 Reconciliation of receivables and liabilities**

In accordance with the applicable legal regulations the Bank has performed reconciliation of receivables and liabilities with creditors and debtors of the Bank as at 31, December 2018.

**2.8. Comparative data**

Comparative data in these financial statements present the data from financial statements of the Bank for 2017.

Due to the change of the chem proscribed by the Central Bank of Montenegro, the comparative data in the income statement for 2017 are presented in an amended manner.

<b>Position</b>	<b>Reference</b>	<b>Old position</b>	<b>New position</b>	<b>Amendment</b>
Interest and similar income	(A)	3,412	3,623	211
Fee and commission income	(B)	1,703	1,577	(126)
Net expenses based on impairment of financial instruments not valued at FVOCI / Impairment costs	(C)	(395)	(482)	(87)
Provision costs	(D)	(3)		3
Net profit/loss based on derecognition	(E)	-	(7)	(7)
Other expenses	(F)	(67)	(60)	7

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**2. BASIS FOR PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)****2.8. Comparative data (continued)**

- (A) From the interest income impairment cost of interest receivables are excluded in the amount of EUR 85 thousand, and income from loan processing fee are included in the amount of EUR 126 thousand;
- (B) Fee income is decreased for the amount of the income from loan processing fee which are included in interest income.
- (C) Impairment cost are increased for impairment cost of interest receivables in the amount of EUR 85 thousand and provision cost for off-balance liabilities in the amount of EUR 3 thousand.
- (D) Provision cost for off-balance liabilities with the new chart of accounts are included in impairment costs.
- (E) New position in chart of accounts which includes losses from the sale of acquired assets. In the previous chart of account mentioned losses were included in the position of other expenses.
- (F) From other expenses are excluded the losses from the sale of acquired assets which are included in the position net profit / loss from derecognition.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Bank consistently applies the adopted accounting policies in all the periods presented in financial statements, except for the deviation which are conditions with the initial application of IFRS 9. The basic accounting policies applicable when compiling the financial statements for 2018 are listed below.

**3.1. Income and Expenses on the basis of Interests**

*Accounting policy applied after January 1, 2018.*

Interest income and expense are recognized in the income statement using the effective interest method. The effective interest rate represents the rate that discounts future inflows and outflows during the expected deadline of financial instrument:

- The gross accounting value of financial asset or
- Amortized value of financial liability

When calculating the effective interest rate for financial instruments, except for purchased or approved credit -impaired assets, the Bank when estimating future cash flows takes into account all agreed terms but not for ECL.

For purchased or credit - impaired financial assets the credit – adjusted effective interest rate is calculated taking into account expected cash flows including ECL.

When calculating effective interest rate the transaction cost and all unpaid or paid fees are considered, which are the part of effective interest rate. The transaction costs are incremental costs which can be directly attributed to the emission or disposal of some financial asset or financial liability.

Amortized value of the financial asset or financial liability represents the amount by which the financial asset or financial liability are valued in the moment of initial recognition less for repayment of principal and increased or decreased for cumulative depreciation calculated using effective interest rate, the difference between initial amount and the amount of the maturity and for financial assets, corrected for expected credit loss (or impairment occurred in the period before 1 January 2018.)

Gross carrying amount of financial asset is amortized value of financial asset before the impairment for expected credit loss

The effective interest rate for financial assets and financial liabilities is calculated at initial recognition of the financial asset or liability. When calculating the interest income and expense the effective interest rate is applied on gross carrying amount of the assets (if the amount is not credit – impaired) or amortized value of liability. For the financial instruments with variable interest rate the effective interest rate is fluctuated due to periodic estimation of cash flow to reflect market interest rate trend.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.1. Income and Expenses on the basis of Interests (continued)**

For financial assets which became credit – impaired after initial recognition the interest income is calculated by applying the effective interest rate method on amortized value of financial asset. If the financial assets are no longer credit – impaired the calculation of the income is calculated again on a gross basis i.e. the interest is calculated applying effective interest rate on gross carrying amount of the financial asset of the financial asset.

For financial assets which are credit – impaired at the time of initial recognition the interest income is calculated by applying credit – adjusted interest rate on amortize value of financial asset. The calculation of interest income does not return to gross basis not even when the credit risk is improved.

*Accounting policy applied before 1 January 2018*

Interest income and expense is recognized in the income statement for all instruments, at the cost of depreciation using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of financial instruments, but does not consider future losses on credit risk. Calculations include all fees and commissions paid or received between contracting parties that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income and expense, including penalty interest and other income and other expenses related to interest bearing assets, or interest-bearing liabilities, are calculated for on the principle of causation of income and expenses.

Income and expenses fee which are part of the effective interest rate of the financial asset or financial liability are included in the calculation of the income and expenses from interest by applying effective interest rate method.

**3.2 Interest and commission income and expense**

Fee and commission income are recognized at the time when the correspondent service is done. Fee and commission income include fees that the Bank calculates and charges for performance of payment services in the country and abroad, guarantees and letters of credit, as well as other services.

Fee and commission expenses generally relates to fees for domestic and foreign payment operations and other services which are recognized as an expense in the moment when the service is provided.

**3.3. Net profit / (loss) based on financial instruments held for trade**

Net profit / (loss) based on financial instruments held for trade includes profit less losses based on financial assets and financial liabilities held for trade, including all realized and unrealized changes in fair value.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.4. Foreign exchange translation**

Transactions denominated in foreign currencies are translated into EUR at the official exchange rate prevailing on the Interbank Market, at the date of each transaction.

Assets and liabilities denominated in a foreign currency are translated into EUR by applying the official exchange rate, as determined on the Interbank Market, prevailing at the statement of financial position date.

Net foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the statement of comprehensive income as gains or losses based on foreign exchange.

Commitments and contingent liabilities denominated in foreign currencies are translated into EUR by applying the official exchange rates prevailing on the Interbank Market, at the statement of financial position date.

**3.5. Leasing**

Leases of the Bank is classified as operating leases. The payments made under operating leases are charged to operating expenses in the income statement on a straight-line basis over the period of the lease

**3.6. Taxes and Contributions****Income Taxes*****Current Income Taxes***

Income taxes are calculated and paid in conformity with the Law on Corporate Income Tax (Official Gazette of Montenegro, No.80/04, 40/08, 86/09, 14/12, 61/13 and 55/16). The profit tax rate is proportional and amounts to 9% of the tax base.

Capital losses may be offset against capital gains realized in the same year. Where, upon offsetting capital loss against capital gains realized in the same year capital loss remains, the taxpayer may carry it forward and set against the next gains over a five-year period.

The Montenegrin tax regulations do not envisage the possibility of using the current period tax loss as a basis for the recovery of tax paid in prior periods. However, current period losses presented in the tax balance sheet may be used to reduce the future tax base for up to 5 years.

***Deferred income taxes***

Deferred income tax is determined using the balance sheet liability method, for the temporary differences arising between the tax bases of assets and liabilities, and their book values. The tax rates effective at the balance sheet date, or the tax rates that came into effect after that date are used to determine the deferred income tax amount.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for the deductible temporary differences, and the tax effects of income tax losses and credits available for carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

**Taxes, contributions and other duties not related to operating results**

Taxes, contributions and other duties that are not related to the bank's operating result, include property taxes and other various taxes, fees and contributions paid pursuant to republic and municipal regulations.



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.7. Cash and cash equivalents**

Cash and cash equivalents comprise cash (EUR and foreign currencies), cash at treasury (EUR and foreign currencies), balances with the Central Bank of Montenegro, including both the obligatory reserves, and balances on accounts with other banks in the country and abroad, as well as other highly liquid assets with maturity up to three months.

Cash and cash equivalents are valued at amortized value at balance sheet.

**3.8 Financial instruments****3.8.1 Recognition**

Purchase or sale of a financial asset or liability is recorded using an accounting coverage at the balance sheet date of the transaction.

Financial instruments are initially measured at fair value plus transaction costs for all financial assets or liabilities other than those that are valued at fair value through income statement. Financial assets at fair value, which effect of changes in fair value are recognized in income the statements, initially recognized at fair value, and transaction cost are charged to operating expenses in the income statement.

**3.8.2 Classification**

From January 1, 2018, the Bank classifies all its financial assets on the basis of a business model for property management and contractual asset provisions.

The Bank classifies financial assets into the following four categories:

- Financial assets valued at amortized cost (AC),
- Financial assets valued at fair value through other comprehensive income (FVOCI),
- Financial assets that are compulsorily valued at fair value through profit and loss account (mandatory under FVTPL)
- Financial assets that are optionally measured at fair value through profit and loss account (optionally FVTPL).

Before January 1, 2018, the Bank classified its financial assets as loans and receivables (amortized cost), FVPL, available for sale or retained to maturity (amortized cost).

Financial liabilities, other than loan liabilities and financial guarantees, are measured at amortized cost or FVPL when held for trading and derivative instruments or fair value assignment applies.

**3.8.3 Financial assets and liabilities****3.8.3.1 Due from banks, Loans and advances to customers, Financial investments at amortized cost**

Before 1 January 2018 due from Banks, Loans and advances to customers included non – derivative financial assets with fixed and determinable payments not quoted in the active market except:

- Which the Bank intended to sell immediately or in the near future – which the Bank at initial recognition designated as FVPL or intended for sale;
- For which the Bank can not in total recover all its initial investments except for deterioration of the loans which were classified as available for sale,

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Financial instruments (continued)****3.8.3 Financial assets and liabilities (continued)****3.8.3.1 Due from banks, Loans and advances to customers, Financial investments at amortized cost (continued)**

From January 1, 2018 the Bank only measures placements of the Bank, loans and advances to customers and other financial investments at amortized cost, if the both of following conditions are met:

- Financial asset is held within a business model with the aim of holding the financial asset for the purpose of collecting contracted cash flow;
- The contractual terms of financial assets give the cash flows on specific dates which are exclusively principal and interest payment (SPPI) on the amount of outstanding principal.

**3.8.3.2 Business model assessment**

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as.

- How the performance of 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 financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment
- 

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

**3.8.3.3 SPPI test**

The second step in the classification process is that the Bank assesses contractual terms of funding to identify whether they meet the SPPI test.

'Principal' for the purposes of this test is defined as the fair value of a financial asset on initial recognition and may change over the lifetime of the financial asset (for example, if there are principal repayments or premium / discount depreciation).

The most important elements of the interest for loan arrangement are usually taking into account the time value of the money and credit risk. In order to implement the SPPI rating, the Bank applies assessment and considers relevant factors such as currency in which is denominated financial asset and the period for which the interest rate is determined.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Financial instruments (continued)****3.8.3 Financial assets and liabilities (continued)****3.8.3.4 Debt instruments valued at FVOCI (Policy applied from 1 January 2018)**

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI 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
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise assets that had previously been classified as financial investments available for sale under IAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

**3.8.3.5 Equity instruments at FVOCI (Policy applicable from 1 January 2018)**

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 *Financial Instruments*: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

**3.8.3.6 Financial assets and financial liabilities at fair value through profit or loss (FVPL)**

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined when one of the following conditions are met:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis or
- The liabilities (and assets until 1 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- The liabilities (and assets until 1 January 2018 under IAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Financial instruments (continued)****3.8.3 Financial assets and liabilities (continued)****3.8.3.7 Financial guarantees, letters of credit and undrawn loan commitments**

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements (within *Provisions*) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision as set out in Note 3.8.8. The premium received is recognized in the income statement in Net fees and commission income on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

**3.8.3.9 Loans and receivables (policy applied before 1 January 2018)**

Loans approved from the Bank are recorded in the business books in the moment of the transfer of the assets to the loan user.

Loans are stated in the balance sheet in the amount of approved increased by the amount of interest due less repaid principal and paid interest and impairment of the value based on the assessment of the identified risk for individual placements and risk for which the experience indicates that they are contained in credit portfolio.

**3.8.3.10 Investment securities held to maturity and securities available for sale (policy applied before 1 January 2018)**

Held to maturity investments represent non – derivative financial assets with fixed and determinable payments and fixed maturity for which the Management of the Bank has positive intention and ability to hold them up to maturity. Purchase and sale of held to maturity financial assets are recognized at the date of transaction – and that is the day when the Bank committed that will buy or sell the asset. Held to maturity investments are recorded at amortized cost using the effective interest rate. Income from approved (contracted) discount are recognized on a monthly basis.

Investments in securities available for sale, also present the way of engaging cash, on the one hand and increase of income substances of the Bank, on the other hand.

The mentioned placements available for sale at initial recognition are recognized at cost of the investment which represent the amount of the cost increased for the cost of acquiring the investment, and after initial recognition are valued at their fair value without deduction for transaction costs that may arise during the sale or other alienation.

Profit or loss arising from changes of the fair value of the placements in financial assets available for sale are recognized directly in equity through statement of changes in equity except for impairment cost and foreign exchange losses and gains.

When selling the financial asset the accumulated profit or loss previously recognized in equity will be recognized as profit or loss through income statement.

Also, these investments do not require the allocation of required equity for credit risk (in accordance with Article 20, paragraph 5 of the Decision on capital adequacy).

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Financial instruments (continued)****3.8.3 Financial assets and liabilities (continued)****3.8.3.11 Investments in subsidiaries (policy applied before 1 January 2018)**

Investments in subsidiaries that do not have a quoted market price in an active market and whose fair value can not be reliably measured are recognized at the cost of investment less any possible impairment that reflects a decrease in value due to incurred losses in the business of a legal entity.

**3.8.4 Reclassification of financial assets and liabilities**

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2018.

**3.8.5 Derecognition of financial assets and liabilities**

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCL.

When assessing whether or not to derecognize a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Recognition of financial liability terminates when the liability is met i.e. when the debt is paid, cancelled or expired.

**3.8.6 Write off**

According to IFRS 9 the accounting policy of the Bank remains the same as is was in IAS 39. the financial assets are written off partly or in total only if the Bank withdraws from collection. If the amount that should be written off is greater than accumulated provision for credit losses the difference is initially calculated as additional provision which conflicts with gross carrying amount. Any other additional collection reduces the costs for credit losses.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Financial instruments (continued)****3.8.7 Forborne and modified loans**

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy.

Financial difficulty indicators include outstanding liabilities to covenants, or significant concerns from the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions.

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1 January 2018, when the loan is re-negotiated or amended, but has not ceased to be recognized, the Bank again assesses whether there has been a significant increase in credit risk. The Bank also considers whether assets will need to be classified as Stage 3.

Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due

**3.8.8 Impairment of financial assets and provision**

In accordance with the Decision issued by the Central Bank of Montenegro regarding minimal standards for credit risks management in banks (Official Gazette of Montenegro, no. 22/12, 55/12, 57/13, 44/17 and 82/17) the following were established: elements of credit risk management, minimum criteria and manner of classifying assets and off-balance sheet items which render the bank is exposed to credit risk and the manner of determining the minimum provisions for potential losses arising from credit risk exposure.

Balance sheet items and off-balance sheet items exposed to the risk, subject to this Decision are loans and receivables from banks (including assets with banks, interest and fees); loans and receivables from clients (including interest and fees, receivables based on leases, forfeiting and factoring); financial assets valued at fair value through profit and loss account (debt and equity securities not included in the trading book, or included in the trading book but for which the bank does not calculate the necessary equity for market risks in accordance with the decision regulating it capital adequacy of banks); investment securities (held-to-maturity securities, as well as securities available for sale); as well as issued guarantees, other guarantees, open letters of credit and approved, and still unused loans, as well as other off-balance sheet items representing potential liabilities of the Bank.

***Impairment of financial assets (Applied after 1 January 2018)***

In accordance with the Decision regarding minimal standards for credit risks management in banks (Official Gazette of Montenegro, no. 22/12, 55/12, 57/13, 44/17 and 82/17) the Bank shall assess the quality of the assets at least quartal, determine if there is an objective evidence about impairment of the items of balance sheet assets, i.e. probable loss based on off-balance sheet items and to calculate adequate amount of that impairment, i.e. probable loss as well as classifying those items in the appropriate classification group in accordance with the mentioned decision. Also, the Bank is requiring to establish the methodology for the assessment of the impairment of the balance assets and probably loss at off-balance sheet items in accordance with IFRS 9. For the purpose of the assessment of the impairment of financial assets and calculation of impairment, the Bank applies the Methodology for the assessment of the impairment and expected losses at IFRS 9.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Financial instruments (continued)****3.8.8 Impairment of financial assets and provision (continued)**Basic principle of the implementation of IFRS 9

When assessing the impairment of financial assets, the Bank starts from the requirements of IFRS 9 standard, as follows:

- (i) An impairment assessment is based on expected losses rather than losses incurred.
- (ii) The expected losses are made at the 12-month level and the lifetime level of financial instruments and contain the probability of weighted assessments;
- (iii) Impairment is recognized both individually and on a group (portfolio) basis;
- (iv) Calculation of impairment for clients in default is based on an assessment of the expected future cash flows of a financial asset;
- (v) Cash flows from a financial asset that are measured at amortized cost are discounted using the contractual effective interest rate, except for POCI assets;
- (vi) Probably weighted scenarios for calculating the expected loss - means that at all stages of calculating the expected losses must be incorporated and probable weighted scenarios calculates in at least two, i.e. three different scenarios. Consequently, for each exposure there is some (and even marginally small) probability of loss;
- (vii) Necessary adequate parameter risk modeling (EAD exposure, PD - probability of default, LGD - loss by default, CCF - credit conversion factor) - IFRS 9, in addition to requiring more precise parameters for calculating expected losses that take into account PIT (point-in-time) parameters, in contrast to the currently defined TTC - through the cycle;
- (viii) Necessary modeling of forward-looking expectations - when determining the risk parameters, it is also necessary to consider how future movements of macroeconomic variables impact on the Bank's risk parameters;
- (ix) Criteria for transition in phases - IFRS 9 considering that in the part of incoming portfolio there is a phase 2 i.e. phase where the exposures with increased credit risk are classified from the moment of approval to the reporting moment, it is necessary for the Bank to define the criteria on the basis of which it will recognize the exposure with increased credit risk in all the segments of the impairment of financial instruments;
- (x) Calculation of interest income on non - performing assets is defined as amortized cost.

Inclusion of future information

In accordance with the requirements of IFRS 9, in the first step, the Bank is obliged, at reasonable expense and effort, to assess at what point the economic cycle is currently in place and in relation to its exposures and how macroeconomic developments can affect the expected loss. Considering that the Bank has so far used constant values of risk parameters, it was not possible to link the development of changes in the values of risk parameters and macroeconomic trends, and therefore relies on expert impact of assessment.

Although macroeconomic indicators may differently impact on risk parameters in the calculation of 12-months and lifetime losses and that the mathematical formula is risk factor, the Bank will adjust one risk parameters i.e. the probability of non fulfilment of obligations (PD) with one comprehensive macroeconomic indicator i.e. expectation the impact of GDP).

Considering that when calculating the expected losses the probability weighted result is taken into account, the Bank assesses three scenarios: realistic, optimistic and pessimistic to which is assigned probability in percentage. The sum of probability of three mentioned scenarios equals 100%.

As a part of expert assessment, to every scenario it is assigned the value of relative shift of the risk parameter on lifetime level, where the PD is moved exclusively under the condition of negative expectations related to the development of GDP.

The final relative displacement of lifetime curve or PD point is equal to the probability of the weighted impact.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Financial instruments (continued)****3.8.8 Impairment of financial assets and provision (continued)**Individually significant receivables

Individually significant receivables is considered as total gross exposure of the Bank to the one party or a group of related parties which is greater than EUR 50 000 in the segment of operations with legal entities, individuals and entrepreneurs.

Default status

Default status is the status which is assigned to the receivables if one of the following criteria is met:

- There is a delay in repayment more than 90 days;
- There are other qualitative factors which indicates on objective proof of impairment – the assessment of uncertainty for fulfilling the obligations of the debtor;
- A restructuring which is designated as non - performing;
- bankruptcy or liquidation
- POCI;
- Write off of receivables.

The default status client has if the credit rating is D and E i.e. all exposures that are classified in phase 3.

Exposure of the low credit risk

In accordance with the regulations of IFRS 9 the credit risk of financial instrument is considered low if the risk if there is a low risk of default of financial instrument, if the debtor is totally capable in a short term to fulfil all its contractual liabilities in terms of cash flow and if unfavorable changes in the economic and business conditions can in a long term but not necessarily decrease the ability of the debtor to fulfil his contractual liabilities in terms of cash flow.

Financial instruments are not considered as instrument of the low credit risk when the risk from loss on the basis of those instruments consider low only because of the value or security as collateral. Financial instruments do not need to obtain an external rating to be considered as instruments of the low credit risk from a market's participants perspective considering all the terms of financial instruments.

As the Bank during the history did not recorded credit losses arising from deposits, loans or any other placements or exposures to domestic or foreign banks (financial institutions) nor any exposure in securities of mentioned exposures may be considered as financial assets of low risk.

Transfer to phases

## (i) Transfer to phase 1

During the initial recognition, all financial assets that fall within the scope of IFRS 9 (except POCI assets) are allocated in Phase 1 and require the calculation of 12-month expected losses.

## (ii) Transfer to phase 2

A significant increase in credit risk in relation to initial recognition for exposures that are not part of the low credit risk portfolio leads to the transition to Phase 2 according to the criteria of client creditworthiness and delay of legal entities and individuals from the table given in point 5 of this chapter.

Exiting from Phase 2 i.e. return to phase 1 for legal, individuals and S.M.E. (in which the shifting is conditioned by the days of delay) it is possible for clients A, B and C if the client at the end of the accounting period meets the condition for belonging to phase 1.



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Financial instruments (continued)****3.8.8 Impairment of financial assets and provision (continued)**Transfer to phases (continued)

An exception from the previous paragraph refers to perform-restructures that require a trial period of 6 months from the date of restructuring, in condition that at the end of the reporting periods in the trial period there is no delay greater than 30 days;

The Bank may also classify certain exposures into Phase 2 based on an individual decision and an assessment of the increase in credit risk.

Considering that the rating of securities is monitored by scale, the drop below the rating B2 (Moody's) or B (S & P) is considered as a condition for transition to Phase 2. Each securities will be considered on individual level.

**(iii) Transition to Phase 3**

Criteria for client allocation in Phase 3 are objective evidence of impairment, and by definition they are:

1. There is a delay in repayment for more than 90 days,
2. There are other qualitative factors that are pointing to objective proof of impairment - assessment of uncertainty for fulfillment of obligations of the debtor,
3. a restructuring designated as non-performing,
4. terminate contracts, bankruptcy or liquidation, POCI
5. clients with current solvency D or E.

Exposure from Phase 3 to Phase 2 and from Phase 2 to Phase 1 is possible only in phase:

- the condition for the transition from stage 3 to stage 2 is possible after the expiration of a period of 3 months in condition that at the end of the reporting periods during the trial period there are no delays of more than 90, if the condition for stage 3 was a delay of more than 90 days, i.e. that the conditions of belonging to the stage 2 have been fulfilled;
- Exiting from Phase 2 i.e. the return to phase 1 for legal entities, individuals and S.M.E. (in which the shifting is conditioned by the days of delay) is for clients A, B and C is possible if the client at the end of the accounting period meets the condition for belonging to stage 1.

An exception from the previous period relates to non-performing loans for which a trial period of 12 months is required since the date of restructuring, in condition that at the end of the reporting periods, there are no delays of more than 90 days in the trial period, as well as POCI assets that are always observed at the level of expected loss on a lifetime level.

As securities are monitored on a scale, the decrease below the rating B3 (Moody's) or B- (S & P) is considered a condition for transition to Phase 3.

Affiliation to the phase with clients with the greater number of individual exposures is defined by those with the largest delay in repayment.

POCI assets

For POCI assets, expected credit losses are always assessed at the level of lifetime, and can not be assessed at the level of twelve-month expected losses. The financial assets that are in phase 3 and which are subject to restructuring or change of conditions will be designated as POCI assets.

Impairment principle of balance sheet and off – balance sheet items

IFRS requires an individual assessment of individually significant receivables and a group assessment of receivables that are not individually significant.

According to that, the Bank identifies the items of balance sheet assets and the expected loss on the basis of risk items and calculates the appropriate amount of that impairment i.e. expected loss on:

- Individual basis of material significant receivables in the status of non-fulfillment of obligations, i.e. default;
- Group basis (group assessment for receivables which are not individually significant in default);
- Group basis (group assessment of individually significant items which are not in default).

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Financial instruments (continued)****3.8.8 Impairment of financial assets and provision (continued)****(i) Individual basis of the assessment of expected losses**

Assessment of expected losses on an individual basis relates to exposures to clients whose exposure exceeds the materiality threshold and are in the default status. An assessment of expected losses on an individual basis is based on an assessment of the expected cash flows from the loan repayment or from collateral. Expected scenarios are in three scenarios with different probabilities. The amount of impairment represents the discounted value of cash flows through the collection scenarios weighted by their probability.

- Assessment of cash flow from loan repayment

The assessment of cash flows from the continuation of loan repayment is based on the assessment for each client individually in accordance with the expectation of cash flows (whether based on assumptions from the previous period or oral / written agreement with the client). The expected cash flows are the result of the probability of a weighted outcome as explained in this Methodology - part of the inclusion of future information.

- Assessment of the cash flow from the collateral

In accordance with the Bank's policy on the acceptability and effective value of collateral, the assessment of cash flows expected to be realized by collateral is also based on the probability of weighted results. The expected effective value of the collateral is considered through the scenario of expected collection and discounted at the original effective interest rate on the reporting date. The impairment calculation is considered on the net principle and is explained in detail in the

The assessment of expected losses on a group basis is for all other financial assets that are not the subject of an individual assessment and for which the impairment is not established. Estimation of expected losses on a group basis is done according to the phases defined by this Methodology as follows:

- a. for Phase 1 at the level of twelve months of losses;
- b. for Phase 2 at the level of lifetime expected losses;
- c. for phase 3 at the level of lifetime expected losses for which the probability of entering a default status equals 1.

Assessment of expected credit losses are done quarterly. Group assessment of expected losses are made according to groups with similar credit risk characteristics, and considering the current size and structure of the Bank's loan portfolio.

**Risk parameter in the calculation of expected losses****(i) Calculation of 12 months and lifetime PD*****Twelve - month DPD***

The PD is directly calculated from the migration matrix (which contains the probability of transition between two statuses in a specific time period) by monitoring in all segments for exposures that are not in default for twelve months and reflecting the percentage of exposure that has passed into default status during that period. The obtained PD values will be used as the basis for the calculation for all segments of the portfolio.

The probability of non-execution can vary in different life stages of the loan, so in terms of the probability of migration, it is important to consider all stages of the loan's duration. Changes in the time periods for PD calculation can be determined by multiplying the matrix with the corresponding path number in order to assess the appropriate time horizon. PD for a period of 12 months is obtained by calculating the number of migrations at the beginning and at the end of the period.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.8 Financial instruments (continued)

##### 3.8.8 Impairment of financial assets and provision (continued)

Based on days of delay the Bank will classifies the following groups (buckets):

Bucket	Credit balance	Days of delay
1	Impairment before default	0 - 30 days
2	Impairment before default	31 - 60 days
3	Impairment before default	61 - 90 days
4	Impairment before default	90+ days

Twelve months parameter of the PD risk is and, in that status, and the year is defined as:

$$PD_i(t) = \frac{N_{[t-1, t)}^{i \rightarrow \text{default}}}{N_{t-1}^i}$$

where:

$N_{[t-1, t)}^{i \rightarrow \text{default}}$  - the number or transition from state "i" to the state "default" for the time period [t-1, t)  
 $N_{t-1}^i$  - number of placements and in that state measured in the year (t-1).

For PD calculation for retail portfolio, migration matrices are based on the party level. Corporate portfolio migration matrices are based on client level.

For the calculation of twelve months of losses, a PD will be used based on twelve months matrices corrected for macroeconomic adjustment weighted by the probability as described in the introduction - the inclusion of future information.

##### Lifetime PD

Considering that, according to the requirement of the standard, the Bank must calculate the expected loss for exposures that are classified in Phase 2 and 3 in a lifetime level, the Bank must calculate the PD values that will be used to calculate lifetime expected losses. When calculating the lifetime values of the PD, the same matrix format used to calculate the 12-month PD values will be used.

##### Step 1:

Starting from the value of the PD at the twelve-month level according to the matrix of migration, the Bank will multiply the matrix by calculating the cumulative probability of a PD for maturity up to 5 years, from where further to the maximum maturity of financial instruments in the portfolio implies constant values of cumulative probability per bucket.

The multiplication of migration matrices is based on the access of Markov chain and is calculated using the formula:

$$T_t = T_{t-1} \times T = \dots = T^t,$$

where:

T - one-year migration matrix.

\*Note: The multiplication of the matrix does not have commutative characteristic and is marked as "X".

##### Step 2:

Based on the obtained cumulative values of PD for different maturities and buckets, the Bank will calculate probabilities of PD for the same maturities and buckets (assuming that certain exposure has passed to default in year n, assuming that it has "survived" up to the year n-1).

Transfer from cumulative to conditional probability is obtained by Bayes approach:

$$PD_{uslovni}(t) = \frac{PD_{kumulativni}(t) - PD_{kumulativni}(t-1)}{1 - PD_{kumulativni}(t-1)}$$

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.8 Financial instruments (continued)

##### 3.8.8 Impairment of financial assets and provision (continued)

Step 3:

Based on the obtained conditional probability of the PD, the Bank will calculate from the same matrices the marginal values of the PD, which marks the default exactly in year  $n$  for all maturities and buckets. For the marginal value of the PD from the 5th year, the Bank will use a constant simple weighted average of marginal value of the PD until that year.

The Bank calculates the marginal probability using the formula:

The Bank calculates the marginal probability by using the formula:

$$PD_{\text{marginalni}}(t) = PD_{\text{uslovni}}(t) \cdot (1 - PD_{\text{kumulativni}}(t-1))$$

\*Note: Marginal, cumulative and conditional PD in the first year ( $t=1$ ) are equal, therefore it is the same which one is used during the calculation of twelve months credit losses. In lifetime loans only marginal PD is used. For the further consistency, for the parameter valuation of the PD risk we are considering the valuation of marginal probability of PD.

Step 4:

Obtained marginal values of the PD for all maturities and buckets the Bank will use macroeconomic adjustments as described in introduction – the inclusion of further information.

##### *PD for securities*

The PD parameter for securities is used according to the values Moody's rating, i.e. S&P and according to the expectation of the changes of rating in the following year the macroeconomic adjustment of the weighted probability is done, as described in introduction.

##### (ii) LGD

Considering the lack of data by which to model the LGD parameter at the 12-month and lifetime level, the proposal for the use of LGD is according to expert assessment as a constant in all calculations, taking into account the particularities of the market, as well as the realized returns on clients in default.

No.	Name and label of the segment	Description of the segment	LGD
1.	Central Bank (CB) and Government of Montenegro	Exposure to the Central Bank of Montenegro above the mandatory reserve and the Government of Montenegro	0,02
2.	Financial institutions (FI)	Exposures to the financial institutions	0,05

To calculate the LGD in the segment of corporate-legal entity as well as in the segment of Retail-individuals, the following formula will be used:

$$LGD = (1 - CR) * \left( \frac{EAD - \max\{0, \text{efektivna vrijednost kolaterala}\}}{EAD} \right)$$

where:

LGD – Loss Given Default,

CR – Cure Rate, obtained from migration matrixes on the twelve months level (for stage 3 amounts 0)

In the case where the effective value of the collateral equals or its greater than amount of EAD-a, and with the aim to LGD is not equal zero, in the formula  $\left( \frac{EAD - \max\{0, \text{efektivna vrijednost kolaterala}\}}{EAD} \right)$  is used fixed value of 5%. The percentage is determined by the expert in a way that takes into account the high value of the collateral, and on the other hand it takes into account the determinant of IFRS 9 that the assessment of expected credit losses should always reflect the possibility of credit losses, even if the most likely the credit loss wont occur. (IFRS 9, 5.5. 41).

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Financial instruments (continued)****3.8.8 Impairment of financial assets and provision (continued)**

The LGD parameter is not macroeconomically corrected, since the adjustment is at PD level, and is taken into account by multiplying in the impairment formula.

For the calculation of impairment within the homogeneous groups Corporate with first class collateral and Retail with first class collateral, the Bank will apply a fixed percentage of 0.1% in relation to EAD.

**(iii) Exposure (EAD)**

For the amount of exposure for the purpose of expected credit losses on a twelve months lifetime level it is considered the amount of the exposure according to the definition in the introduction, and according to the depreciation plan i.e. repayment balloon depending on the type of the loan. For off-balance sheet exposures as a basis for impairment calculation, the amount of off-balance sheet exposure is used together with the credit conversion factor as defined by this Methodology (i.e. as a product of off-balance sheet exposure and credit conversion factors).

**(iv) Credit conversion factor (CCF)**

As defined in Article 13 of the Capital Adequacy Decision, the values of the credit conversion factor for different types of off-balance sheet exposures are used.

**Impairment calculation****(i) Impairment calculation on a group basis**

The calculation of impairment for placements on a group basis is done according to the formulas below for all segments, and for those clients, where there is no objective evidence of impairment if they are materially significant clients or clients with evidence of impairment, but whose exposure is not material.

**- Calculation of 12 months expected credit losses**

For exposures that are classified in Phase 1 and for which the expected credit loss at the twelve-month level is calculated on a group basis, the following formula is used:

$$12EL = PD_s \cdot LGD_s \cdot EAD_s$$

where:

12EL	Twelve months expected credit losses
EADs	Exposure at the time of the reporting date
PDs	The probability of entering the default status adjusted for future expectations
LGDs	Loss in the default status i.e. the recovery rate which indicates on that which the part (percentage) of the contract that were in a default status of the obligation came out in a natural way (considering the value of collateral for individual contracts) during a given time period.

**- The calculation of lifetime expected credit losses**

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.8 Financial instruments (continued)

##### 3.8.8 Impairment of financial assets and provision (continued)

For exposures which classified in Phase 2 and 3 and for which the calculation of expected lifetime credit losses is done on a group basis the following formula is used:

(a) For nondefault exposures:

$$LEL = \sum_{t=1}^{Ročnost} EAD_s[t] \cdot mPD_s[t] \cdot LGD_s[t]$$

where:

LEL	Lifetime expected credit loss
mPDs[t]	For macroeconomic expectations through the probability weighted scenarios adjusted vector of PD
LGDs[t]	Vector LGD-a
EADs[t]	Vector of the exposure to the credit risk
DFs[t]	Discounted factor

(b) for default exposures

The same formula as in the previous part is used, PD vector=1 for all the point of the curves

(ii) Impairment calculation on individual basis

After selecting individual significant placements and establishing the existence of one or more objective evidence of impairment of receivables, the impairment is assessed on an individual basis.

The amount of impairment in accordance with IFRS is calculated as the difference between the carrying amount of the assets and the present value by the probability of the weighted scenarios of the estimated cash flows discounted to the present value i.e. value on the reporting date.

Impairment (P<sub>ind</sub>) is calculated on an individual basis as:

$$P_{ind} = CA - RA$$

where:

CA	Carrying amount of financial assets
RA	The amount that the Bank expects to collect at individual impaired asset through probability weighted scenarios. RA is defined as present value of the future cash flows CF <sub>t</sub> .

RA calculation is presented in the following mathematic formula:

$$RA = \sum_{t=0}^t \frac{CF_t}{(1+r)^t}$$

where:

t	The expected collection period of the receivables from the Bank. Cash flows are added monthly.
---	--

An assessment of the amount that the Bank expects to collect on an individually impaired asset is in accordance with the probability of weighted assumptions, so that the bank assesses it in two different scenarios to which is assigned the probability and amount of the collection, and the final amount of RA is the sum of the collection amount according to the probability scenario with its probability.



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Financial instruments (continued)****3.8.8 Impairment of financial assets and provision (continued)**

The discount factor  $r$  presents the initially agreed effective interest rate calculated for a certain loan if it is the loan that is classified in the Phase 3, i.e. credit adjusted effective interest rate if it is about POCI assets.

The Bank considers the following relation between annual EIR and monthly EIR.

$$\text{EIR p.m.} = (1 + \text{EKS p.a.})^{1/12} - 1$$

The assessment of the client consists of the assessment of the future cash flow. The expected future cash flows include:

Future cash flows from the loan collection;  
Future cash flows from the collateral collection;

For the discounting of the cash flow the effective interest rate or credit adjusted effective interest rate (expressed on a monthly level) is used, depending on the type of the assets.

For the impairment calculation on the off – balance sheet items and discounting of the future cash flows the effective interest rate can be used on one of the following ways:

With approved and unused loans – there is an effective interest rate;  
With guarantees, letters of credit and other off – balance sheet liabilities the Bank will use the interest rate of 10%.

In addition, taking into account the maturity from 12-24 months, it is considered that the contingent off – balance sheet item, would transfer to loan if it would be on a Bank's expense, the maturity from 12-24 months and possibly all other conditions that would affect the amount of effective interest rate.

In the excel application the following parameters which are considered significant are entered:

- The agreed effective interest rate
- The date of improvement and the date of maturity of the placements;
- Expected collection of the cash flows (principal, interest, fee) from original plan of the repayment or corrected in accordance with delay of experience;
- Expected collection of the collateral, if the collection is not expected from cash flows. Collateral is entered decreased for corresponding haircut., defined by the procedure.

Considering the determinative of IFRS 9 that the assessment of the expected credit losses should always reflect the possibility of credit losses, even if it is most likely that the credit loss won't occur the Bank will define the percentage of 0,1% as a minimum amount of impairment at individual party.

**Presentation**

Impairment for ECL in the income statement is recognized as follows:

- For financial assets valued at amortized cost, impairment decreases the gross carrying amount of the financial asset;
- For off – balance sheet exposures (irrevocable commitments for undrawn loans and financial guarantees) impairment is recognized as reserve in the liabilities and equity of the balance sheet;
- For partially withdrawn credit parties where the Bank can not separately identify the ECL, the expected credit losses should be recognized together as a deductible item of gross carrying value of withdrawn credit parties. Provision is recorded to the extent where the combined ECL exceeds the gross carrying value of the assets;
- For debt instruments classified as FVOCI the impairment is not recognized in the balance sheet, due to the carrying amount of these assets must be equal to their fair value.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Financial instruments (continued)****3.8.8 Impairment of financial assets and provision (continued)**

For the purpose of calculation of allowances for impairment of credit receivables and probable loss for off- balance items, the Bank until 1 January 2018 applied Methodology for assessment of asset impairment and probable loss for off- balance items.

When assessing the value of impairment of financial assets, the Bank complies with accounting regulations applied in Montenegro as follows:

- The estimation of impairment is based on incurred losses, instead of the expected or future losses. The Impairment is only recognized as incurred;
- There must be objective evidence of impairment, which is derived from one or more events that occurred after the initial recognition of the asset (loss event);
- It is necessary to ensure that impairment is not recognized on initial recognition of assets;
- Impairment is recognized both individually and, on a group, (portfolio) basis;
- Impairment calculation is based on an estimation of expected future cash flows of the financial asset;
- Cash flows of a financial asset carried at amortized cost is discounted at the effective interest rate;

Accounting policies applied in Montenegro require individual estimation for individually significant receivables and group estimation of receivables that are not individually significant. Accordingly, the Bank identifies the items of balance sheet assets and probable loss on off-balance sheet items and calculates an adequate amount of that impairment, or probable loss on:

- individual basis (individual estimation for individually significant receivables)
- group basis (group estimation of receivables that are not individually significant)
- group basis (group estimation of individually significant items for which the estimates are first carried out on an individual basis but not individually devalued).

Bank on a quarterly basis estimates whether there is an objective reason for the devaluation of exposure or group of exposures. If the bank assesses that an event with a negative effect on expected cash flows has occurred, exposure will be reclassified from healthy to defaulted loans/exposures.

The objective evidence of assets impairment i.e. probable loss per off-balance items is data on one or more events that have negative influence on debtor's ability to regularly settle its obligations towards the Bank.

The bank is obliged to perform individual assessment of assets impairment and probable loss per off- balance items for individually significant receivables.

An exposure to a single party or group of related parties should be considered significant if it exceeds EUR 20 thousand (for legal entities and individuals). Existence of a default on materially significant amounts (delay in repayment of the loans exceeding 30 days for legal entities i.e. 90 days for individuals, above the established limit of materiality of EUR 200 for legal entities, or EUR 20 for individuals) should also be considered individually significant.

Objective proofs of impairment are specified for legal entities and individuals separately. As for the SME portfolio, the Bank applies the same criteria as applied for the legal entities.

If there is an objective proof of impairment, impairment test is performed and impairment loss for balance sheet items and probable loss for off-balance sheet items is recognized, if necessary. Impairment or a loss should be recognized at the moment of determination that receivable will not be fully reimbursed.

Assessment of future cash flows is performed based on days of delay, client's financial situation and collateral and direct selling costs of collateral.



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Financial instruments (continued)****3.8.8 Impairment of financial assets and provision (continued)**Corporate loans (including SMEs)

All placements exceeding EUR 20 thousand shall be individually assessed. In addition, all loans - given to legal entities are considered individually significant if there is a delay on materially significant amounts (delay in settling the obligations on the grounds of any loan to customers for more than 30 days, for all exposures exceeding EUR 200).

Objective evidences indicating the impairment of corporate loans are as follows:

- Significant financial difficulties of the issuer or borrower;
- Breach of contract / or delay or non-settling of interest or principal;
- Bank approves to the debtor a concession caused by economic or legal reasons related to financial difficulties of the debtor, that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or financial reorganization;
- Observable data indicating that there is a measurable reduction in future cash flows or group of financial assets from the initial recognition of those assets, although the reduction can still not be identified with the individual financial asset in the group, including: a) adverse changes in the payment status of the debtor or the debtor group (i.e. the increase in the number of delayed payments due to the problems in the sector) and b) adverse conditions in the market of the client's business performance;
- The restructuring of the loan – if the terms of the contract were modified in favor of the borrower, without justification by improving creditworthiness or changes in market prices (or interest rates). These restructured loans also include loans that are not in accordance with the general Loan Policy of the Bank, pursuant to which new loans are to be approved;
- The worsening of liquidity of the client / decrease in working capital;
- Significant reduction in fixed assets;
- Loss exceeding equity;
- Significant reduction in capital;
- Other relevant information.

If the existence of one or more objective proofs of impairment is determined, the impairment shall be estimated on an individual basis for all placements given to the entity.

Placements for which no impairment was estimated on the individual estimation shall be estimated on a group basis, together with a portfolio of micro loans.

After a selection of individually significant loans is performed and determined the existence of one or more objective evidences of impairment of receivables, the impairment is assessed on an individual basis. The amount of the impairment loss in accordance with IFRS is calculated as the difference between the carrying amount and the present value of estimated cash flows discounted at the effective interest rate.

The assessment of a client consists of estimates of future cash flows. Expected future cash flows comprise the following:

- Future cash flows from collection of loans from operating activities;
- Future cash flows from the realization of collateral.

The estimation of loan repayment can be derived from the loan repayment plan, adjusting the original repayment plan, in a manner that is either agreed upon with the client or probable or some changes would better reflect the current situation of the client.

When assessing the cash flows from the collateral, the Bank starts from the list of eligible collateral. The Bank treats other collaterals as unacceptable or irrecoverable. The Bank will estimate the repayment from hard collateral by applying the appropriate haircut and within a defined repayment plan. Assessment of the recoverable amount from the collateral arises as a result of a combination of experience of the Bank, the direct costs of enforced collection and the value of the collateral at the time of sale. Depending on the frequency of updating the assessment collateral, in a case of an individual estimates, the Bank will consider the potential costs of forced collection of collateral and potential changes in the value of collateral.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.8 Financial instruments (continued)

##### 3.8.8 *Impairment of financial assets and provision (continued)*

###### Retail loans

All placements of a client or its related parties that are individually significant (total exposure exceeding EUR 20 thousand) are individually assessed. Additionally, all client placements, regardless of whether those are individually significant, but taking into consideration the fact if there is a delay in settlement of obligations exceeding 90 days, above the set limits of materiality (EUR 20) are individually assessed in order to determine if there is objective evidence of impairment.

The following are considered the objective proofs of impairment:

- Significant financial difficulties of the borrower (e.g. the total monthly liabilities of the borrower reach or exceed the amount of the monthly income of the borrower);
- Breach of Contract / i.e. delay or non-settlement of interest or principal;
- Litigation filing against the borrower;
- The restructuring of the loan – if the terms of the contract modified in favor of the borrower, without justification by improving creditworthiness or changes in market prices (or interest rates). These restructured loans also include loans that are not in accordance with the general Loan Policy of the Bank, pursuant to which new loans are to be approved;
- Blocked account of a physical entity;
- Other relevant information.

For all retail loans, for which no objective proof of impairment has been determined on an individual basis, the impairment calculation is performed on a group basis, together with the portfolio of micro loans.

###### **Provisions**

Pursuant to the Decision on the Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro no. 22/12, 55/12, 57/13, 44/17 and 82/17), the Bank is obligated, depending on the probability of loss, to classify asset items into the following categories:

- A category ("Good Assets") - including loan and other receivables for which there are firm documentary evidences that will be collected in full and as agreed
- B category ("Special Mention") - with B1 and B2 subcategories - including loan for which there is remote probability of loss, but which, require special attention of the Bank, as potential risk, if not adequately monitored, could diminish in terms of its collection
- C category ("Substandard assets") – with C1 and C2 subcategories for which there is high probability of loss, due to the clearly identified collectability issues;
- D category ("Doubtful assets") including loan the full collection of which is, taking into account the creditworthiness of the borrower, value and possibility of realization of collaterals, highly unlikely.
- E category ("Loss") – including the items which are uncollectable in full, or will be collectable in an insignificant amount.

The calculation of provision is conducted on a monthly basis

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Financial instruments (continued)****3.8.8 Impairment of financial assets and provision (continued)**

On monthly basis, based on the performed classification of balance sheet assets and off-balance sheet items, the Bank calculates provisions for potential losses, applying percentages in the following table:

Category of the risk	% of provision	Days of delay
A	-	<30
B1	2	31-60
B2	7	61-90
C1	20	91-150
C2	40	151-270
D	70	271-365
E	100	>365

The Bank shall determine the difference between the amount of loan loss provisions calculated in accordance with the above given table and the sum of the amount of allowances for impairment losses and provisions for off-balance sheet items calculated in accordance with the provisions of Decision regulating the manner of valuation of asset items by applying International Accounting policies of Montenegro.

The positive difference between the calculated provisions for potential losses and the sum of allowances for items of balance sheet assets and provisions for off-balance sheet items, represent a deductible item from the banks own assets.

The Bank has developed a comprehensive strategy to deal with non-performing loans for a period of three years and establish annual goals related to reducing the level of non-performing loans (operational objectives). "Non-performing loans" are considered the loans classified by the Bank, using the criteria provided in the Decision on Minimum Standards for Credit Risk Management, in the classification groups "C", "D" or "E". Through an adequate monitoring of structure and credit portfolio quality and credit risk arising from the credit portfolio, this strategy aims to provide an adequate management of non-performing loans. The positive effects that the Bank achieves relate to a) increase in stability by reducing the level of provisions, a reasonable increase in the likelihood of repayment of loans, and ultimately the establishment of effective risk management system, which contributes to the preservation of capital and b) mitigate losses - through effective restructuring (sustainable borrowers) and the speed of recovery.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.9. Property, Plant, Equipment and Intangible Assets

Property, Plant, Equipment and Intangible Assets on December 31, 2018 are recorded at cost less impairment. Cost value is the value at the invoice of supplier increased for dependent expenses based on procurement and input of the assets in the functional state.

Depreciation is calculated on a straight-line basis on cost value using the following annual rates, in order to write them off over their expected useful lives. Calculation of depreciation commences when the assets are put into use.

	2018	Rate in % 2017
Buildings	1	1
Computers and computer equipment	20	20
Furniture and other equipment	11	11
Vehicles	15	15
Investments in other objects	15	15
Intangible investments	20	20

Pursuant to the Corporate Income Tax Law ("Official Gazette of Montenegro" No. 80/04, 40/08, 86/09, 14/12, 61/13 and 055/16) the value of buildings for tax purposes is calculated using the proportional method and value of equipment and application software by applying digressive method for the entire period, regardless the date of activation. Business premises belong to the group I for which is applied rate is of 5%, while the remaining fixed asset, equipment and software, are arranged in groups II to V, for which is applied rates are in range from 15% to 30%.

#### 3.10. Impairment of tangible and intangible assets

On each balance sheet date, the bank's management reviews the carrying amounts of the bank's tangible and intangible assets. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognized as an expense of the current period and is recorded under other operating expenses. If subsequently there is a situation that the loss recognized in previous years does not exist or is reduced, the value of the asset is increased up to the revised estimate of its recoverable value, but in way that increased value at which the asset is managed does not exceed the value at which the asset would be managed if in the previous years was not recognized loss due to impairment of assets.

Management of Bank believes that the total value of tangible and intangible assets as at 31 December 2018 is not overrated.

#### 3.11. Provision

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.12. Acquired Assets**

Acquired assets are assets that became the property of the Bank based on the collection of receivables for loans that were secured by such assets. Bank records the received assets at the lower of the gross carrying amount or market value of the collateral less costs to sell.

In accordance with the Decision on minimum standards for bank investments in real estate and fixed assets ("Official Gazette of Montenegro", No. 24/09, 66/10, 58/11, 61/12, 13/13, 51/13, 16/15 and 82/17), the total investment of the Bank in real estate and fixed assets shall not be greater than share equity of the Bank's own funds.

Exceptionally, the Bank may have investments in real estate and fixed assets even above the level of the equity, if the following conditions are met:

1. the amount of investment in real estate and fixed assets exceeding the amount of share equity calculated in accordance with paragraph 1 is treated by the Bank as a deduction item in the calculation of the total amount of own funds of the Bank;
2. after the deduction of own funds of the Bank, performed in accordance with point 1), own funds and the solvency ratio of the Bank exceed the regulatory minimum.

For immovable property acquired in exchange for receivables in the process of debt restructuring, in bankruptcy or liquidation of the debtor of the Bank, in the process of reorganization of the debtor in accordance with the regulations governing bankruptcy or execution procedure for the settlement of claims, the Bank is obliged to, when calculating the total amount of investments in real estate and fixed assets, include in the calculation the value of the related real estate in the minimum following percentages:

- 1) 0% if no more than four years have passed since the date of acquisition of real estate;
- 2) 30% if more than four but not more than five years have passed since the date of acquisition of real estate;
- 3) 50% if more than five, but not more than six years have passed since the date of acquisition of immovable property;
- 4) 75% if more than six years have passed since the date of acquisition of real estate.

**3.13. Employee Benefits****/a/ Contributions for Social Security of Employees**

Pursuant to the regulations effective in Montenegro, the Bank has an obligation to pay contributions to various state social security funds for social security of employees. These obligations involve the payment of contributions on behalf of employer, in amounts calculated by applying the specific, legally prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees and to transfer the withheld portions directly to the appropriate government funds on their behalf. Contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

**/b/ Retirement Benefits**

The present value of future obligations under the General Collective Agreement in Montenegro, such as severance payments for retirement after fulfilling the conditions, as assessed by the Bank's management does not have a material effect on the financial statements taken as a whole, and, therefore, in accordance with accounting policies applicable in Montenegro, provisions are made based on mentioned employee benefits.

**3.14. Financial Liabilities – Borrowings**

Borrowings are initially recognized at fair value less transaction costs. Subsequently, borrowings are carried at their amortized value. All differences between the realized inflows (less transaction costs) and the amounts repaid are carried through profit and loss over the period of using the amounts borrowed by applying the effective interest rate method.

**4. ACCOUNTING POLICIES AND ASSUMPTIONS**

The management performs assessment and makes assumptions which affects to the value of the assets and liabilities in the following financial year. Accounting policies and assumptions are continuously valued and based on historical experience and other factors, including expectations of the future events for which it is believed that they will be reasonable in the given circumstances.

The management performs assessment and assumptions which refer to the future. The resulting accounting assumptions will by the definition rarely be equal with the archived results. Assessment and assumptions which contain the risk that will cause materially significant corrections of the carrying value of the assets and liabilities during the following year which are presented below.

Applicable only for 2018

**4.1 Losses from impairment of the financial assets**

The measurement of the impairment in accordance with IFRS 9 and IAS 39 for all categories of financial assets requires the assessment of the amount and the time of the future cash flows and value of the collateral in determining losses of impairment and assessment of the significant increase of the credit risk. These assessments are prompted by a number of factors and changes that may result in different levels provisions for impairment. The calculation of ECL of the Bank represents the output data of the complex model with a set of assumptions regarding the choice of variables and their interdependencies.

The elements of ECL model which are considered accounting policies include:

- Classification of the financial assets: assessment of the business model for management of financial assets and assessment if the contracted conditions of the financial assets meet the SPPI test;
- Definition of the criteria of the Bank for assessment whether there has been a significant increase of the financial asset in relation on initial recognition, defining a methodology for including prospective information for ECL calculation and the selection and approval of the model which are used for the calculation of ECL;
- The development of ECL model, including different formulas and choice of input data.

Applicable on 2018 and 2017

**4.2 Fair Value**

Accountant policies applied in Montenegro provides disclosure of the fair value of financial assets and financial liabilities in the notes to the financial statements. For these purposes, the fair value is defined as an amount at which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's-length transaction.

The Bank is obliged to disclose the fair value information of those components of assets and liabilities for which market information is readily available, and for which their fair value is materially different from their carrying amounts and fair value.

In Montenegro, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables, investments and other financial assets or liabilities, for which published market information is presently not available. Fair value cannot readily be determined in the absence of active capital and financial markets, as generally required by accountant policies applied in Montenegro.

According to the opinion of the management of the bank, the reported carrying amounts are the most valid and useful reporting values under the accounting regulations of Montenegro and Central Bank's regulations for financial reporting. In the amount of the identified estimated risk that the carrying value will not be realized, a provision is recognized based on a relevant decision of the bank's management.

**4. ACCOUNTING POLICIES AND ASSUMPTIONS (CONTINUED)****4.3 Contingent liabilities**

Contingent liabilities include provisions for severance pay and litigations. For purpose of the calculation and valuation of contingent liabilities the management of the Bank defines assumptions about probability and amount of the outflow of the resources i.e. contingent outcome and the amount of liabilities based on litigations.

**4.4 Lifetime of intangible assets, properties, plants and equipment**

Determining the lifetime of intangible assets, properties, plants and equipment is based on previous experience with similar assets as well as anticipated technical development and changes that are influenced by a large number of economic and industrial factors. The adequacy of a certain useful lifetime is reconsidered at an annual level or whenever there is an indication that there has been a significant change of the factors which presented the basis for determining the lifetime.

Due to significance of fixed assets in the total assets of the Bank, the impact of every change in mentioned assumptions may have materially significant impact on financial position of the Bank as well as on the result of its operations.

*Applicable only for 2017**Impairment*

The Bank performs an overview of receivables and other placements in the aim of impairment and provisions on a monthly level. While determining if the losses based on impairment of receivables and other placements should recognize in the income statement, the Bank assesses if there are information/evidence which indicate the existence of a measurable decrease in the estimated future cash flow on a group level before such losses can be identified at a level of individual receivables i.e. placements.

Information that can indicate losses based on receivables and placements include: irregularity and delay in settling obligations, market and economic conditions on a local level which condition the delays in settling the obligations and similar.

The assessment of the management about the impairment and other placements by assessing the future cash flow is based on actual losses from the past which are realized on financial assets with similar risk and similar causes of impairment. Methodology and assumptions while defining the amount and the period of the inflow of the cash based on placements are the subject of the regular control in order to minimize the differences of the assessed losses and actual losses.

5. DISCLOSURE OF THE EFFECTS OF THE FIRST IMPLEMENTATION OF IFRS 9

	MRS 39 31 December 2017			MSFI 9 1 January 2018				
	Category	Gross	Net	Reclassified	Impairment	Gross	Net	Category
<b>I. Review of the assets</b>								
Cash balances and with central banks	L&R <sup>1</sup>	108,046	108,046	-	-	108,046	108,046	AC <sup>3</sup>
Loans and receivables from banks and other financial institutions	L&R	26,070	26,070	-	11	26,070	26,059	AC
Loans and receivables from clients	L&R	62,981	61,914	-	1,346	62,981	61,634	AC
Other financial assets	L&R	60	45	-	15	60	46	
Other assets	L&R	5,851	5,851	-	25	5,851	5,826	AC
<b>II. Off – balance sheet items</b>								
Payable guarantees	L&R	1,284	1,283	-				
Performance guarantees	L&R	284	284	-	29	1,284	1,255	AC
Irrevocable commitments	L&R	14,534	14,524	-	9	284	275	AC
Other	L&R	1,172	1,172	-	188	14,534	14,346	AC
III Financial assets held to maturity	HTM <sup>2</sup>	8,795	-	(8,795)	80	1,172	1,092	AC
<b>Reclassified in: Financial assets at FVOCI</b>								
	-	-	-	8,795	5	8,795	8,790	FVOCI <sup>5</sup>
<b>IV Financial assets available for sale</b>								
	AFS <sup>4</sup>	13,885	-	(13,885)	-	-	-	-
<b>Reclassified in: Financial assets at FVOCI</b>								
	-	-	-	13,885	21	13,885	13,864	FVOCI <sup>5</sup>
<b>V Financial assets available for sale</b>								
	AFS <sup>4</sup>	580		(580)	-	-	-	-
<b>Reclassified in: Financial assets at FVOCI</b>								
	-	-	-	580		580	580	FVOCI <sup>6</sup>
<b>Total (I+II+III+IV+V)</b>		<b>243,542</b>	<b>219,189</b>	<b>-</b>	<b>1,729</b>	<b>243,542</b>	<b>241,813</b>	

The reconciliation of the carrying amount at IAS 39 with the amounts at IFRS 9as at 1 January 2018 is show as follow:

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.



## 5. DISCLOSURE OF THE EFFECTS OF THE FIRST IMPLEMENTATION OF IFRS 9

L&R1– loans and placements in accordance with IAS 39 classification  
 HTM2- Items to maturity in accordance with IAS 39 classification  
 AC3 – Amortized cost in accordance with IFRS 9 classification  
 AFS4 – Items available for sale in accordance with IAS 39 classification  
 FVOCI5 – items that are measured at fair value through other results in accordance with IFRS 9 classification  
 FVOCI- Option 6 - Items that are measured at fair value through other results in accordance with IFRS 9 classification  
 FVPL7– Items that are valued at fair value through income statement held for trade in accordance with IAS 39 classification i.e. at fair value through income statement in accordance with IFRS 9 classification.  
 Note: presented net values of the assets valued at fair value through other result are impaired for the amount of the impairment for the credit risk, although they are not deductible item from gross amount of the assets.

The impact of adopting IFRS 9 on reserves and retained earnings is following, where the following table reconcile total initial provision for credit losses at IAS 39 and provision for credit contracts at financial guarantees in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets with ECL provisions for credit losses under IFRS 9

	In thousand EUR		
	31 December 2017.	MSFI 9	1 January 2018.
<b>I. Review of the assets</b>			
Cash balances and assets with central banks	-	-	-
Loans and receivables from banks and other financial institutions	-	11	11
Loans and receivables from clients	1,067	280	1,347
Other financial assets	15	(1)	14
Financial assets (securities) <sup>1</sup>	-	26	26
Other assets	-	25	25
<b>II. Off-balance sheet items</b>			
Payable guarantees	1	28	29
Performance guarantees	-	9	9
Irrevocable commitments	10	178	188
Other	-	80	80
<b>Total (I+II)</b>	<b>1,093</b>	<b>636</b>	<b>1,729</b>

## 6. RISK MANAGEMENT

### 6.1. Introduction

Bank is exposed in its operation to a various risk, including the most important:

- credit risk;
- market risk;
- liquidity risk;
- operational risk.

The risk management strategies, policies, procedures and other documents are designed to identify and analyses risks, to define limits and controls required for risk management and to monitor Bank's exposure to each individual risk. Procedures for risk management are subject to regular control in order to adequately respond to the changes in the market, products and services. Department for Risk monitoring, management and reporting is responsible for monitoring of the Bank's exposure to a certain risk which is reported to the Committee on asset and liability management and the Board of Directors on a monthly basis.

**6. RISK MANAGEMENT (CONTINUED)****6.2. Credit risk**

Bank is exposed to credit risk which is a risk that counterparty will be unable to pay full amount due to the bank and on time. Credit risk is identified as the most significant risk in the Bank's portfolio. Bank is creating provisions for impairment losses, related to losses expected on reporting date. Significant changes in the economic environment or certain industries included in bank's loan portfolio could result in losses that are different from the losses provided for in the statement of financial position. Therefore, management carefully manages Bank's exposure to credit risk

**6.2.1. Credit risk management**

Credit risk exposure is a risk of a financial loss resulting from the borrower's inability to meet all the contractual obligations toward the Bank. The strategic commitment of the Bank is directed towards increase in the participation in investments in small amounts granted to small and medium-sized companies and citizens; providing of financial support to sound projects (clients and sectors of small and medium enterprises) and ensuring optimal risk diversification and sources of income in the direction of increasing the profitability of the segment of existing products and services, as well as the promotion and affirmation of new ones. The bank manages the risk assumed by setting limits in respect of large loans, single borrowing entities and related parties. Such risks are monitored and reviewed on an ongoing basis.

Credit risk exposure is managed by means of regular analysis of the ability of borrowers and potential borrowers to repay the liabilities in terms of interest and principal.

**COMMITMENTS AND CONTINGENT LIABILITIES****Irrevocable and contingent commitments based on loan**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, and therefore carry the same credit risk as loans. Documentary and commercial letters of credit, which represent written undertakings of the Bank on behalf of a customer authorizing a third party to draw bills of exchange on the Bank up to the amount agreed under specific terms are secured by the underlying deliveries of goods that they relate to and therefore carry less risk than loans.

**6.2.2. IMPAIRMENT LOSSES IN ACCORDANCE WITH ACCOUNTANT POLICIES OF MONTENEGRO**

For the items of balance sheet and off-balance sheet items on the basis of which it is exposed to credit risk, the Bank assesses the impairment of balance sheet assets or the probable loss for off-balance sheet items. In accordance with its own methodology, the Bank has the financial resources divided into groups (portfolios) with similar credit risk characteristics, and, bearing in mind the current size and structure of the loan portfolio, the segmentation is made based on the following: loans for corporate clients (companies and entrepreneurs) and Retail loans. As at the reporting date, the Bank establishes if there was the impairment of financial assets. Objective proofs indicating that there has been impairment of loans are explained in Note 3.8.8.

**6. RISK MANAGEMENT (CONTINUED)**

**6.2. Credit risk (continued)**

**6.2.3. Maximum exposure to credit risk for balance sheet and off-balance sheet items**

**TOTAL EXPOSURE TO CREDIT RISK**

	31 December 2018		31 December 2017	
	Gross	Net	Gross	Net
I. Review of the assets				
Cash balances and assets at Central Bank	93,503	93,503	108,046	108,046
Loans and receivables from Banks and other financial institutions	17,119	17,113	26,070	26,070
Loans and receivables from clients	92,874	91,165	62,981	61,914
Other financial assets	23	10	60	45
Securities	54,235	54,235	22,680	22,680
Other assets	2,484	2,458	1,562	1,562
II. Off – balance sheet items				
Payable guarantees	2,129	2,073	1,284	1,284
Performance guarantees	835	825	282	282
Irrevocable commitments	2,942	2,914	14,533	14,522
Other	723	683	1,172	1,172
Total (I+II)	<b>266,867</b>	<b>264,979</b>	<b>238,670</b>	<b>237,577</b>

The catalogue of eligible collaterals defines the types of collateral (collateral of loan repayment collection of the Bank) and establishes the objects and rights treated as collateral, i.e. which objects and rights and under which conditions the Bank takes into account in the analysis and assessment of the credit risk of the borrower. Credit risk management is thus partially controlled.

Taking into account the risk of the value of collateral change, when estimating the cash flows from the collateral, the Bank applies to all immovable property the haircut of at least 30% (for real estates in Podgorica and Budva), up to 70% depending on the type of collateral and location, while on the collateral in the form of stock on movables the 90% haircut is applied.

Types of loan collaterals are:

- deposits;
- pledges placed against industrial machines, securities, inventories and vehicles;
- mortgages and fiduciary transfer of ownership;
- bills of exchange;
- authorizations;
- administrative injunctions;
- guarantors and
- insurance policies

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
31 December 2018

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Loans and receivables

LOANS AND RECEIVABLES FROM CLIENTS, BANKS AND OTHER  
FINANCIAL ORGANIZATIONS

31 December 2018.	S1	S2	S3	Total	Impairment S1	Impairment S2	Impairment S3	Total impairment	Net
									In thousand EUR
Housing loans	612	74	40	726	5	10	5	20	706
Cash loans	1,322	232	677	2,231	46	10	436	492	1,739
Tourist loans	35	89	449	573	-	1	90	91	482
Other	543	4	50	597	4	1	21	26	571
Microbusiness	-	-	-	-	-	-	-	-	-
<b>Total retail</b>	<b>2,512</b>	<b>399</b>	<b>1,216</b>	<b>4,127</b>	<b>55</b>	<b>22</b>	<b>552</b>	<b>629</b>	<b>3,498</b>
Large and medium enterprises	75,090	5,718	2,788	83,596	364	392	270	1,026	82,570
Small enterprises	66	1	46	113	1	-	46	47	66
State	5,000	-	-	5,000	5	-	-	5	4,995
Other	38	-	-	38	2	-	-	2	36
<b>Corporate clients</b>	<b>80,194</b>	<b>5,719</b>	<b>2,834</b>	<b>88,747</b>	<b>372</b>	<b>392</b>	<b>316</b>	<b>1,080</b>	<b>87,667</b>
<b>Total</b>	<b>82,706</b>	<b>6,118</b>	<b>4,050</b>	<b>92,874</b>	<b>427</b>	<b>414</b>	<b>868</b>	<b>1,709</b>	<b>91,165</b>
<b>Banks</b>	<b>17,119</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,113</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original.  
However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS

31 December 2018

## 6. RISK MANAGEMENT (CONTINUED)

## 6.2. Credit risk (continued)

## 6.2.4. Loans and receivables (continued)

	S1	S2	S3	Total	Impairment t S1	Impairment S2	Impairment S3	Total impairment	Net
<b>1.1.2018.</b>									In thousand EUR
Housing loans	761	9	77	847	5	-	44	49	798
Cash loans	1,542	292	900	2,734	45	28	341	414	2,320
Tourist loans	179	33	492	704	-	1	87	88	616
Other	74	-	33	107	1	-	17	18	89
Microbusiness	-	-	-	-	-	-	-	-	-
<b>Total retail</b>	<b>2,556</b>	<b>334</b>	<b>1,502</b>	<b>4,392</b>	<b>51</b>	<b>29</b>	<b>489</b>	<b>569</b>	<b>3,823</b>
Large and medium enterprises	48,027	1,909	3,454	53,390	290	75	336	701	52,689
Small enterprises	122	-	67	189	1	-	67	68	121
State	5,000	-	-	5,000	5	-	-	5	4,995
Other	8	-	2	10	4	-	-	4	6
<b>Corporate clients</b>	<b>53,157</b>	<b>1,909</b>	<b>3,523</b>	<b>58,589</b>	<b>300</b>	<b>75</b>	<b>403</b>	<b>778</b>	<b>57,811</b>
<b>Total</b>	<b>55,713</b>	<b>2,243</b>	<b>5,025</b>	<b>62,981</b>	<b>351</b>	<b>104</b>	<b>892</b>	<b>1,347</b>	<b>61,634</b>
<b>Banks</b>	<b>26,070</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,059</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
31 December 2018

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Loans and receivables (continued)

31 December 2017	In thousand EUR					
	Non problematic receivables	Problematic receivables	Total	Impairment of non-problematic receivables	Impairment of problematic receivables	Net Total impairment
Housing loans	770	77	847	11	44	792
Cash loans	1,876	858	2,734	35	308	2,391
Tourist loans	223	481	704	3	110	591
Other	74	33	107	-	15	92
Microbusiness	-	-	-	-	-	-
<b>Total retail</b>	<b>2,943</b>	<b>1,449</b>	<b>4,392</b>	<b>49</b>	<b>477</b>	<b>3,866</b>
Large and medium enterprises	49,419	3,971	53,390	142	331	52,917
Small enterprises	122	67	189	1	67	121
State	5,000	-	5,000	-	-	5,000
Other	10	-	10	-	-	10
<b>Corporate clients</b>	<b>54,551</b>	<b>4,038</b>	<b>58,589</b>	<b>143</b>	<b>398</b>	<b>58,048</b>
<b>Total</b>	<b>57,494</b>	<b>5,487</b>	<b>62,981</b>	<b>192</b>	<b>875</b>	<b>61,914</b>
<b>Receivables from banks</b>	<b>26,070</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,070</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
31 December 2018

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Loans and receivables (continued)

AMENDMENTS OF THE IMPAIRMENT OF RECEIVABLES IN BALANCE SHEET

	31 December 2017.	1 January 2018.	Increase in impairment	Elimination on impairment	Other amendments	31 December 2018
Retail	526	569	314	(252)	-	629
Corporate clients	541	778	602	(300)	(2)	1,080
<b>Total</b>	<b>1,067</b>	<b>1,347</b>	<b>916</b>	<b>(552)</b>	<b>(2)</b>	<b>1,709</b>
Receivables from banks	-	11	-	(5)	-	6

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.2. Credit risk (continued)**

**6.2.4. Loans and receivables (continued)**

**a) Data about exposure to the credit risk at sectors and categories receivables, impairment status and number of days of delay:**

Unimpaired receivables at days of delay – non problematic receivables

<b>Receivables from clients STAGE 1</b>					<b>In thousand EUR</b>
<b>31.12.2018.</b>	<b>Not in delay</b>	<b>Delay up to 30 days</b>	<b>From 31-60 days</b>	<b>From 61-90 days</b>	<b>Total</b>
Housing loans	147	465	-	-	612
Cash loans	802	520	-	-	1,322
Tourist loans	5	30	-	-	35
Other	30	513	-	-	543
Microbusiness	-	-	-	-	-
<b>Total retail</b>	<b>984</b>	<b>1,528</b>	<b>-</b>	<b>-</b>	<b>2,512</b>
Large and medium enterprises	71,874	3,216	-	-	75,090
Small enterprises	55	11	-	-	66
State	5,000	-	-	-	5,000
Other	-	33	-	5	38
<b>Corporate clients</b>	<b>76,929</b>	<b>3,260</b>	<b>-</b>	<b>5</b>	<b>80,194</b>
<b>Total</b>	<b>77,913</b>	<b>4,788</b>	<b>-</b>	<b>5</b>	<b>82,706</b>
<b>Restructured:</b>	<b>29</b>	<b>27</b>	<b>-</b>	<b>-</b>	<b>56</b>
<b>Receivables from banks</b>	<b>17,119</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,119</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.



**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.2. Credit risk (continued)**

**6.2.4. Loans and receivables (continued)**

**a) Data about exposure to the credit risk at sectors and categories receivables, impairment status and number of days of delay (continued):**

**RECEIVABLES FROM  
 CLIENTS  
 STAGE 2**

CLIENTS						In thousand EUR
STAGE 2						
31 December 2018.	Not in delay	Delay up to 30 days	From 31-60 days	From 90 days	Over 90 days	Total
Housing loans	-	71	3	-	-	74
Cash loans	5	64	120	43	-	232
Tourist loans	-	24	65	-	-	89
Other	-	-	4	-	-	4
Microbusiness	-	-	-	-	-	-
<b>Total retail</b>	<b>5</b>	<b>159</b>	<b>192</b>	<b>43</b>	<b>-</b>	<b>399</b>
Large and medium enterprises	1,628	2,869	1,221	-	-	5,718
Small enterprises	-	-	-	1	-	1
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Corporate clients</b>	<b>1,628</b>	<b>2,869</b>	<b>1,221</b>	<b>1</b>	<b>-</b>	<b>5,719</b>
<b>Total</b>	<b>1,633</b>	<b>3,028</b>	<b>1,413</b>	<b>44</b>	<b>-</b>	<b>6,118</b>
<b>Restructured:</b>	<b>119</b>	<b>1,248</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>1,370</b>
<b>Receivables from banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	In thousand EUR				
1 January 2018	Not in delay	Delay up to 30 days	From 31- 60 days	From 61-90 days	Total
Housing loans	225	536	-	-	761
Cash loans	949	593	-	-	1,542
Tourist loans	98	81	-	-	179
Other	65	9	-	-	74
Microbusiness	-	-	-	-	-
<b>Total retail</b>	<b>1,337</b>	<b>1,219</b>	<b>-</b>	<b>-</b>	<b>2,556</b>
Large and medium enterprises	40,836	7,191	-	-	48,027
Small enterprises	79	-	43	-	122
State	5,000	-	-	-	5,000
Other	8	-	-	-	8
<b>Corporate clients</b>	<b>45,923</b>	<b>7,191</b>	<b>43</b>	<b>-</b>	<b>53,157</b>
<b>Total</b>	<b>47,260</b>	<b>8,410</b>	<b>43</b>	<b>-</b>	<b>55,713</b>
<b>Restructured:</b>	<b>62</b>	<b>108</b>	<b>-</b>	<b>-</b>	<b>170</b>
<b>Receivables from banks</b>	<b>26,070</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,070</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.2. Credit risk (continued)**

**6.2.4. Loans and receivables (continued)**

**a) Data about exposure to the credit risk at sectors and categories receivables, impairment status and number of days of delay (continued):**

	In thousand EUR					
1 January 2018	Not in delay	Delay up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing loans	-	-	-	9	-	9
Cash loans	-	-	145	147	-	292
Tourist loans	-	15	18	-	-	33
Other	-	-	-	-	-	-
Microbusiness	-	-	-	-	-	-
<b>Total retail</b>	<b>-</b>	<b>15</b>	<b>163</b>	<b>156</b>	<b>-</b>	<b>334</b>
Large and medium enterprises	57	1,381	428	43	-	1,909
Small enterprises	-	-	-	-	-	-
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Corporate clients</b>	<b>57</b>	<b>1,381</b>	<b>428</b>	<b>43</b>	<b>-</b>	<b>1,909</b>
<b>Total</b>	<b>57</b>	<b>1,396</b>	<b>591</b>	<b>199</b>	<b>-</b>	<b>2,243</b>
<b>Restructured:</b>	<b>-</b>	<b>206</b>	<b>23</b>	<b>31</b>	<b>-</b>	<b>260</b>
<b>Receivables from banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**UNIMPAIRED RECEIVABLES AT THE DAYS OF DELAY – NON-PROBLEMATIC RECEIVABLES**

						In thousand EUR
31.12.2017.	Not in delay	Delay up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing loans	225	536	-	-	-	761
Cash loans	1,054	702	-	-	-	1,756
Tourist loans	98	96	11	-	-	205
Other	12	8	-	-	-	20
Microbusiness	-	-	-	-	-	-
<b>Total retail</b>	<b>1,389</b>	<b>1,342</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>2,742</b>
Large and medium enterprises	33,900	3,664	281	-	-	37,845
Small enterprises	79	41	-	-	-	120
State	5,000	-	-	-	-	5,000
Other	9	-	-	-	-	9
<b>Corporate clients</b>	<b>38,988</b>	<b>3,705</b>	<b>281</b>	<b>-</b>	<b>-</b>	<b>42,974</b>
<b>Total</b>	<b>40,377</b>	<b>5,047</b>	<b>292</b>	<b>-</b>	<b>-</b>	<b>45,716</b>
<b>Restructured:</b>	<b>52</b>	<b>314</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>366</b>
<b>Receivables from banks</b>	<b>26,070</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,070</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Loans and receivables (continued)

a) Data about exposure to the credit risk at sectors and categories receivables, impairment status and number of days of delay (continued):

Impaired receivables at the days of delay – problematic receivables

RECEIVABLES  
FROM  
CLIENTS-  
STAGE 3

						In thousand EUR
31 December 2018.	Not in delay	Delay up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing loans	-	-	-	-	40	40
Cash loans	30	5	-	5	637	677
Tourist loans	-	-	-	-	449	449
Other	-	-	-	-	50	50
Microbusiness	-	-	-	-	-	-
<b>Total retail</b>	<b>30</b>	<b>5</b>	<b>-</b>	<b>5</b>	<b>1,176</b>	<b>1,216</b>
Large and medium enterprises	1,453	183	734	48	370	2,788
Small enterprises	-	-	-	-	46	46
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Corporate clients</b>	<b>1,453</b>	<b>183</b>	<b>734</b>	<b>48</b>	<b>416</b>	<b>2,834</b>
<b>Total</b>	<b>1,483</b>	<b>188</b>	<b>734</b>	<b>53</b>	<b>1,592</b>	<b>4,050</b>
<b>Restructured:</b>	<b>869</b>	<b>-</b>	<b>734</b>	<b>30</b>	<b>825</b>	<b>2,458</b>
<b>Receivables from banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.2. Credit risk (continued)**

**6.2.4. Loans and receivables (continued)**

**a) Data on credit risk exposure by sectors and categories of receivables, impairment status and number of days of delay: (continued)**

						In thousand EUR
January 1, 2018.	Not in delay	Up to 30days past- due	From 31to 60days past- due	From 61to 90days past- due	Over 90 days	Total
Housing loans	-	-	-	-	77	77
Cash loans	15	14	1	-	870	900
Tourist loans	-	-	-	-	492	492
Other	-	-	-	-	33	33
Micro business	-	-	-	-	-	-
<b>Total retail</b>	<b>15</b>	<b>14</b>	<b>1</b>	<b>-</b>	<b>1,472</b>	<b>1,502</b>
Large and medium sized legal entities	1,383	259	929	202	681	3,454
Small legal entities	-	-	-	-	67	67
State	-	-	-	-	-	-
Other	2	-	-	-	-	2
<b>Total corporate</b>	<b>1,385</b>	<b>259</b>	<b>929</b>	<b>202</b>	<b>748</b>	<b>3,523</b>
<b>Total</b>	<b>1,400</b>	<b>273</b>	<b>930</b>	<b>202</b>	<b>2,220</b>	<b>5,025</b>
Of which it was restructured	-	141	929	-	923	1,993
Receivables from banks	-	-	-	-	-	-

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Loans and receivables (continued)

- a) Data on credit risk exposure by sectors and categories of receivables, impairment status and number of days of delay: (continued)

IMPAIRED RECEIVABLES AT DAYS OF DELAY –  
PROBLEMATIC RECEIVABLES

December 31, 2017.	Not in delay	Up to 30days past- due	From 31to 60days past- due	From 61to 90days past- due	Over 90 days	In thousand EUR  Total
Housing loans	-	-	-	-	77	77
Cash loans	15	4	-	-	839	858
Tourist loans	-	-	-	-	481	481
Other	-	-	-	-	33	33
Micro business	-	-	-	-	-	-
<b>Total retail</b>	<b>15</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>1,430</b>	<b>1,449</b>
Large and medium sized legal entities	1,587	636	929	161	658	3,971
Small legal entities	-	-	-	-	67	67
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Total corporate</b>	<b>1,587</b>	<b>636</b>	<b>929</b>	<b>161</b>	<b>725</b>	<b>4,038</b>
<b>Total</b>	<b>1,602</b>	<b>640</b>	<b>929</b>	<b>161</b>	<b>2,155</b>	<b>5,487</b>
<b>Of which it was restructured</b>		95	929	-	912	1,936
<b>Receivables from banks</b>	-	-	-	-	-	-

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
December 31, 2018.

**6. RISK MANAGEMENT (CONTINUED)**

**6.2. Credit risk (continued)**

**6.2.4. Loans and receivables (continued)**

**a) Data on credit risk exposure by sectors and categories of receivables, impairment status and number of days of delay: (continued)**

An overview of problematic receivables, collateral for identical receivables, and changes to these receivables is given in the following tables:

**RECEIVABLES FROM  
CLIENTS – STAGE 3**

In thousand  
EUR

**December 31, 2018.**

	Gross exposure	Impairment	S 3 receivables	Restructured S 3 receivables	Impairment S 3	Percentage of S3 receivables in gross exposure	Amount of collateral for S3
<b>Retail</b>	<b>4,416</b>	<b>629</b>	<b>1,216</b>	<b>639</b>	<b>552</b>	<b>27.54%</b>	<b>4,261</b>
Housing loans	726	20	40	-	5	5.51%	88
Cash loans	2,521	492	677	222	436	26.85%	1,680
Tourist loans	573	91	449	417	90	178.35%	1,491
Other	596	26	50	-	21	8.39%	1,002
Micro business	-	-	-	-	-	0.00%	-
<b>Corporate</b>	<b>89,458</b>	<b>1,080</b>	<b>2,834</b>	<b>1,819</b>	<b>316</b>	<b>3.16%</b>	<b>5,983</b>
Agriculture	84	43	42	-	42	50.00%	87
Manufacturing industry	832	153	302	186	144	36.30%	503
Electricity	142	31	142	-	31	100%	520
Construction	15,571	43	18	-	1	0.12%	81
Wholesale and retail trade	4,128	156	89	30	15	2.16%	235
Service activities	14,099	196	909	869	18	6.45%	1,573
Activates related to real estate	32,081	32	-	-	-	0.00%	-
Other	22,521	426	1,332	734	65	5.91%	2,984
<b>Total</b>	<b>93,874</b>	<b>1,709</b>	<b>4,050</b>	<b>2,458</b>	<b>868</b>	<b>4.31%</b>	<b>10,244</b>
<b>Receivables from banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
December 31, 2018.

**6. RISK MANAGEMENT (CONTINUED)**

**6.2. Credit risk (continued)**

**6.2.4. Loans and receivables (continued)**

a) Data on credit risk exposure by sectors and categories of receivables, impairment status and number of days of delay: (continued)

**RECEIVABLES FROM  
CLIENTS – STAGE 3**

	January 1, 2018.					Percentage of S3 receivables in gross exposure	In thousand EUR
	Gross exposure	Impairment	S 3 receivables	Restructured S 3 receivables	Impairment S 3		Amount of collateral for S3
<b>Retail</b>	<b>4,596</b>	<b>569</b>	<b>1,502</b>	<b>674</b>	<b>489</b>	<b>32.68%</b>	<b>6,067</b>
Housing loans	847	49	77	-	44	9.09%	153
Cash loans	2,938	414	900	242	341	30.63%	2,937
Tourist loans	704	88	492	432	87	69.89%	2,359
Other	107	18	33	-	17	30.84%	618
Micro business	-	-	-	-	-	0.00%	-
<b>Corporate</b>	<b>58,385</b>	<b>778</b>	<b>3,523</b>	<b>1,319</b>	<b>403</b>	<b>6.03%</b>	<b>8,318</b>
Agriculture	111	62	63	-	62	56.76%	207
Manufacturing industry	1,710	180	614	410	137	35.91%	1,637
Electricity	161	38	161	-	38	100%	520
Construction	16,535	60	55	-	26	0.33%	143
Wholesale and retail trade	5,181	180	213	46	40	4.11%	761
Service activities	13,687	72	858	-	18	6.26%	1,859
Activates related to real estate	-	-	-	-	-	0.00%	-
Other	21,000	186	1,559	863	82	2.48%	3,191
<b>Total</b>	<b>62,981</b>	<b>1,347</b>	<b>5,025</b>	<b>1,993</b>	<b>892</b>	<b>7.98%</b>	<b>14,385</b>
<b>Receivables from banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Loans and receivables (continued)

a) Data on credit risk exposure by sectors and categories of receivables, impairment status and number of days of delay: (continued)

	December 31, 2017.					In thousand EUR
	Gross exposure	Impairme nt	Problematic receivables	Restructured problematic receivables	Impairment of problematic receivables	Percentage of problematic receivables in gross exposure
<b>PROBLEMATIC RECEIVABLES</b>						<b>Amount of collateral for problematic receivables</b>
<b>Retail</b>	<b>4,596</b>	<b>526</b>	<b>1,449</b>	<b>663</b>	<b>477</b>	<b>31.53%</b>
Housing loans	847	54	77	-	44	9.09%
Cash loans	2,938	342	858	231	308	29.20%
Tourist loans	704	113	481	432	109	68.32%
Other	107	17	33	-	16	30.84%
Micro business	-	-	-	-	-	0.00%
<b>Corporate</b>	<b>58,385</b>	<b>541</b>	<b>4,038</b>	<b>1,273</b>	<b>398</b>	<b>6.92%</b>
Agriculture	111	63	63	-	63	56.76%
Manufacturing industry	1,710	155	687	410	148	40.17%
Electricity	161	45	161	-	45	100%
Construction	16,535	38	187	-	26	1.12%
Wholesale and retail trade	5,181	39	332	-	13	6.41%
Service activities	13,687	35	926	-	14	6.76%
Activates related to real estate	-	-	-	-	-	0.00%
Other	21,000	166	1,682	863	89	8.01%
<b>Total</b>	<b>62,981</b>	<b>1,067</b>	<b>5,487</b>	<b>1,936</b>	<b>875</b>	<b>8.71%</b>
<b>Receivables from banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
						<b>10,809</b>
						153
						2,818
						2,029
						618
						-
						207
						1,738
						520
						2,150
						839
						1,951
						-
						3,404
						<b>16,427</b>
						-

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.



**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.2. Credit risk (continued)**

**6.2.4. Loans and receivables (continued)**

**a) Restructured loans and receivables**

The Bank has restructured a loan if the borrower has, due to deterioration of the debtor's creditworthiness:

- extended the principal and interest maturity,
- decreased the interest rate on the loan approved,
- took over the receivable that the borrower has towards a third party, on behalf of the full or partial loan repayment;
- reduced the amount of debt, principal or interest;
- capitalized the interest on the loan approved to a borrower;
- replaced the existing loan or existing loans with new loans (renewal of loan);
- made other concessions that place the borrower in a better financial position.

Upon restructuring of the loan, the Bank performs financial analysis of the borrower and assesses its capacities to realize cash flows necessary for the repayment of the loan principal, as well as the corresponding interest once the loan is restructured. During 2018, the Bank restructured loans in the amount of EUR 3,882 thousand, out of which the amount of EUR 3,117 thousand related to legal entities (2017: 7,656 thousand) and EUR 765 thousand to individuals (2016: EUR 1,095 thousand).

Data on restructured receivables are shown below:

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Loans and receivables (continued)

b) Restructured loans and receivables (continued)

RESTRUCTURED  
RECEIVABLES

December 31, 2018.	Restructured receivables- gross exposure	S 1 restructured receivables	S2 restructured receivables	S3 restructured receivables	Impairment of restructured receivables	Impairment of S1 restructured receivables	Impairment of S2 restructured receivables	Impairment of S3 restructured receivables	Percentage of restructured receivables in gross exposure	Amount of collateral for restructured receivables
<b>Retail</b>	<b>766</b>	<b>51</b>	<b>76</b>	<b>639</b>	<b>249</b>	<b>1</b>	<b>1</b>	<b>247</b>	<b>17.35%</b>	<b>2,124</b>
Housing loans	28	25	3	-	-	-	-	-	3.86%	263
Cash loans	298	26	50	222	160	1	-	159	11.82%	803
Tourist loans	440	-	23	417	89	-	1	88	76.79%	1,058
Other	-	-	-	-	-	-	-	-	0.00%	-
Micro business	-	-	-	-	-	-	-	-	0.00%	-
<b>Corporate</b>	<b>3,118</b>	<b>5</b>	<b>1,294</b>	<b>1,819</b>	<b>201</b>	<b>-</b>	<b>123</b>	<b>78</b>	<b>3.49%-</b>	<b>8,378</b>
Agriculture	-	-	-	-	-	-	-	-	0.00%	-
Manufacturing industry	186	-	-	186	29	-	-	29	22.36%	503
Electricity	-	-	-	-	-	-	-	-	0.00%	-
Construction	-	-	-	-	-	-	-	-	0.00%	-
Wholesale and retail trade	65	-	35	30	6	-	1	5	1.57%	306
Service activities	954	-	85	869	9	-	1	8	6.77%	3,970
Activates related to real estate	-	-	-	-	-	-	-	-	0.00%	-
Other	1,913	5	1,174	734	157	-	121	36	8.49%	3,599
<b>Total</b>	<b>3,884</b>	<b>56</b>	<b>1,370</b>	<b>2,458</b>	<b>450</b>	<b>1</b>	<b>124</b>	<b>325</b>	<b>4.14%-</b>	<b>10,502</b>
<b>Receivables from banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Loans and receivables (continued)

b) Restructured loans and receivables (continued)

31.12.2017.	Restructured receivables- gross exposure	Restructured non problematic receivables	Restructured problematic receivables	Impairment of restructured receivables	Impairment of restructured non problematic receivables	Impairment of restructured problematic receivables	Percentage of restructured receivables in gross exposure	Amount of collateral for restructured receivables
<b>Retail</b>	<b>866</b>	<b>203</b>	<b>663</b>	<b>252</b>	<b>4</b>	<b>248</b>	<b>18.84%</b>	<b>2,621</b>
Housing loans	39	39	-	-	-	-	4.6%	263
Cash loans	370	139	231	145	4	141	12.59%	1,106
Tourist loans	457	25	432	107	-	107	64.91%	1,252
Other	-	-	-	-	-	-	0.00%	-
Micro business	-	-	-	-	-	-	0.00%	-
<b>Corporate</b>	<b>1,557</b>	<b>284</b>	<b>1,273</b>	<b>67</b>	<b>3</b>	<b>64</b>	<b>2.67%</b>	<b>5,720</b>
Agriculture	-	-	-	-	-	-	0.00%	-
Manufacturing industry	410	-	410	24	-	24	23.98%	1,312
Electricity	-	-	-	-	-	-	0.00%	-
Construction	10	10	-	-	-	-	0.06%	-
Wholesale and retail trade	68	68	-	2	2	-	1.31%	383
Service activities	192	192	-	1	1	-	1.4%	1,812
Activities related to real estate	-	-	-	-	-	-	0.00%	-
Other	877	14	863	40	-	40	4.18%	2,213
<b>Total</b>	<b>2,423</b>	<b>487</b>	<b>1,936</b>	<b>319</b>	<b>7</b>	<b>312</b>	<b>3.85%</b>	<b>8,341</b>
<b>Receivables from banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Loans and receivables (continued)

b) Restructured loans and receivables (continued)

CHANGES OF  
RESTRUCTURED S1  
RECEIVABLES

	Gross restructured S1 receivables December 31, 2017. /January 1, 2018.	New restructured S1 receivables	Reduction of restructured S1 receivables	Impact of the course	Other changes	Gross December 31, 2018.	Net December 31, 2018.
Housing loans	30	-	5	-	-	25	25
Cash loans	105	-	80	-	-	25	24
Tourist loans	25	-	25	-	-	-	-
Other	-	-	-	-	-	-	-
Micro business	-	-	-	-	-	-	-
<b>Retail</b>	<b>160</b>	<b>-</b>	<b>110</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>49</b>
Large and medium sized legal entities	10	6	10	-	-	6	6
Small legal entities	-	-	-	-	-	-	-
State	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>Corporate</b>	<b>10</b>	<b>6</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>6</b>
<b>Total</b>	<b>170</b>	<b>6</b>	<b>120</b>	<b>-</b>	<b>-</b>	<b>56</b>	<b>55</b>
<b>Receivables from banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Loans and receivables (continued)

b) Restructured loans and receivables (continued)

CHANGES OF  
RESTRUCTURED S2  
RECEIVABLES

	Gross restructured S2 receivables December 31, 2017. /January 1, 2018.	New restructured S2 receivables	Reduction of restructured S2 receivables	Impact of the course	Other changes	Gross December 31, 2018.	Net December 31, 2018.
Housing loans	9	-	6	-	-	3	3
Cash loans	22	50	22	-	-	50	49
Tourist loans	-	23	-	-	-	23	23
Other	-	-	-	-	-	-	-
Micro business	-	-	-	-	-	-	-
<b>Retail</b>	<b>31</b>	<b>73</b>	<b>28</b>	<b>-</b>	<b>-</b>	<b>76</b>	<b>75</b>
Large and medium sized legal entities	227	1,195	128	-	-	1,294	1,171
Small legal entities	-	-	-	-	-	-	-
State	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>Corporate</b>	<b>227</b>	<b>1,195</b>	<b>128</b>	<b>-</b>	<b>-</b>	<b>1,294</b>	<b>1,171</b>
<b>Total</b>	<b>258</b>	<b>1,268</b>	<b>156</b>	<b>-</b>	<b>-</b>	<b>1,370</b>	<b>1,246</b>
<b>Receivables from banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original.  
However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
December 31, 2018.

**6. RISK MANAGEMENT (CONTINUED)**

**6.2. Credit risk (continued)**

**6.2.4. Loans and receivables (continued)**

**b) Restructured loans and receivables (continued)**

**CHANGES OF  
RESTRUCTURED S3  
RECEIVABLES**

	Gross restructured S3 receivables December 31, 2017. /January 1, 2018.	New restructured S3 receivables	Reduction of restructured S3 receivables	Impact of the course	Other changes	Gross December 31, 2018.	Net December 31, 2018.
Housing loans	-	-	-	-	-	-	-
Cash loans	242	-	20	-	-	222	63
Tourist loans	432	-	15	-	-	417	329
Other	-	-	-	-	-	-	-
Micro business	-	-	-	-	-	-	-
<b>Retail</b>	<b>674</b>	<b>-</b>	<b>35</b>	<b>-</b>	<b>-</b>	<b>639</b>	<b>392</b>
Large and medium sized legal entities	1.319	896	396	-	-	1.819	1.742
Small legal entities	-	-	-	-	-	-	-
State	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>Corporate</b>	<b>1.319</b>	<b>896</b>	<b>396</b>	<b>-</b>	<b>-</b>	<b>1.819</b>	<b>1.742</b>
<b>Total</b>	<b>1.993</b>	<b>896</b>	<b>431</b>	<b>-</b>	<b>-</b>	<b>2.458</b>	<b>2.134</b>
<b>Receivables from banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Loans and receivables (continued)

b) Restructured loans and receivables (continued)

CHANGES OF  
RESTRUCTURED  
RECEIVABLES

	Gross restructured receivables December 31, 2016.	New restructured receivables	Reduction of restructured receivables	Impact of the course	Other changes	Gross December 31, 2017.	Net December 31, 2017.
Housing loans	39	-	11	-	-	28	28
Cash loans	369	50	122	-	-	297	136
Tourist loans	457	23	40	-	-	440	352
Other	2	-	-	-	-	2	2
Micro business	-	-	-	-	-	-	-
<b>Retail</b>	<b>867</b>	<b>73</b>	<b>173</b>	-	-	<b>767</b>	<b>518</b>
Large and medium sized legal entities	1,556	2,097	534	-	-	3,119	2,919
Small legal entities	-	-	-	-	-	-	-
State	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>Corporate</b>	<b>1,556</b>	<b>2,097</b>	<b>534</b>	-	-	<b>3,119</b>	<b>2,919</b>
<b>Total</b>	<b>2,423</b>	<b>2,170</b>	<b>707</b>	-	-	<b>3,886</b>	<b>3,437</b>
<b>Receivables from banks</b>	-	-	-	-	-	-	-

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
December 31, 2018.

**6. RISK MANAGEMENT (CONTINUED)**

**6.2. Credit risk (continued)**

**6.2.4. Loans and receivables (continued)**

**c) Geographic Concentration**

Geographic concentration of the Bank's exposure to the credit risk is as follows:

**CONCENTRATION  
RISK**

**December 31, 2018.**

December 31, 2018.	Receivables from S1 and S2 clients					Receivables from S2 clients				
	Montenegro	EU	Europe-other	Other	Total- net	Montenegro	EU	Europe-other	Other	Total- net
Retail	2,716	35	34	49	2,834	642	-	22	-	664
Housing loans	671	-	-	-	671	35	-	-	-	35
Cash loans	1,380	35	34	49	1,498	219	-	22	-	241
Tourist loans	123	-	-	-	123	359	-	-	-	359
Other	542	-	-	-	542	29	-	-	-	29
Micro business	-	-	-	-	-	-	-	-	-	-
Corporate	47,185	1,901	1,020	35,043	85,149	2,518	-	-	-	2,518
Agriculture	41	-	-	-	41	-	-	-	-	-
Manufacturing industry	521	-	-	-	521	158	-	-	-	158
Electricity	-	-	-	-	-	112	-	-	-	112
Construction	15,093	-	418	-	15,511	16	-	-	-	16
Wholesale and retail trade	3,898	-	-	-	3,898	74	-	-	-	74
Service activities	11,112	1,901	-	-	13,013	891	-	-	-	891
Activates related to real estate	-	-	-	32,048	32,048	-	-	-	-	-
Other	16,520	-	602	2,995	20,117	1,267	-	-	-	1,267
Total	49,901	1,936	1,054	35,092	87,983	3,160	-	22	-	3,182
Receivables from banks	-	-	-	-	-	-	-	-	-	-

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.



**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
December 31, 2018.

**6. RISK MANAGEMENT (CONTINUED)**

**6.2. Credit risk (continued)**

**6.2.4. Loans and receivables (continued)**

**c) Geographic Concentration (continued)**

December 31, 2017.

December 31, 2017.	Non – problematic receivables					Problematic receivables				
	Montenegro	EU	Europe-other	Other	Total-net	Montenegro	EU	Europe-other	Other	Total-net
<b>Retail</b>	<b>2,858</b>	-	<b>36</b>	-	<b>2,894</b>	<b>962</b>	-	<b>10</b>	-	<b>972</b>
Housing loans	760	-	-	-	760	33	-	-	-	33
Cash loans	1,806	-	36	-	1,842	540	-	10	-	550
Tourist loans	219	-	-	-	219	372	-	-	-	372
Other	73	-	-	-	73	17	-	-	-	17
Micro business	-	-	-	-	-	-	-	-	-	-
<b>Corporate</b>	<b>53,891</b>	<b>120</b>	-	<b>397</b>	<b>54,408</b>	<b>3,510</b>	-	<b>130</b>	-	<b>3,640</b>
Agriculture	48	-	-	-	48	-	-	-	-	-
Manufacturing industry	1,016	-	-	-	1,016	539	-	-	-	539
Electricity	-	-	-	-	-	117	-	-	-	117
Construction	16,337	-	-	-	16,337	30	-	130	-	160
Wholesale and retail trade	4,823	-	-	-	4,823	319	-	-	-	319
Service activities	12,740	-	-	-	12,740	912	-	-	-	912
Activates related to real estate	-	-	-	-	-	-	-	-	-	-
Other	18,927	120	-	397	19,444	1,593	-	-	-	1,593
<b>Total</b>	<b>56,749</b>	<b>120</b>	<b>36</b>	<b>397</b>	<b>57,302</b>	<b>4,472</b>	-	<b>140</b>	-	<b>4,612</b>
<b>Receivables from banks</b>	-	-	-	-	-	-	-	-	-	-

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
December 31, 2018.

**6. RISK MANAGEMENT (CONTINUED)**

**6.2. Credit risk (continued)**

**6.2.4. Loans and receivables (continued)**

**d) Industry concentration**

Industry concentration of the Bank's net exposure to the credit risk is as follows:

	Banks and the Ministry of Finance	Transportation, traffic and telecommunication	Services, tourism and catering	Trade and Real Estate Trading	Construction	Mining	Administration	Professional, scientific and technical activities	Agriculture , hunting and fishing	Manufactur e	Other	Individuals	Total
Financial assets at amortized cost	-	-	-	-	-	-	-	-	-	-	-	-	-
-Loans and receivables from banks	17,113	-	-	-	-	-	-	-	-	-	-	-	17,113
- Loans and receivables from clients	5,000	2,734	11,962	36,072	15,472	1,513	1,165	12,580	73	-	403	4,191	91,165
Other financial assets	10	-	-	-	-	-	-	-	-	-	-	-	10
Financial assets at FVOCI	-	-	-	-	-	-	-	-	-	-	-	-	-
-Securities	54,235	-	-	-	-	-	-	-	-	-	-	-	54,235
Other assets	-	-	-	-	-	-	-	-	-	-	2,458	-	2,458
<b>December 31, 2018.</b>	<b>76,358</b>	<b>2,734</b>	<b>11,962</b>	<b>36,072</b>	<b>15,472</b>	<b>1,513</b>	<b>1,165</b>	<b>12,580</b>	<b>73</b>	<b>-</b>	<b>2,861</b>	<b>4,191</b>	<b>164,981</b>
<b>December 31, 2017.</b>	<b>53,170</b>	<b>1,304</b>	<b>21,334</b>	<b>5,159</b>	<b>16,427</b>	<b>851</b>	<b>1,066</b>	<b>5,489</b>	<b>99</b>	<b>-</b>	<b>2,377</b>	<b>4,356</b>	<b>111,632</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Loans and receivables (continued)

e) Loans and receivables from customers covered by collateral

LOANS AND RECEIVABLES FROM CUSTOMERS COVERED BY COLLATERAL

December 31, 2018.

	S1 clients				S2 clients				S3 clients			
	Properties	Deposits	Other collaterals	Total	Properties	Deposits	Other collaterals	Total	Properties	Deposits	Other collaterals	Total
Housing loans	560	-	52	612	74	-	-	74	37	-	3	40
Cash loans	232	-	1,090	1,322	206	-	26	232	-	-	677	677
Tourist loans	34	-	1	35	89	-	-	89	449	-	-	449
Other	-	439	104	543	-	-	4	4	-	-	50	50
Micro business	-	-	-	-	-	-	-	-	-	-	-	-
Retail	826	439	1,247	2,512	369	-	30	399	486	-	730	1,216
Large and medium sized legal entities	2,513	57,695	14,882	75,090	5,023	-	695	5,718	2,670	-	118	2,788
Small legal entities	66	-	-	66	-	-	1	1	42	-	4	46
State	-	-	5,000	5,000	-	-	-	-	-	-	-	-
Other	-	13	25	38	-	-	-	-	-	-	-	-
Corporate	2,579	57,708	19,907	80,194	5,023	-	696	5,719	2,712	-	122	2,834
Total	3,405	58,147	21,154	82,706	5,392	-	726	6,118	3,198	-	852	4,050
Receivables from banks	-	-	-	-	-	-	-	-	-	-	-	-

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Loans and receivables (continued)

e) Loans and receivables from customers covered by collateral

December 31, 2017.	Non – problematic receivables					Problematic receivables				
	Properties	Deposits	Guarantee	Other collaterals	Total	Properties	Deposits	Guarantee	Other collaterals	Total
Housing loans	722	-	-	48	770	77	-	-	-	77
Cash loans	660	49	-	1,167	1,876	760	-	-	98	858
Tourist loans	223	-	-	-	223	481	-	-	-	481
Other	-	33	-	41	74	17	-	-	16	33
Micro business	-	-	-	-	-	-	-	-	-	-
<b>Retail</b>	<b>1,605</b>	<b>82</b>	<b>-</b>	<b>1,256</b>	<b>2,943</b>	<b>1,335</b>	<b>-</b>	<b>-</b>	<b>114</b>	<b>1,449</b>
Large and medium sized legal entities	9,343	27,027	-	13,049	49,419	3,900	-	-	71	3,971
Small legal entities	119	-	-	3	122	63	-	-	4	67
State	-	-	-	5,000	5,000	-	-	-	-	-
Other	-	-	-	10	10	-	-	-	-	-
<b>Corporate</b>	<b>9,462</b>	<b>27,027</b>	<b>-</b>	<b>18,062</b>	<b>54,551</b>	<b>3,963</b>	<b>-</b>	<b>-</b>	<b>75</b>	<b>4,038</b>
<b>Total</b>	<b>11,067</b>	<b>27,109</b>	<b>-</b>	<b>19,318</b>	<b>57,494</b>	<b>5,298</b>	<b>-</b>	<b>-</b>	<b>189</b>	<b>5,487</b>
<b>Receivables from banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.2. Credit risk (continued)**

**6.2.5. Off balance sheet items**

The maturity of the off-balance sheet items on which the Bank is exposed to credit risk is as follows:  
**(In thousand EUR)**

	<b>Undrawn credit lines</b>	<b>Guarantee</b>	<b>Uncovered Letters of Credit</b>	<b>Total</b>
<b>December 31, 2018</b>				
Up to one year	227	1,099	8	1,334
From 1 to 5 years	2,715	2,589	-	5,304
	<b>2,942</b>	<b>3,688</b>	<b>8</b>	<b>6,638</b>

	<b>Undrawn credit lines</b>	<b>Guarantee</b>	<b>Uncovered Letters of Credit</b>	<b>Total</b>
<b>December 31, 2017</b>				
Up to one year	12,237	1,328	94	13,659
From 1 to 5 years	2,297	1,316	-	3,613
	<b>14,534</b>	<b>2,644</b>	<b>94</b>	<b>17,272</b>

**6.3. Market risk**

The Bank takes on exposure to market risks. Market risks arise from open positions, due to changes in interest rates, changes in exchange rates and changes in the price of securities that change in accordance with market fluctuations. Exposure limits to market risks are internally prescribed, and in compliance with the prescribed limits by the Central Bank of Montenegro.

**6.3.1. Foreign exchange risk**

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The exposure to currency risk is regularly monitored by harmonizing them with the limits prescribed by the Central Bank of Montenegro.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.3. Market risk (continued)**

**6.3.1. Foreign exchange risk (continued)**

The exposure to the exchange rate as at December 31, 2018 is shown in the following table:

<b>(In thousand EUR)</b>	<b>USD</b>	<b>GBP</b>	<b>CHF</b>	<b>Other</b>	<b>Total</b>
Assets in foreign currencies	5,817	8,608	204	3,720	18,349
Liabilities in foreign currencies	5,825	8,596	78	3,703	18,202
<i>Net open position:</i>					
- December 31, 2018.	(8)	12	126	17	147
- December 31, 2017.	(63)	12	40	(234)	(245)
<i>% of share capital:</i>					
- December 31, 2018.	(0.12%)	0.18%	1.91%	0.15%	
- December 31, 2017.	(1.01%)	0.19%	0.64%	(3.77%)	
<i>Aggregate open position:</i>					
- December 31, 2018.	147				
- December 31, 2017.	(245)				
<i>-% of share capital:</i>					
- December 31, 2018.	2.23%				
- December 31, 2017	(3.95%)				

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.3. Market risk (continued)**

**6.3.1. Foreign exchange risk (continued)**

	In thousand EUR				
	GBP	Other currency	Total foreign currencies	Local currency (EUR)	Total
<b>FINANCIAL ASSETS</b>					
Cash and deposits with the central banks	42	537	579	92,924	93,503
Financial assets at amortized value					
-Loans and receivables from banks	481	8,420	8,901	8,212	17,113
- Loans and receivables from clients	-	-	-	91,165	91,165
-Other financial assets	-	-	-	10	10
Financial assets at FVOCI					
-Securities	-	-	-	54,235	54,235
Other assets	-	-	-	2,458	2,458
<b>Total financial assets</b>	<b>523</b>	<b>8,957</b>	<b>9,480</b>	<b>249,004</b>	<b>267,964</b>
<b>FINANCIAL LIABILITIES</b>					
Financial liabilities at amortized value					
-Deposits from clients	8,597	9,607	18,204	226,811	245,015
-Loans from clients which are not banks	-	-	-	5,175	5,175
Derivative financial obligations as a hedging instrument	-	-	-	158	158
Subordinated debt	-	-	-	5,031	5,031
<b>Total financial liabilities</b>	<b>8,597</b>	<b>9,607</b>	<b>18,204</b>	<b>237,175</b>	<b>255,379</b>
<b>Net foreign exchange exposure:</b>					
- December 31, 2018.	(8,074)	(650)	(8,724)	11,829	12,585
- December 31, 2017	(8,026)	(12)	(8,038)	9,406	1,367

**6.3.2. Interest Rate Risk**

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank assumes exposure to the effects of fluctuations in the prevailing levels of market interest rates on cash flows. Interest margins may increase because of such changes; however, these may reduce profit or give rise to losses in instances of unexpected fluctuations. Interest rates are based on market rates and the Bank performs regular repricing.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.3. Market risk (continued)**

**6.3.2. Interest Rate Risk (continued)**

The following table presents the Bank's interest bearing and non-interest-bearing assets and liabilities as at December 31, 2017:

	(In thousand EUR)		
	Interest bearing	Non – interest bearing	Total
<b>FINANCIAL ASSETS</b>			
Cash and deposits with the central banks	9,448	84,055	93,503
Financial assets at amortized value			
-Loans and receivables from banks	2,729	14,384	17,113
- Loans and receivables from clients	91,165	-	91,165
-Other financial assets	-	10	10
Financial assets at FVOCI			
-Securities	54,019	216	54,235
Other assets	379	2,079	2,458
<b>Total financial assets</b>	<b>157,740</b>	<b>100,744</b>	<b>258,484</b>
<b>FINANCIAL LIABILITIES</b>			
Financial liabilities at amortized value			
-Deposits from clients	59,587	185,428	245,015
-Loans from clients which are not banks	5,175	-	5,175
Derivative financial obligations as a hedging instrument	-	158	158
Subordinated debt	5,031	-	5,031
<b>Total financial liabilities</b>	<b>69,793</b>	<b>185,586</b>	<b>255,379</b>
<b>Interest rate risk exposure:</b>			
- December 31, 2018.	<b>87,947</b>	<b>(84,842)</b>	<b>3,105</b>
- December 31, 2017	<b>56,523</b>	<b>(55,156)</b>	<b>1,367</b>

Loans to legal entities are granted as per following interest rates:

- Short-term loans with fixed interest rate: 2.90% - 12.00%
- Long-term loans with fixed interest rate: 4.50% - 9.00%
- Loans with cash collateral with fixed interest rate: 2.00% - 7.50%

Lending interest rates applied to loans granted to individuals during 2018 are as follows:

Type of a loan	Interest rate
Cash loans	7.00% -11.00%
Loans to students	7.50%
Loans for tourism developments	9.00%
Micro loans	13.00%
Loans to pensioners	7.95% - 10.50%

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.



**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.3. Market risk (continued)**

**6.3.2. Interest Rate Risk (continued)**

Deposit interest rates which were applicable on deposits of legal entities during 2018 were as follows:

<b>Deposit type</b>	<b>Interest rate</b>
Short-term deposits	0.25%-1.00%
Long-term deposits	1.25%-2.00%

Deposit interest rates which were applicable on deposits of individuals during 2018 were as follows:

<b>Deposit type</b>	<b>Interest rate</b>
Deposits on demand	-
Term deposits in EUR:	
- from 1 to 3 months	0.10%
- from 3 to 6 months	0.50%
- from 7 to 12 months	0.75%
- from 13 to 24 months	1.25%
- from 24 to 36 months	1.75%
Term deposits in foreign currencies:	
- from 1 to 6	0.10%
- from 9 to 12	0.25%
- from 24 and more	0.50%

**6.4 Liquidity risk**

Liquidity risk includes both the risk of being unable to provide cash to settle liabilities at appropriate maturities and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame

The matching and controlled mismatching between the maturities and interest rates of assets and of liabilities is fundamental to the management of the Bank. It is unusual for banks to completely remove the liquidity gap since business transactions are often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability of the Bank to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. The Bank is exposed to daily calls on its available cash resources which influence the available cash held on the current accounts or as deposits. The Bank does not maintain cash to meet all of these needs since historical experience demonstrates that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.4 Liquidity risk (continued)**

**6.4.1. Liquidity risk management**

The expected maturities of the Bank's asset and liability components as at December 31, 2017 were as follows:  
(In thousand EUR)

	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
<b>Financial assets</b>							
Cash balances and deposit accounts with central banks	84,055	-	-	-	9,448	-	93,503
Financial asset at amortized value							
<i>Loans and receivables from banks</i>	13,432	416	2,729	-	532	10	17,119
<i>Loans and receivables from clients</i>	974	617	3,464	21,636	32,075	34,108	92,874
<i>Other financial assets</i>	-	-	-	-	-	25	25
<b>Financial assets at FVOCI</b>							
<i>Securities</i>	10,000	14,993	2,281	-	12,471	14,490	54,235
<i>Other assets</i>	1,077	84	955	368	-	-	2,484
	<b>109,538</b>	<b>16,110</b>	<b>9,429</b>	<b>22,004</b>	<b>54,526</b>	<b>48,633</b>	<b>260,240</b>
<b>Financial liabilities</b>							
Financial liabilities at amortized value							
<i>-Deposit from clients</i>	35,235	8,839	10,491	35,208	151,646	3,569	245,015
<i>-Loans from clients which are not banks</i>	5	283	224	598	2,869	1,196	5,175
Derivative financial obligations as a hedging instrument	45	113	-	-	-	-	158
<i>Other liabilities</i>	1,465	3	-	133	121	-	1,722
<i>Subordinated debt</i>	-	-	-	-	-	5,031	5,031
	<b>36,750</b>	<b>9,238</b>	<b>10,715</b>	<b>35,939</b>	<b>154,636</b>	<b>9,796</b>	<b>257,101</b>
<b>Maturity gap</b>							
<b>December 31, 2018.</b>	72,788	6,872	(1,286)	(13,935)	(100,110)	38,837	3,139
Cumulative Gap	72,788	79,660	78,374	64,439	(35,671)	3,166	262,756
% of the total source of financing	<b>27.9%</b>	<b>30.6%</b>	<b>30.1%</b>	<b>24.7%</b>	<b>(13.7%)</b>	<b>1.2%</b>	-
<b>December 31, 2017.</b>	100,153	(6,583)	(5,467)	(15,331)	(82,350)	10,945	1,367
Cumulative Gap	100,153	93,570	88,103	72,772	(9,578)	1,367	346,387
% of the total source of financing	<b>45.9%</b>	<b>42.9%</b>	<b>40.4%</b>	<b>33.4%</b>	<b>(4.4%)</b>	<b>0.6%</b>	-

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.****6. RISK MANAGEMENT (CONTINUED)****6.4 Liquidity risk (continued)****6.4.1. Liquidity risk management (continued)**

As at December 31, 2018, the structure of assets and liabilities indicates the existence of non-conformities of remaining period of maturity of assets and liabilities within the maturity from 90 days up to over 5 years. The Bank's liquidity, as its ability to settle its liabilities when due, depends upon the balance sheet structure, and, on the other side, upon the compliance between inflows and outflows.

The resulting negative GAPs which are dominantly the consequence of non-compliance caused a high level of demand deposits on one side, approved loans and purchased securities on longer terms, on the other side. The Bank is ready to take the risk of incompatibility exclusively thanks to the fact that for all securities from the portfolio there is a developed second – hand market and therefore the purchased securities have the treatment of secondary liquidity reserve. In the past the Bank did not have the negative outflow of mentioned deposits in the short intervals. Also, the Bank based on experiential method in 2018 has developed the methodology for determining stable level of demand deposits i.e. it performed more adequate rearrangement of demand deposits where the cumulative GAP covers all negative GAP's in other time intervals.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.4 Liquidity risk (continued)**

**6.4.2. Remaining contractual maturity analysis for financial liabilities (undiscounted cash flows)**

	(In thousand EUR)						
	On demand	Up to one months	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
<b>December 31, 2018.</b>							
<b>FINANCIAL LIABILITIES</b>							
Financial liabilities at amortized value							
-Deposits from clients	177,596	316	1,360	26,576	35,571	3,596	245,015
-Deposits from clients which are not banks	5	-	283	822	2,869	1,196	5,175
Derivative financial obligations as a hedging instrument	45	-	113	-	-	-	158
Other liabilities	1,465	3	-	133	121	-	1,722
Subordinated debt	-	-	-	-	-	5,031	5,031
	<b>179,111</b>	<b>319</b>	<b>1,756</b>	<b>27,531</b>	<b>38,561</b>	<b>9,823</b>	<b>257,101</b>

	(In thousand EUR)						
	On demand	Up to one months	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
<b>December 31, 2017.</b>							
<b>FINANCIAL LIABILITIES</b>							
Financial liabilities at amortized value							
-Deposits from clients	18,924	17,608	8,994	36,909	116,892	7,900	207,227
-Loans from banks and central banks	9	-	-	-	-	-	9
-Loans from clients which are not banks	49	-	244	1,387	4,043	2,066	7,789
-Deposits from banks and central banks	206	-	-	-	-	-	206
Derivative financial obligations as a hedging instrument	-	-	84	-	-	-	84
Other liabilities	1,562	-	-	-	-	-	1,562
Subordinated debt	-	-	-	-	-	2,997	2,997
	<b>20,750</b>	<b>17,608</b>	<b>9,322</b>	<b>38,296</b>	<b>120,935</b>	<b>12,963</b>	<b>219,874</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.5 Fair value of financial assets and liabilities**

	Carrying value		(In thousand EUR) Fair value	
	2018.	2017.	2018.	2017.
<b>Financial assets</b>				
Cash balances and deposit accounts with central banks	93,503	108,046	93,503	108,046
Financial assets at amortized value				
-Loans and receivables from banks	17,113	26,070	17,113	26,070
-Loans and receivables from clients	91,165	61,914	91,165	61,914
-Other financial assets	10	-	10	-
Financial assets at FVOCI				
-Securities	54,235	22,680	54,235	22,680
Other assets	2,458	1,562	2,458	1,562
<b>Total assets</b>	<b>258,484</b>	<b>220,272</b>	<b>258,484</b>	<b>220,272</b>
<b>Financial liabilities</b>				
Financial liabilities at amortized value				
-Deposit from clients	245,015	207,227	245,015	207,227
-Loans from clients which are not banks	5,175	7,789	5,175	7,789
Derivative financial obligations as a hedging instrument	158	84	158	84
Subordinated debt	5,031	2,997	5,031	2,997
<b>Total liabilities</b>	<b>255,379</b>	<b>218,097</b>	<b>255,379</b>	<b>218,097</b>

No readily available market prices exist for a certain portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affects the estimates. Therefore, the calculated fair market estimates cannot be realized in a current sale of the financial instrument.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used:

*a) Loans and receivables from banks*

Loans and receivables from banks include inter-bank placements and line items in the course of collection.

The fair value of floating rate placements and overnight deposits approximates their carrying amount at the statement of financial position date.

*b) Loans and receivables from clients*

In order to determine the fair value of loans and advances to customers with fixed interest rate, measured at amortized cost, the Bank has performed comparison of the Bank's interest rate on loans and advances to customers with available information on the current market interest rates in the banking sector of the Montenegro i.e. average weighted market rates by activities.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.5 Fair value of financial assets and liabilities (continued)**

According to the Bank's management, the interest rates do not materially differ from prevailing market interest rates in the banking sector of Montenegro accordingly the fair value of loans to customers calculated as the present value of future cash flows discounted using current market rates, or the average weighted interest rate for the banking sector does not materially differ from the carrying value of the loans on the balance sheet date. According to the Bank's management, carrying values as presented in the Bank's financial statements represent values that are believed to be the most valid under the circumstances and most useful for the purposes of financial reporting.

*c) Securities*

Government bonds are valued at fair value based on market prices. At December 31, 2018, the market prices of government bonds valued at fair value in the Bank's portfolio were available. They refer to bonds issued by the Ministry of Finance of Montenegro with maturity from May 2019 to April 2025.

Government records are issued by the Ministry of Finance of Montenegro with a maturity of 182 days (due in February 2019). Considering the maturity of these bonds, the management of the Bank is of the opinion that the carrying amount of these financial instruments reflects their fair value at the balance sheet date.

*f) Financial liabilities*

For demand deposits and deposits with maturity less than one year, it is assumed that the estimated fair value is not materially different from their carrying values.

According to the Bank's management, Bank's interest rates are harmonized with the current market rates and the amounts stated in the financial statements represent the real values that are believed under the circumstances, to approximate the fair value of deposits with fixed interest rate and remaining maturity of over one year.

The fair value of borrowings with floating interest rates approximates their carrying value at the statement of financial position date.

*g) Fair value hierarchy*

Accountant policies applied in Montenegro requires disclosure of fair value measurement according to the following hierarchy levels:

- Quoted prices (unadjusted) on active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for an asset or a liability, either directly (that is, as prices) or indirectly (that is, as derived from prices) - (Level 2),
- inputs for asset or a liability that are not based on observable market data - (Level 3).

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.5 Fair value of financial assets and liabilities (continued)**

*g) Fair value hierarchy (continued)*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of the financial instruments which are not being traded on the active market is determined by various evaluation techniques. The Bank applies different methods and makes assumptions that are based on market conditions existing at the balance sheet date. These methods include quoted market prices or quoted prices for similar instruments, and the estimated discounted value of cash flows.

*h) Cash balances and deposit accounts with central banks*

Cash balances and deposit accounts with central banks include cash and cash equivalents at the treasury of the bank and on the accounts at Central bank of Montenegro.

Fair value of these financial assets is approximately equal to the carrying value of financial assets at the balance sheet day.

*i) Other financial receivables*

Other financial receivables include trade receivables, receivables from card operations, temporary accounts and other financial liabilities.

Fair value of these financial assets is approximately equal to the carrying value of financial assets at the balance sheet day.

Fair value hierarchy of financial instruments valuated at fair value

Estimated fair value of financial instruments, according to fair value were as follows:

<b>December 31, 2018.</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVOCI				
-Securities	54,235	-	-	54,235
<b>Total assets</b>	<b>54,235</b>	<b>-</b>	<b>-</b>	<b>54,235</b>
Derivative financial obligations as a hedging instrument	-	158	-	158
<b>Total liabilities</b>	<b>-</b>	<b>158</b>	<b>-</b>	<b>158</b>
<b>December 31, 2017.</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVOCI				
-Securities	22,680	-	-	22,680
<b>Total assets</b>	<b>22,680</b>	<b>-</b>	<b>-</b>	<b>22,680</b>
Derivative financial obligations as a hedging instrument	-	84	-	84
<b>Total liabilities</b>	<b>-</b>	<b>84</b>	<b>-</b>	<b>84</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.5 Fair value of financial assets and liabilities (continued)**

*Fair value hierarchy of financial instruments which are not valuated at fair value*

Estimated fair value of financial instruments, according to fair value hierarchy were as follows:

<b>31 December 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	<b>Carrying value</b>
Cash balances and deposit accounts with central banks	-	93,503	-	93,503	93,503
Financial assets at amortized value					
-Loans and receivables from banks	-	-	17,113	17,113	17,113
-Loans and receivables from clients	-	-	91,165	91,165	91,165
-Other financial assets	-	-	10	10	10
Other assets	-	-	2,458	2,458	2,458
<b>Total assets</b>		<b>93,503</b>	<b>110,746</b>	<b>204,249</b>	<b>204,249</b>
Financial liabilities at amortized value					
-Deposits from clients	-	-	245,015	245,015	245,015
-Loans from clients which are not banks	-	-	5,175	5,175	5,175
Subordinated debt	-	-	5,031	5,031	5,031
<b>Total liabilities</b>	-	-	<b>255,221</b>	<b>255,221</b>	<b>255,221</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.



**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.5 Fair value of financial assets and liabilities (continued)**

<b>31 December 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	<b>Carrying value</b>
Cash balances and deposit accounts with central banks	-	108,046	-	108,046	108,046
Financial assets at amortized value					
-Loans and receivables from banks	-	-	26,070	26,070	26,070
-Loans and receivables from clients	-	-	61,914	61,914	61,914
Other assets	-	-	1,562	1,562	1,562
<b>Total assets</b>	<b>-</b>	<b>108,046</b>	<b>89,546</b>	<b>197,592</b>	<b>197,592</b>
Financial liabilities at amortized value					
-Deposits from clients	-	-	207,227	207,227	207,227
-Loans from clients which are not banks	-	-	7,789	7,789	7,789
- Deposits from banks and central banks	-	-	206	206	206
-Loans and banks and central banks	-	-	9	9	9
Subordinated debt	-	-	2,997	2,997	2,997
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>218,228</b>	<b>218,228</b>	<b>218,228</b>

**6.6. Capital management**

The Bank's capital management objectives are:

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

The Bank's management controls capital adequacy by applying the methodologies and limits prescribed by the Central Bank of Montenegro in the Decision on Capital Adequacy (Official Gazette of Montenegro, No. 38/11, 55/12 and 82/17). In accordance with the regulations, the Bank submits quarterly reports on the capital condition and structure to the Central Bank of Montenegro.

The Bank's regulatory capital is divided in core capital and supplementary capital. The sum of core elements of regulatory capital deducted for the sum of deductible items represents core capital of the Bank

Core elements of regulatory capital of a bank are the following:

- 1) paid-in share capital at nominal value, excluding cumulative preferential shares;
- 2) collected issue premiums;
- 3) loan loss provisions under regulatory requirement established in accordance with the decision regulating minimum standards for credit risk management in banks;
- 4) reserves established against post-tax income (legal, statutory, and other reserves);
- 5) undistributed prior years profit;
- 6) current year income if the shareholders' assembly decided to allocate current year income in core capital of the Bank.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.6. Capital management (continued)**

Deductible items in the calculation of core capital shall be as follows:

- 1) prior years losses;
- 2) current year loss;
- 3) intangible assets such as goodwill, licenses, patents, trademarks and concessions;
- 4) nominal amount of acquired own shares, excluding cumulative preferential shares;
- 5) unrealized loss on fair value adjustment of financial assets available for sale;
- 6) positive difference between the amount of calculated loan loss provisions and the sum of the amount of allowances for impairment on balance sheet and provisioning for off-balance sheet items;
- 7) excess of limit in investing in real estates and fixed assets specified under special regulation of the Central Bank.

The sum of supplementary elements of regulatory capital deducted for the sum of deductible items represents supplementary capital of the Bank.

Supplementary elements of regulatory capital to be included in the supplementary capital of a bank are the following:

- 1) nominal value of paid-in cumulative preferential shares;
- 2) paid issue premiums based on cumulative preferential shares;
- 3) general reserves up to 1.25% of total risk weighted assets at a maximum;
- 4) subordinated debt meeting the requirements set out in the Central Bank of Montenegro Decision on capital adequacy;
- 5) hybrid instruments meeting the requirements set out in the Central Bank of Montenegro Decision on capital adequacy;
- 6) revaluation reserves for real estate property owned by a bank.

Deductible items in the calculation of supplementary capital are the following:

- 1) acquired own cumulative preferential shares;
- 2) receivables and contingent liabilities secured by hybrid instruments or subordinated debt up to the amount these instruments have been included in supplementary capital.

In accordance with the requirements of the Central Bank of Montenegro, the Bank is under obligation to maintain a minimum capital adequacy ratio of 10%. The Bank is required to maintain certain minimum or maximum ratios with respect to its scope of activities and composition of risk assets in compliance with the Law on Banks of Montenegro and with the Central Bank of Montenegro Regulations. As at 31 December 2018, the solvency ratio calculated by the Bank amounted to 25.40% (2017: 17.60%). The Bank's compliance with regulatory indicators is given in Note 26.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.7. Sensitivity analysis**

**6.7.1. Sensitivity analysis (Foreign Exchange Risk)**

The management of foreign exchange risk, in addition to the analysis of Bank's assets and liabilities in foreign currency, includes the analysis of risk inherent in the fluctuations in foreign currency exchange rates.

The table, which follows, sets out the scenario for the changes in the exchange rates ranging from +10% to - 10% as compared to EUR.

	<b>Total</b>	<b>2018. Amount in foreign currency</b>	<b>(In thousand EUR) Change in exchange rate</b>	
			<b>10%</b>	<b>-10%</b>
<b>Financial assets</b>				
Cash balances and deposit accounts with central banks	93,503	579	58	(58)
Financial assets at amortized value				
-Loans and receivables from banks	17,113	8,901	890	(890)
Off balance sheet - Contracts on the purchase of foreign currencies	8,871	8,871	887	(887)
<b>Total financial assets and off-balance sheet assets exposed to foreign exchange risk</b>	<b>119,487</b>	<b>18,335</b>	<b>1,835</b>	<b>(1,835)</b>
<b>Financial liabilities</b>				
Financial liabilities at amortized value				
-Deposit from clients	245,015	18,204	1,820	(1,820)
-Loans from clients which are not banks	5,175	-	-	-
Derivate financial obligations as a hedging instrument	158	-	-	-
<b>Total financial liabilities</b>	<b>250,348</b>	<b>18,204</b>	<b>1,820</b>	<b>(1,820)</b>
<b>Net exposure to foreign exchange risk</b>				
<b>December 31, 2018.</b>			<b>15</b>	<b>(15)</b>
<b>December 31, 2017.</b>			<b>(24)</b>	<b>24</b>

As at December 31, 2018, under the assumption that all other parameters remain the same upon the change in the EUR exchange rate, as compared to other currencies, by +10%, i.e. -10%, the Bank's profit would decrease, i.e., increase by 15 thousand (December 31, 2017: decrease, i.e., increase by EUR 24 thousand). The reason why the Bank's exposure to currency risk is small is based on the fact that the major portion of the Bank's assets and liabilities is denominated in EUR.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**6. RISK MANAGEMENT (CONTINUED)**

**6.7. Sensitivity analysis (continued)**

**6.7.1. Sensitivity analysis (Foreign Exchange Risk) (continued)**

In the process of interest rate risk management, the bank analyses sensitivity to changes in assets and liabilities with variable interest rates. The following table shows the effect of changes in variable interest rates on receivables and denominated in EUR in the range of +0.4% p.p. to -0.4% p.p.

	(In thousand EUR)		
	Net effect as a result of a change in interest rates		
	2018.	+0.4 b.p. EUR KS	-0.4 b.p. EUR KS
<b>Financial assets</b>			
Cash balances and deposit accounts with central banks	93,503	-	-
Financial assets at amortized value			
-Loans and receivables from banks	17,113	-	-
-Loans and receivables from clients	91,165	365	(365)
-Other financial receivables	10	-	-
Financial assets at FVOCI			
-Securities	54,235	217	(217)
Other assets	2,458	-	-
	<u>258,484</u>	<u>582</u>	<u>(582)</u>
<b>Financial liabilities</b>			
Financial liabilities at amortized value			
-Deposits from clients	245,015	980	(980)
-Loans from clients which are not banks	5,175	21	(21)
Derivate financial obligations as a hedging instrument	158	-	-
Subordinated debt	5,031	20	(20)
	<u>255,379</u>	<u>1,021</u>	<u>(1,021)</u>
<b>Net exposure to foreign exchange risk</b>			
<b>December 31, 2018.</b>		<u>(439)</u>	<u>439</u>
<b>December 31, 2017.</b>		<u>(536)</u>	<u>536</u>

Under the assumption that all other parameters remain the same, the increase, or decrease in variable interest rates applied to assets and liabilities denominated in EUR by 0.4 p.p., the Bank's profit would increase, or decrease for EUR 439 thousand.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**7. INTEREST INCOME AND EXPENSE**

**a) Interest income and other similar income**

<b>(In thousand EUR)</b>	<b>2018.</b>	<b>2017.</b>
Deposits with:		
- foreign banks	43	11
Loans:		
- corporate	2,538	2,455
- retail	316	448
	<u>2,897</u>	<u>2,914</u>
Securities	922	584
	<u>3,819</u>	<u>3,498</u>
Income from loan fees	122	125
	<u>3,941</u>	<u>3,623</u>

**b) Interest expenses and other similar expenses**

<b>(In thousand EUR)</b>	<b>2018.</b>	<b>2017.</b>
Deposits:		
- corporate	507	439
- retail	296	263
Securities	348	70
Loans and other borrowings	176	151
	<u>1,327</u>	<u>923</u>

**8. NET EXPENSES BASED ON IMPAIRMENT FINANCIAL INSTRUMENTS NOT VALUED AT FAIR VALUE THROUGH INCOME STATEMENT**

**a) Impairment cost**

<b>(In thousand EUR)</b>	<b>2018.</b>	<b>2017.</b>
Impairment cost of balance and off-balance sheet items	247	332
Impairment cost of investments in subsidiaries	-	150
	<u>247</u>	<u>482</u>

**b) Changes in impairment accounts in 2018.**

<b>Balance as at-December 31,2017.</b>	<b>1,093</b>
<i>Implementation effect of IFRS-9</i>	636
<b>Balance as at-January 1, 2018.</b>	<b>1,729</b>
Increase of provision during the year	1,007
Reversal of provision during the year	(760)
<b>Balance as at-December 31,2018.</b>	<b>1,976</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**9. FEE AND COMMISSION INCOME AND EXPENSES**

**a) Fee and commission income**

<b>(In thousand EUR)</b>	<b>2018.</b>	<b>2017.</b>
Fees and commissions for foreign payments	1,321	758
Fees for opening and maintaining the account	410	141
Fees on credit card business	534	177
Fees from transactions payments and e- banking	168	113
Fees from brokering and custody	65	78
Commission fees	627	119
Fees from off-sheet operations	73	51
Other fees and provisions	245	140
	<b>3,443</b>	<b>1,577</b>

**b) Fee and commission expenses**

<b>(In thousand EUR)</b>	<b>2018.</b>	<b>2017.</b>
Deposit insurance premium fees	1,102	617
Fees of the Central Bank	403	304
Visa and Master card fees	221	122
International bank charges fees	124	137
Fees for electronic banking	104	75
Other fees	107	104
	<b>2,061</b>	<b>1,359</b>

**10. NET PROFIT DUE TO DERECOGNITION OF FINANCIAL INSTRUMENTS NOT VALUED AT FVOCI AND NET LOSSES FROM FINANCIAL INSTRUMENTS HELD FOR TRADING**

**10a. Net profit due to derecognition of financial instruments not valued at FVOCI**

<b>(In thousand EUR)</b>	<b>2018.</b>	<b>2017.</b>
Government bonds	197	412
	<b>197</b>	<b>412</b>

These revenues refer to gains on the sale of government bonds classified as FVOCI (through other results), i.e. as available for sale (2017).

**10b. Net losses from financial instruments held for trading**

Net losses on financial instruments as at December 31, 2018 amounted to EUR 175 thousand (as at December 31, 2017 amounted to 27 thousand) and were created from earnings from a contracted Swap operation as well as reducing Swap obligation at fair value. Namely, Swap has classified as derivative financial obligations as hedging instrument as financial liability carried at fair value through income statement. This amount is the effect of reducing the contracted exchange rate relative to the reporting date.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**11. PERSONAL EXPENSES**

<b>(In thousand EUR)</b>	<b>2018.</b>	<b>2017.</b>
Net salaries	731	641
Taxes, surtaxes and contributions on salaries	510	451
Fees to members of Board of Directors	125	116
Travel costs and daily allowances	52	32
Retirement benefits and jubilee awards	-	3
Fees for temporary jobs	20	26
Staff training	2	8
Other net payments to employees	10	9
Provisions for pensions	-	-
	<b>1,450</b>	<b>1,286</b>

**12. GENERAL ADMINISTRATIVE EXPENSES AND DEPRECIATION COST**

**12a. General administrative expenses**

<b>(In thousand EUR)</b>	<b>2018.</b>	<b>2017.</b>
Representative office costs	307	379
Computer and equipment maintenance	163	134
Miscellaneous expenses	109	88
Rental cost	84	68
Membership fees and contributions	115	66
Security costs	71	63
Advertising and marketing	19	57
Communications networks	45	53
Consulting fees	45	40
Electricity and fuel	41	39
Insurance	51	38
Phone cost	38	35
Representation costs	42	30
Audit	30	29
Office supply expenses	16	13
Utilities	4	5
Court expenses	12	4
Postage	11	2
	<b>1,203</b>	<b>1,143</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**12. GENERAL ADMINISTRATIVE EXPENSES AND DEPRECIATION COST (CONTINUED)**

**12b. DEPRECIATION COST**

(In thousand EUR)

	<u>2018.</u>	<u>2017.</u>
Property, plant and equipment (Note 18)	197	171
Intangible assets (Note 19)	174	121
	<u>371</u>	<u>292</u>

**13. OTHER INCOME**

(In thousand EUR)

	<u>2018.</u>	<u>2017.</u>
Collection from written-off loans	4	7
Other extraordinary income	4	-
Correction from the previous year	1	165
Lease income	5	4
	<u>14</u>	<u>176</u>

**14. INCOME TAXES**

**a) Components of income taxes**

(In thousand EUR)

	<u>2018.</u>	<u>2017.</u>
Current taxes	62	36
Deferred taxes	11	30
	<u>73</u>	<u>66</u>

**b) Numerical reconciliation between tax expense and the product of accounting results multiplied by the applicable tax rate**

(In thousand EUR)

	<u>2018.</u>	<u>2017.</u>
Result in income statement before tax	1.113	430
Depreciation expenses in income statement	371	292
Depreciation expenses for tax purposes	(512)	(502)
Other	166	30
<b>Total</b>	<u>1.138</u>	<u>250</u>
Capital gains	(224)	(412)
Capital losses	-	7
Effects of implementation of legislation on January 1, 2013.	101	-
Profit in tax balance	914	-
Loss in tax balance	-	(155)
Used tax losses from previous years	432	-
Total capital gains of current year	<u>224</u>	<u>405</u>
The amount of tax for capital gains	20	36
The amount of taxes from tax registration	65	36
Deferred income tax	11	30
Cost of income tax	76	66
Reduction of tax liability based on in time payment	3	-
Total cost of income tax	73	66
Effective tax rate	<u>6.5%</u>	<u>15%</u>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.



**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**14. INCOME TAXES (CONTINUED)**

**- Deferred tax**

Deferred tax is recognized in amount of EUR 11 thousand as 9% on difference between current carrying value and tax base of fixed asset resulted as a consequence of difference of calculated accounting and tax depreciation of fixed asset for 2018.

Deferred tax assets in amount of 37 thousand are recognized for losses in fair value of debt instruments which are classified in model FVOCI (EUR 4 thousand) and investments in Universal Capital Development, classified as FVOCI option (EUR 33 thousand). Mentioned deferred tax assets are recognized in equity.

**15. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS**

**(In thousand EUR)**

	<b>2018.</b>	<b>2017.</b>
Cash in hand:		
- in EUR	149	82
- in foreign currency	8	1
Cash in treasury:		
- in EUR	12,829	4,504
- in foreign currency	571	286
Cash at ATM	-	-
Gyro account	61,051	89,012
Obligatory reserves with the Central Bank of Montenegro	18,895	14,161
	<b>93,503</b>	<b>108,046</b>

The Bank's obligatory reserves as at December 31, 2018 were set aside in accordance with the Decision of Central Bank of Montenegro on obligatory reserve of the banks to be held with the Central Bank of Montenegro (Official Gazette of Montenegro, No. 35/11, 22/12, 61/12 and 57/13, 52/14, 7/15 and 70/17) (hereinafter: the Decision), which prescribes that Bank's allocate the obligatory reserve by applying rate of:

- 7.5% on deposits base which is consisted of demand deposits and deposits with agreed maturity up to one year, or up to 365 days and
- 6.5% on deposit base which is consisted of deposits with agreed maturity over one year, or over 365 days.

**Cash and cash equivalents (for the purposes of compiling the Individual Cash Flow Statement):**

**(In thousand EUR)**

	<b>2018.</b>	<b>2017.</b>
Cash in hand:		
- in EUR	149	82
- in foreign currency	8	1
Cash in treasury:		
- in EUR	12,829	4,504
- in foreign currency	571	286
Cash at ATM	-	-
Gyro account	61,051	89,012
Obligatory reserves with the Central Bank of Montenegro	18,895	14,161
Funds at CDA	-	-
Loans and receivables from banks	16,319	23,425
<b>Total</b>	<b>109,822</b>	<b>131,471</b>

Calculated obligatory reserves, the Bank set aside onto domestic accounts of obligatory reserves and/or onto the accounts of the Central Bank abroad. The obligatory reserve is held in EUR.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**15. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS (CONTINUED)**

Till December 31, 2018:

- For the amount of 50% of the obligatory reserve of the set aside requirement, the Central Bank pays monthly fee up to eight in the month for previous month, calculated fee at a rate equal to EONIA minus 10 basis points per annum, with a note that this rate cannot be less than zero.

For the maintenance of daily liquidity, the Bank may use up to 50% of the allocated funds of regulatory reserve. On the used amount of the regulatory reserve returned on the same day the Bank does not pay a fee. On the amount of the regulatory reserve not returned on the same day the Bank is required to pay a monthly fee at a rate determined by a special regulation of the Central Bank of Montenegro.

**16. FINANCIAL ASSETS AT AMORTIZED VALUE**

**16.a. KREDITI I POTRAŽIVANJA OD BANAKA**  
**(In thousand EUR)**

	<u>2018.</u>	<u>2017.</u>
Correspondent accounts held at foreign banks	17,119	26,070
Impairment of loans and receivables from banks (Note 8b)	(6)	-
<b>Total</b>	<u>17,113</u>	<u>26,070</u>

Changes on accounts of impairment of loans and receivables from banks:

	Balance January 1, 2018.	increase/ reduction	Balance December 31,
Impairment	(11)	5	(6)

As at 31 December 2018, the Bank has no violation of the indicators defined in Article 58 of the Banking Law (as at 31 December 2017, the Bank had exposure to one bank in an amount exceeding 25% of its own funds, which was not in accordance with Article 58 of the Law on Banks). The compliance of the Bank with regulatory indicators is given in Note 26.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**16. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)**

**16.b. LOANS AND RECEIVABLES FROM CLIENTS**

<b>(In thousand EUR)</b>	<b>2018.</b>	<b>2017.</b>
<i>Loans:</i>		
- Legal entities	88,294	58,086
- Individuals	4,191	4,348
- Other – entrepreneurs and non-government organization	101	175
- Public organization	-	-
	<b>92,586</b>	<b>62,609</b>
<i>From which:</i>		
Short term loans:		
- Legal entities	5,972	7,311
- Individuals	58	58
	<b>6,030</b>	<b>7,369</b>
Long – term loans:		
- Legal entities	82,322	50,775
- Individuals	4,133	4,290
- Other – entrepreneurs and non-government organization	101	175
- Public organization	-	-
	<b>86,556</b>	<b>55,240</b>
<i>Interest receivables:</i>		
-Loans	327	388
<i>Accruals:</i>		
-interest on loans	251	160
-fees on loans	(290)	(176)
	<b>92,874</b>	<b>62,981</b>
<i>Minus:</i>		
Impairment on loans (Note 8b)	(1,576)	(944)
Impairment on interest (Note 8b)	(133)	(123)
	<b>(1,709)</b>	<b>(1,067)</b>
	<b>91,165</b>	<b>61,914</b>

Short-term loans to corporate entities are mostly approved for current assets with maturities from one month to 12 months, while long-term loans are granted for a period of 12 to 240 months and mostly relate to companies in the areas of hospitality, trade, mining and energy, services, etc.

Loans to retail customers include cash loans, loans for housing construction, tourist loans, mortgage loans, pensioner's loans and micro loans approved for the period from 12 to 240 months.

The geographical concentration of loans to customers in the Bank's loan portfolio mainly relates to clients domiciled in the territory of Montenegro, mostly in central region and in the coast.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**16. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)**

**16b. LOANS AND RECEIVABLES FROM CLIENTS (continued)**

The concentration of the Bank's gross loan placements with clients per separate industries was as follows:

<b>(In thousand EUR)</b>	<b>2018.</b>	<b>2017.</b>
Construction	15,028	16,427
Retail	4,191	4,356
Art and entertainment activities	3,467	7,281
Transport and storage	1,122	1,284
Trade and real estate trading	36,072	5,159
Manufacturing	789	1,654
Restaurant and accommodation services	11,962	13,500
State administration and mandatory social insurance	5,000	5,000
Supply of electrical energy	141	158
Mining	724	851
Health and social care	1,165	931
Professional, scientific and technical activities	10,938	5,489
Agriculture, forestry and fishing	73	99
Administrative and support service activities	127	135
Information and communication	1,612	20
Other service activities	175	265
	<b>92,586</b>	<b>62,609</b>

Transfers of gross exposure and corrections by levels are shown in the following tables:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>January 1, 2018</b>	<b>55,713</b>	<b>2,243</b>	<b>5,025</b>	<b>62,981</b>
New receivables	41,477	1,781	934	44,192
Reduction/Payment receivables	(11,540)	(903)	(1,771)	(14,214)
Transfer to level 1	-	(239)	(1)	(240)
Transfer to level 2	(2,791)	-	(206)	(2,997)
Transfer to level 3	(36)	(80)	-	(116)
Transfer from other levels	240	2,997	116	3,353
Other changes	(357)	319	(47)	(85)
<b>December 31, 2018</b>	<b>82,706</b>	<b>6,118</b>	<b>4,050</b>	<b>92,874</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**16. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)**

**16b. LOANS AND RECEIVABLES FROM CLIENTS (continued)**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>January 1, 2018 impairment</b>	<b>351</b>	<b>104</b>	<b>892</b>	<b>1.347</b>
New receivables	335	354	227	916
Reduction/Payment receivables	(263)	(45)	(244)	(552)
Transfer to level 1	-	(2)	-	(2)
Transfer to level 2	(165)	-	(3)	(168)
Transfer to level 3	(21)	(10)	-	(31)
Transfer from other levels	2	168	31	201
Other changes	188	(155)	(35)	(2)
<b>December 31, 2018</b>	<b>427</b>	<b>414</b>	<b>868</b>	<b>1,709</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**17. FINANCIAL ASSET AT FAIR VALUE TROUGH OTHER RESULT**

**Securities**

Government bonds as at December 31, 2018 amounted to EUR 29,026 thousand (December 31, 2017: EUR 13,305 thousand) and refer to euro bonds issued by the Ministry of Finance of Montenegro with a fixed interest rate from 3.875% to 5.75%, and with maturity from May 2019 to April 2025.

As at December 31, 2018, the balance of the treasury bills amounted to EUR 24,993 thousand (31 December 2017: EUR 8,795 thousand) and was issued by the Ministry of Finance of Montenegro with a maturity of 182 days. The balance consists of treasury bills purchased at auctions in the period from August 2018 with maturity in February 2019, with income rate from 0.51% to 0.60%.

During 2018, the Bank carried out an independent assessment of the overall assets and liabilities of Universal Capital Development and made a reduction to the fair value of EUR 215 thousand (December 31, 2017: 580 thousand).

a) Structure by type of financial assets:

	December 31, 2018.	December 31, 2017.
Debt securities	54,020	22,100
-Treasury bills	24,993	8,795
-Government bonds	29,027	13,305
Investments in capital of dependent legal entities (FVOCI option)	215	580
<b>Total</b>	<b>54,235</b>	<b>22,680</b>
Impairment of debt securities (Note 8b)	(77)	-

b) Changes on impairment accounts of financial instruments at fair value trough other result

	Balance January 1 2018.	Increase/ reduction	Balance December 31, 2018.
Impairment	(26)	(51)	(77)

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**18. PROPERTIES, PLANTS AND EQUIPMENT**

Movements in property, plant, equipment and other assets for 2018 and 2017 are presented as follows:

<b>(In thousand EUR)</b>	<b>Buildings</b>	<b>Equipment and other Assets</b>	<b>Investments in progress</b>	<b>Total</b>
<i>Cost</i>				
Balance, January 1, 2017	2,839	1,577	86	4,502
Additions	-	289	598	887
Transfers to intangible assets	-	-	(338)	(338)
Transfers	-	-	(274)	(274)
<i>Balance, December 31, 2017</i>	<b>2,839</b>	<b>1,866</b>	<b>72</b>	<b>4,777</b>
Additions	-	113	334	447
Transfers to intangible assets	-	-	(275)	(275)
Reduction – write off	-	(555)	-	(555)
Transfers	-	-	(115)	(115)
<i>Balance, December 31, 2018</i>	<b>2,839</b>	<b>1,424</b>	<b>16</b>	<b>4,279</b>
<i>Impairment</i>				
Balance, January 1, 2017	(28)	(1,092)	-	(1,120)
Depreciation (Note 12b)	(51)	(143)	-	(194)
Disposal	-	-	-	-
<i>Balance, December 31, 2017</i>	<b>(79)</b>	<b>(1,235)</b>	<b>-</b>	<b>(1,314)</b>
Depreciation (Note 12b)	(28)	(169)	-	(197)
Disposal	-	552	-	552
<i>Balance, December 31, 2018</i>	<b>(107)</b>	<b>(852)</b>	<b>-</b>	<b>(959)</b>
<i>Current value</i>				
<i>December 31, 2018</i>	<b>2,732</b>	<b>572</b>	<b>16</b>	<b>3,320</b>
<i>December 31, 2017</i>	<b>2,760</b>	<b>633</b>	<b>72</b>	<b>3,464</b>

As at December 31, 2018, the Bank does not have property under pledge to ensure repayment of loans and other liabilities.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**19. INTANGIBLE ASSET**

Intangible assets mostly comprise licenses and software. The movements on intangible assets in the course of 2018 and 2017 were as follows:

<b>(In thousand EUR)</b>	<b>2018.</b>	<b>2017.</b>
Cost		
Balance, January 1	1,437	1,099
Write off	(277)	-
Transfer from property, plants and equipment (Note 18)	275	338
<b>Balance, December 31</b>	<b>1,435</b>	<b>1,437</b>
Impairment		
Balance, January 1	845	725
Depreciation (Note 12b)	174	120
Write off	(269)	-
	750	845
<b>Unwritten off value as at December 31</b>	<b>685</b>	<b>591</b>

**20. OTHER ASSETS**

Other assets refer to:

<b>(In thousand EUR)</b>	<b>2018.</b>	<b>2017.</b>
Assets acquired through collection of receivables	3,939	4,189
Receivables from costumer	392	446
Credit card receivables	827	827
Temporary account	972	121
Prepaid costs	341	157
Other receivables	122	111
	<b>6,593</b>	<b>5,851</b>

Other assets in the amount of EUR 6,593 thousand (December 31, 2017, this balance sheet position consisted of: other financial receivables: EUR 1,564 thousand and other operating receivables EUR 4,346 thousand) mostly refer to assets acquired through collection of receivables that the Bank owns it in the amount of EUR 3,939 thousand (December 31, 2017: EUR 4,189 thousand). The assets acquired are recorded at the lower of the total value of the receivables and the estimated value of the asset.



**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**21. FINANCIAL LIABILITIES AT AMORTIZED VALUE**

**21.a. Deposits from clients**

(In thousand EUR)

	<u>2018.</u>	<u>2017.</u>
Deposits at demand		
- legal entities	101,435	77,398
- legal entities with majority state ownership	-	35
- funds	320	393
- regulatory agencies	134	134
- entrepreneurs	47	4
- individuals	75,605	89,771
- non-profit organizations	19	9
- other	32	5,012
	<u>177,592</u>	<u>172,756</u>
Short-term deposits		
- legal entities	21,457	6,636
- individuals	4,606	327
	<u>26,063</u>	<u>6,963</u>
Long-term deposits		
- legal entities	5,702	18,424
- individuals	35,434	8,876
	<u>41,136</u>	<u>27,300</u>
Interest on deposits	224	208
	<u>245,015</u>	<u>207,227</u>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**21. FINANACIAL LIABILITIES AT AMORTIZED VALUE (CONTINUED)**

**21.b. Loans from clients which are not banks**

(In thousand EUR)

	2018.	2017.
European Investment Bank	600	947
Evident interest	4	5
	<b>604</b>	<b>952</b>
Investment Development Fund	4,571	6,272
	<b>4,571</b>	<b>6,272</b>
Wellrock Ventures Limited	-	564
Evident interest	-	1
	-	<b>565</b>
<b>Total</b>	<b>5,175</b>	<b>7,789</b>

As at December 31, 2018, borrowings in the amount of EUR 604 thousand (December 31, 2017: EUR 952 thousand) relate to the liabilities to European Investment Bank arising from a loan intended for financing and development of small and medium enterprises. The interest rate on the taken loans from EIB ranges from 2.19% to 3.66%. Maturity is from seven to eleven years. The Bank has no obligation of fulfilment of financial indicators upon the specified loans.

As at December 31, 2018, borrowings in the amount of EUR 4,571 thousand (December 31, 2017: EUR 6,272 thousand) relate to the liabilities to Investment-Development Fund arising from several long-term loans. The interest rate on the taken loans from EIB ranges from 1% to 4%. Maturity is from 3 to 10 years. The Bank has no obligation of fulfilment of financial indicators upon the specified loans.

Maturity upon years is presented in the following tables:

*European Investment Bank:*

(In thousand EUR)

	2018.	2017.
Up to 1 year	320	346
Up to 2 years	218	320
Up to 3 years	62	219
Up to 4 years	-	62
Up to 5 years	-	-
	<b>600</b>	<b>947</b>

*Investment Development Fund:*

(In thousand EUR)

	2018.	2017.
Up to 1 year	788	726
Up to 2 years	713	817
Up to 3 years	723	763
Up to 4 years	720	870
Up to 5 years	433	869
Over 5 years	1,194	2,227
	<b>4,571</b>	<b>6,272</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2018.**

**22. DERIVATIVE FINANCIAL OBLIGATIONS AS A HEDGING INSTRUMENT**

Swap arrangement at correspondent banks SberBank and Intesa Sanpaolo, Bosnia and Hercegovina and the Bank sold GBP 6,3 and bought EUR 7,5 million for the period of one year, where the Bank protected itself from fluctuations in exchange rates EUR/GBP. Available assets in EUR the Bank invested in debt bonds with maturity from 2019 to 2021, until when the Swap jobs will be prolonged.

Swap is classified as a financial instrument at fair value through income statement. In the balance sheet are presented within the position derivatives that are held as a hedge of foreign exchange risk. Book keeping of contracted swap transactions are performed off-balance sheet, while the effect of a contracted exchange rate on the reporting date is recorded within the derivative position in the balance sheet and within the position of net gains / losses on financial instruments held for trading. As at December 31, 2018 net losses amounted to EUR 158 thousand (31 December 2017: EUR 84 thousand) (Note 10b).

**23. OTHER LIABILITIES**

(In thousand EUR)

	2018.	2017.
Trade payables	95	117
Payments for founding capital	160	11
Advances received	133	103
Liabilities at custody operations	775	388
Broker operations liabilities	216	55
Temporary account	337	46
Other liabilities	6	7
	<b>1,722</b>	<b>727</b>

**24. SUBORDINATED DEBT**

As at 31 December 2018, the Bank has a subordinated debt in amount of EUR 1,000 thousand (31 December 2017 in the amount of EUR 1,001 thousand) related to funds received from SDS Management DMCC where there is one amount of EUR 751 thousand, with an interest rate of 0.50 % and maturity of August 24, 2023 and second one in the amount of EUR 251 thousand with an interest rate of 0.50% and maturity Jun 3, 2023(taken from NER Holding LTD under the Agreement on the Cession of Receivables).

At Shareholder Assembly held on May 28, 2018 the Decision about issuing convertible bonds was made to well-known buyer SDS Management DCC Dubai in the total amount of EUR 2,024 thousand. Based on the Decision of the commission for securities from June 22, 2018 the Bank has successfully issued convertible bonds in the amount of EUR 2,024 with maturity up to 5 years and 6 months and at fixed rate of 1% yearly. As at December 31, the amount of these bonds amounts EUR 4,029 which represent the other part of total subordinated debt which as at December 31, 2018 amounts EUR 5,031 thousand (31, December 2017 EUR 2,997 thousand).

**25. SHARE CAPITAL**

As at December 31, 2018, the Bank's share capital consists of 16,002 ordinary shares (December 31, 2017:16,002 ordinary shares), of individual nominal value of EUR 0.50605821 (December 31, 2017 of individual nominal value EUR 0.50605821). The Law on Banks (Official Gazette of Montenegro, No. 17/08, 44/10, 40/11 and 73/17) defines the minimum amount of initial capital of Bank in the amount of EUR 5 million.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

## 25. SHARE CAPITAL (CONTINUED)

The ownership structure of the Bank's equity as at December 31, 2018 and 2017 was as follows:

Shareholder name	2018.			2017.		
	Number of shares	(In thousand EUR)	% share	Number of shares	(In thousand EUR)	% share
Sigma Delta Holdings	13,653	6,910	85.32%	10,067	5,095	62.91%
Ner Holding LTD	-	-	-	3,131	1,585	19.57%
Sigma Delta Investments	2,288	1,158	14.30%	2,288	1,158	14.30%
Pairaktaridis Emmanouil	-	-	-	455	230	2.84%
Seriatos Gerasimos	20	10	0.12%	20	10	0.12%
Other	41	20	0.25%	41	20	0.25%
	<b>16,002</b>	<b>8,098</b>	<b>100.00%</b>	<b>16,002</b>	<b>8,098</b>	<b>100.00%</b>

## 26. COMPLIANCE WITH REGULATORY REQUIREMENTS OF THE CENTRAL BANK OF MONTENEGRO

In accordance with the regulations of the Central Bank of Montenegro, the Bank is obliged to maintain minimum solvency ratio of 10%. The Bank is required to maintain certain ratios pertaining to the volume of its activities and composition of risk assets in compliance with the Law on Banks and regulations of the Central Bank of Montenegro.

(In thousand EUR)	The realised indicators of business performance	
	2018.	2017.
Foundation capital (minimum amount of EUR 5 million)	8,098	8,098
Regulatory capital of the Bank (minimum amount of EUR 5 million)	11,606	9,193
	25.40%	17.60%
The solvency ratio (the minimum amount of 10%)	1.85%	2.29%
	1.81%	2.24%
Daily liquidity ratio as at December 31 (minimum coefficient of 0.9)	20.43%	34.21%
Decade liquidity ratios for the decade ending as at December 31 (minimum coefficient of 1)	144.37%	392.82%
	8.44%	9.76%
The Bank's exposure to a single entity or group of related entities (limit 25% of regulatory capital of the Bank)	0.45%	0.61%
The sum of large exposures (limit 800% of regulatory capital of the Bank)	0.10%	0.12%
The total exposure to related parties of the Bank (limit 200% of regulatory capital of the Bank)	4.73%	5.70%
The total exposure to an employee of the Bank (limit 1% of regulatory capital of the Bank)	0.05%	0.15%

The Law on Banks has defined that exposure to one or a group of related parties must not exceed 25% of own funds.

As at December 31, 2018, the Bank had no exposure to one or a group of related parties that exceeds 25% of its own funds (as of December 31, 2017, the Bank had an exposure of 34.21% to one legal entity).

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

## 27. OFF BALANCE SHEET ITEMS

	2018.	2017.
Irrevocable commitments for loan approval	2,942	14,534
Irrevocable letters of credit issued for payments abroad	8	94
Issued payable guarantees	3,688	2,644
Off-balance sheet assets that are classified (gross)	<b>6,638</b>	<b>17,272</b>
Provisions for losses on off-balance sheet items	<b>(135)</b>	<b>(13)</b>
Off-balance sheet assets that are classified (net)	<b>6,503</b>	<b>17,259</b>
Forward foreign currency sales	(157)	(84)
Other off-balance sheet items exposure of banks-custody	40,156	24,407
Written off receivables from internal records	388	-
Collaterals securing receivables	110,474	87,644
<b>Off-balance sheet assets that are not classified</b>	<b>150,861</b>	<b>111,967</b>
<b>Total off-balance sheet items (gross)</b>	<b>157,499</b>	<b>129,239</b>
<b>Provision for losses at off-balance sheet (Note 8b)</b>	<b>(135)</b>	<b>(13)</b>
<b>Total off-balance sheet (net)</b>	<b>157,364</b>	<b>129,226</b>

## 28. RELATED PARTY TRANSACTIONS

Law on Banks ("Off. Gazette of Montenegro" no. 17/08, 44/10, 40/11 and 73/17) defines that significant influence on the Bank's operation have persons appointing at least one representative on the Board of Directors or a similar body either through shareholding, with the consent of the owners or in any other way. In accordance with the Law on Banks, related party transactions are presented in the following tables:

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

## 28. RELATED PARTY TRANSACTIONS (CONTINUED)

(In thousand EUR)

	2018.	2017.
<i>Loans and receivables</i>		
-individuals		
-legal entities:	263	480
-Fasamo d.o.o. Podgorica		
-Adriatic Properties d.o.o. Budva	15,000	15,000
-Golden Estate d.o.o. Podgorica	10,500	10,000
-Maestral Hotels and Casinos doo Budva	4,400	4,400
-SDS Management DMCC Dubai	2,587	5,194
-Nova Pobjeda d.o.o. Podgorica	-	393
-Adriatic Yachting Services d.o.o. Budva	156	55
-Portal Press d.o.o. Podgorica	10	10
-Benatureyou Limited Gibraltar	10	8
-Media-Nea d.o.o. Podgorica	5	-
Total loans and receivables	-	1
	<b>32,931</b>	<b>35,541</b>
<i>Deposits:</i>		
-individuals		
-legal entities:	1,415	4,338
-Maestral Hotels and Casinos doo Budva		
-Golden Estate d.o.o. Podgorica	7,283	38
-SDS Management DMCC Dubai	12	82
-Adriatic Properties d.o.o. Budva	3,237	13,483
-Fasamo d.o.o. Podgorica	1,642	655
-Sigma Delta Holdings d.o.o. Podgorica	336	2,426
-Nova Pobjeda d.o.o. Podgorica	77	82
-Adriatic Yachting services d.o.o. Budva	3	52
-Sigma Delta Investments d.o.o. Podgorica	59	101
-Universal Capital Development	25	33
-First Financial Holdings d.o.o. Podgorica	3	2
-Epidauros hotel d.o.o. Zagreb	9	2
-Vires d.o.o. Podgorica	5	6
-Adriatic Procurement d.o.o. Budva	209	183
-Novine d.o.o. Podgorica	57	46
-Portal Press d.o.o. Podgorica	-	10
-Dnevne novine d.o.o. Podgorica	-	9
-Monte Rock Internacional Dubai	1	5
-RMR Europe Investments Limited Kipar	635	-
-Viable Finance GMBH	250	-
-Ebenus Events Managements LLC Emirati	100	-
-SDS Gulf	77	-
-Benatureyou Limited Gibraltar	55	-
-Global Solutions d.o.o. Podgorica	19	-
-Nightsapphire Resorts LTD Kipar	8	-
-Novi Tender Oglasi d.o.o. Podgorica	2	-
-Media - Nea d.o.o. Podgorica	2	-
Total deposits:	1	1
	<b>15,522</b>	<b>21,554</b>
<i>Loans/(Deposits), net</i>	<b>17,409</b>	<b>13,987</b>
<i>Commission loans:</i>		
-Maestral Hotels and Casinos doo Budva		
-Adriatic Properties d.o.o. Budva	16,080	21,251
-Nightsapphire Resorts LTD Kipar	7,245	-
	6,837	-
Total commission loans	30,162	21,251
<i>Other receivables</i>		
-Nova Pobjeda d.o.o. Podgorica		
	379	409
	<b>379</b>	<b>409</b>
<i>Interest income:</i>		
-individuals		
-legal entities:	9	15
-Fasamo d.o.o. Podgorica		
-Adriatic Properties d.o.o. Budva	591	591
-SDS management DMCC Dubai	250	249
-Maestral Hotels and Casinos doo Budva	19	45
-Golden Estate d.o.o. Podgorica	110	147
-Nova Pobjeda d.o.o. Podgorica	88	87
	4	1
	<b>1,071</b>	<b>1,135</b>

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

## 28. RELATED PARTY TRANSACTIONS (CONTINUED)

<i>Fees income:</i>		
-individuals	1	-
-legal entities:	-	-
-Adriatic Properties d.o.o. Budva	5	64
-Fasamo d.o.o. Podgorica	7	6
-Maestral Hotels and Casinos doo Budva	2	1
-SDS Management DMCC Dubai	-	13
-Golden Estate d.o.o. Podgorica	4	5
-Adriatic Yachting Services d.o.o. Budva	-	1
-Portal Press d.o.o. Podgorica	-	1
-Nova Pobjeda d.o.o. Podgorica	1	4
-Novine d.o.o. Podgorica	-	1
-Adriatic Procurement d.o.o. Budva	-	1
-Vires d.o.o. Podgorica	-	1
<i>Total fees income</i>	<u>20</u>	<u>98</u>
<i>Commission income – commission loans</i>		
-Maestral Hotels and Casinos doo Budva	117	67
- Adriatic Properties d.o.o. Budva	81	-
-Nightsapphire resorts LTD Kipar	7	-
<i>Total commission income – commission loans</i>	<u>205</u>	<u>67</u>
<i>Interest income-other receivables:</i>		
-Nova Pobjeda d.o.o. Podgorica	12	-
<i>Total income from interest, fees and commissions</i>	<u>1,308</u>	<u>1,300</u>
<i>Interest and fees expenses</i>		
-individuals:	-	1
-SDS Menagement DMCC Dubai	5	3
<i>Total expenses:</i>	<u>5</u>	<u>4</u>
<i>Net income</i>	<u>1,303</u>	<u>1,296</u>

Top management and board of directors gross wages and compensations in 2018 amounted to EUR 287 thousand (2017: EUR 282 thousand).

## 29. LITIGATIONS

As of December 31, 2018, several legal disputes were filed against the Bank by individuals, in which the claims were called for annulment or determination or performance, and were not directed to the compensation of damages, and therefore did not determine the amount of the claim (2017: EUR 395 thousand).

The Bank makes provision when exist high probability of cash outflows on the basis of litigation. As at 31 December 2018, the Bank does not expect a negative outcome of the proceeding and consequently provisions are not formed for adverse outcome of legal disputes.

In addition, the Bank filed several litigations against legal and individuals to collect the receivables in the amount of EUR 2,114 thousand (2017: EUR 1,460 thousand).

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS  
December 31, 2018.

## 30. EXCHANGE RATES

The official exchange rates used in the translation of the statement of financial position components denominated in foreign currencies into EUR as at December 31, 2018 and 2017 were as follows:

	2018.	2017.
USD	0.8730	0.8338
CHF	0.8907	0.8545
GBP	1.1077	1.1271

## 31. SUBSEQUENT EVENTS

The Chairman of the Board of Directors of the Bank Velibor Milošević and the Chief Executive Officer of the Bank Đorđe Đurđić resigned their positions on January 24, 2019. Subsequently, on February 25, 2019 Louis Joseph Freeh was elected as a new member of the Board of Directors. Also, on 1 March, Miloš Pavlović was appointed as the Chief Executive Director, and for the Executive Director, Željko Drinčić.

In addition to the above-mentioned event, the Bank's Management believes that there are no other significant events after the reporting date that would affect individual financial statements for 2018.

Miloš Pavlović  
Chief Executive Director

Željko Drinčić  
Executive director

Lana Kalezić  
Head of the Finance and Accounting Department

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.