UNIVERSAL CAPITAL BANK AD, PODGORICA

INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2019

CONTENTS

Društvo za reviziju Crowe MNE d.o.o. Podgorica

Žiro račun: 520-34559-91; **Reg. broj:** 5-0803037/1 **PIB:** 03152324; **PDV**: 30/31-17725-0
Vučedolska 7, 81 000 Podgorica

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Universal Capital Bank ad Podgorica

Opinion

We have audited the accompanying financial statements of Universal Capital Bank ad Podgorica (hereinafter referred to as "the Bank"), comprising the separate balance sheet as of December 31, 2019, the separate income statement, the separate statement of changes in equity, the separate statement of other comprehensive income and the separate cash flow statement for the year ended on that date, as well as notes containing an overview of accounting policies and other disclosures (hereinafter referred to as "financial statements").

In our opinion, the accompanying financial statements present truly and objectively, on all materially significant issues, the Bank's financial position as of December 31, 2019, as well as the results of its operations and cash flows for the year ending that day, in accordance with the accounting regulations prevailing in Montenegro and the by-laws issued by the Central Bank of Montenegro governing the financial reporting of banks.

Basis for opinion

We conducted our audit in accordance with the Law on Accounting in Montenegro, Law on Audit in Montenegro, and International Standards on Auditing (ISA) applicable in Montenegro. Our responsibilities under these standards are described in more detail in the report section entitled *Auditor's Responsibility for the Audit of Financial Statements.* We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants of the Committee on International Ethics for Accountants (IESBA Code) and the ethical requirements relevant to our audit of financial statements in Montenegro, and have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have addressed these issues in the context of our audit of the financial statements as a whole, however we do not provide a opinion on these issues.

Key Audit Matter	How our audit addressed the issues
1. Impairment of loans and receivables and provision for off-balance sheet items	
As of December 31, 2019, the gross value of loans and receivables amounted to EUR 92,564 thousand (December 31, 2018: EUR 92,874 thousand), while the total amount of allowance was EUR 2,971 thousand as of December 31, 2019 (December 31, 2018: EUR 1,709 thousand).	Based on our risk assessment and industry knowledge we examined allowance for impairment for loans and receivables and provision for off-balance sheet items and evaluated the methodology applied as well as the used assumptions, according to the description of the key audit matter.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

<table>
<tr><td>Key Audit Matter</td><td>How our audit addressed the issues</td></tr>
<tr><td colspan="2">1. Impairment of loans and receivables and provision for off-balance sheet items</td></tr>
<tr><td>The measurement of impairment charges on loans and receivables and provision for off-balance sheet items is considered to be a key audit matter, since the determination of the amount of an impairment allowance requires a significant assessment by the management, to determine when an impairment loss is recognized and the amount of impairment loss.

The most significant considerations relate to:
Assumptions used in models of expected credit loss to estimate credit risk associated with an exposure and the expected future cash flows of a client.
Timely identification of exposures with a significant increase in credit risk exposure and credit impairment.
Valuation of collaterals and assumptions of future cash flows on individually estimated credit exposures.
Management disclosed additional information on impairment charges for loans and receivables and provision for off-balance sheet items in Notes 3.8.8, 4, 5.2, 7 and 14 along with financial statements.</td><td>Our audit procedures included following:
Evaluation of key controls related to the assumptions used in the models of expected credit loss to estimate credit risk associated with the exposure and expected future cash flows of the client.
Collecting and detailed testing of evidence to support the assumptions used in expected credit loss models used in stage allocation, assumptions applied to obtained twelve-month and lifetime probability of default (PDs) and methods used to obtain the probability of losses due to inability to collect receivables.
Evaluation of key controls over timely identification of exposures with significant increase in credit risk and timely identification of exposure loan impairment.
Collecting and detailed testing of evidence of timely identification of exposure with a significant increase in credit risk and timely identification of exposure based on loan impairment.
Collecting and detailed testing of evidence to support appropriate assumptions of the impairment allowance of loans and receivables, including valuation of collaterals and the assumptions of future cash flows for individually assessed exposures on loan impairment.
Assessment of key developments of high risk portfolio from the previous period against to industry standards and historical data.
Evaluation of applied methodologies using ourindustry knowledge and experience.
We have engaged our IT professionals and credit risk specialists in areas that required specific expertise.
Assessment of accuracy and completeness of disclosure in the financial statements.</td></tr>
</table>

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting in Montenegro and other regulations governing the financial reporting of banks in Montenegro, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Law on Accounting in Montenegro, Law on Audit in Montenegro, and International Standards on Auditing applicable in Montenegro, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Law on Accounting in Montenegro, Law on Audit in Montenegro, and International Standards on Auditing applicable in Montenegro, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

The Bank's management is responsible for compiling and publishing the annual management report.

Our opinion on the financial statements does not cover the annual report of management and, except to the extent explicitly stated in our statement of financial statements, we do not express any form of conclusion with an opinion about them.

With respect to the audit of the financial statements, it is our responsibility to read the management's annual report to consider whether the management's annual report is materially inconsistent with the financial statements or our knowledge acquired during the audit, or otherwise appears to be materially misstated.

In accordance with the requirements of the Law on Accounting in Montenegro, we have considered whether the annual management report has been prepared in accordance with Articles 11, 12, 13 and 14 of this Law.

Based solely on the work performed during the audit of the financial statements and the procedures outlined above, in our opinion:

- The information presented in the management's annual report for the financial year for which the financial statements have been prepared is consistent with the financial statements;
- The Annual Management Report has been prepared in accordance with Articles 11, 12, 13, and 14 of the Law on Accounting in Montenegro.

In addition, in the light of the Bank's knowledge and understanding of the Bank's audit environment, we are required to report whether material misstatements have been identified in the management's annual report. We have nothing to report in this regard.

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

Crowe MNE d.o.o. Podgorica

"CROWE MNE"

Đorđe Dimić, Certified Auditor

May 28, 2020

(License No. 072 issued on March 9, 2017)

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INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousand EUR)

	Note	2019	2018
Interest and similar income	3.1, 6a	4,570	3,941
Interest and similar expenses	3.1, 6b	(1,165)	(1,327)
NET INTEREST INCOME		**3,405**	**2,614**
Fee and commission income	3.2, 8a	7,097	3,443
Fee and commission expenses	3.2, 8b	(2,579)	(2,061)
NET FEE AND COMMSSION INCOME		**4,518**	**1,382**
Net gain on derecognition of financial instruments not measured at fair value through income statement.		30	197
Net loss on financial instruments, held for trade	3.3	(36)	(175)
Net foreign exchange gains	3.4	2,323	422
Net gain/(loss) on derecognition of other assets		(32)	17
Other income	11	88	14
Personnel expenses	3.13, 9	(1,644)	(1,450)
Depreciation/amortization charge	3.10, 10b	(398)	(371)
General and administrative costs	10a	(1,506)	(1,203)
Net expenses from changes in impairment of financial instruments not measured at fair value through income statement	3.8.8, 7	(3,155)	(247)
Provision cost	3.11	-	-
Other expenses		(56)	(87)
PROFIT BEFORE TAX		**3,537**	**1,113**
Income tax	3.6, 12	(296)	(73)
NET PROFIT		**3,241**	**1,040**

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

Signed on behalf of Universal Capital bank AD, Podgorica, as at March 31, 2020:

Danijela Jović
CEO

Miloš Pavlović
Executive Director

Lana Kalezić
Head of Finance and Accounting

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BILANCE SHEET AS AT 31 DECEMBER 2019
(in thousand EUR)

	Note	31 December 2019	31 December 2018
ASSETS			
Cash and deposit accounts with central banks	3.7, 13	91,764	93,503
Financial assets at amortized cost			
- Loans and receivables from banks	3.8, 14a	13,725	17,113
- Loans and receivables from clients	3.8, 14b	89,593	91,165
- Other financial assets		12	10
Financial assets at fair value through other comprehensive income			
- Securities	3.8, 15	109,703	54,235
Financial assets held for trading			
- Securities		272	-
Hedge derivatives	3.8	54	1
Investment property		159	163
Property, Plants and Equipment	3.9, 3.10.,16	3,259	3,320
Intangible assets	3.9, 3.10.,17	502	685
Current Tax Assets		-	3
Deferred tax assets	3.6, 12	150	37
Other assets	3.12, 18	7,984	6,593
TOTAL ASSETS		**317,177**	**266,828**
LIABILITIES			
Financial liabilities at amortized cost	3.8		
- Deposits due to clients	19a	285,395	245,015
- Borrowings due to banks and central banks		-	-
- Borrowings from other clients, not banks	3.14, 19b	3,882	5,175
Hedge derivatives		275	158
Reserves		330	135
Current tax liabilities	3.6	404	64
Deferred tax liabilities	3.6, 12	212	61
Other liabilities	20	7,480	1,722
Subordinated debt	21	1,002	5,031
TOTAL LIABILITIES		**298,980**	**257,361**
EQUITY			
Issued capital	22	12,122	8,098
Retained earnings		1,661	621
Profit for the current year		3,241	1,040
Other reserves		1,173	(292)
TOTAL EQUITY		**18,197**	**9,467**
TOTAL EQUITY AND LIABILITIES		**317,177**	**266,828**
OFF-BALANCE SHEET ITEMS	24	**214,057**	**157,499**

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousand EUR)

	Share equity	Retained earnings/ (loss)	Other reserve	Total
Balance as of January 1, 2018	**8,098**	**(272)**	**1,045)**	**8,871**
Transfer	-	893	(893)	-
Result for the year	-	1,040	-	1,040
Changes in fair value of equity instruments measured through other comprehensive result, net	-	-	(332)	(332)
Changes in fair value of securities measured through other comprehensive result, net	-	-	(112)	(112)
Balance, as of December 31, 2018	**8,098**	**1,661**	**(292)**	**9,467**
Issued of share capital	4,024	-	-	4,024
Result for the year	-	3,241	-	3,241
Changes in the fair value of securities measured through other comprehensive result, net	-	-	1,465	1,465
Balance, as of December 31, 2019	**12,122**	**4,902**	**1,173**	**18,197**

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CEO

Miloš Pavlović
Executive Director

Lana Kalezić
Head of finance and accounting

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR YEARS ENDED 31 DECEMBER 2019 and 31 DECEMBER 2018

(in thousand EUR)

	2019.	2018.
PROFIT FOR THE PERIOD	**3,241**	**1,040**
Components of other results that can be classified into profit or loss		
Effects of changes in value of debt instruments valued at fair value through other comprehensive income	1,610	(488)
Tax related to other comprehensive income	(145)	44
Total other comprehensive income	**1,465**	**(444)**
TOTAL RESULT OF THE PERIOD	**4,706**	**596**

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CEO

Miloš Pavlović
Executive director

Lana Kalezić
Head of finance and accounting

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

(U hiljadama EUR)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from interest and similar income	4,394	3,593
Outflows from interest and similar expenses	(1,080)	(1,321)
Inflows from fees and commissions	6,863	3,418
Outflows from fees and commissions	(2,579)	(2,062)
Outflows for employees and costs for suppliers	(3,073)	(2,846)
Outflows for on loans and other assets	(2,052)	(30,528)
Inflows from deposits	46,536	42,606
Tax paid	(43)	(36)
Other income	(77)	(257)
Net cash inflow from operating activities	**48,889**	**12,567**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(171)	(112)
Purchase of intangible assets	(71)	(222)
Purchase of treasury bills and bonds	(54,430)	(31,527)
Proceeds from sale of property, plant and equipment	-	-
Net cash outflow from investing activities	**(54,672)**	**(31,861)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in borrowings	(1,291)	(2,602)
Net cash (outflow)/inflow from financing activities	**(1,291)**	**(2,602)**
Effects of foreign exchange in cash and cash equivalents	2,323	247
Net (decrease)/increase in cash and cash equivalents	**(4,751)**	**(21,649)**
Cash and cash equivalents, beginning of year	**109,822**	**131,471**
Cash and cash equivalents, end of year (note 13)	**105,071**	**109,822**

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CEO

Miloš Pavlović
Executive Director

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UNIVERSAL CAPITAL BANK AD,
PODGORICA

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR 2019

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 Decision of the Shareholders Assembly of the Bank's name change was adopted at the session held on May 30, 2014, and the new name was official changed on June 04, 2014.

The Banks headquarters are in Podgorica, 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 of December 31, 2019, the Bank comprised a Central Office located in Podgorica, a branch office in Milocer and Podgorica, as well as representative office in Dubai.

The Bank has 70 employees (December 31, 2018: 58 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 of December 31, 2019, the Members of the Board of Directors were the following:

Name and surname	Position
Božo Milatović	President of the Board of Directors
Louis Joseph Freeh	Member of the Board of Directors
Miloš Pavlović	Member of the Board of Directors
Alfredo Longo	Member of the Board of Directors
Georgios Lychnos	Member of the Board of Directors

As of December 31, 2019, the Executive Directors were as follows:

Name and surname	Position
Danijela Jović	Chief Executive Officer
Miloš Pavlović	Executive Director

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

As of December 31, 2019, the Members of the Audit Committee were as follows:

Name and surname	Position
Goran Bencun	President
Sonja Burzan	Deputy President
Lazar Mišurović	Member

As at December 31, 2019, the Members of the Asset Liability Management Committee were as follows:

Name and surname	Position
Danijela Jović	Chief Executive Officer
Miloš Pavlović	Executive Director
Mirza Redžepagić	Head of Treasury Department
Vesna Durković	Head of Department for supervising, management and risk reporting
Vanja Bojanović	Head of Sales Department - Corporate

As of December 31, 2019, the internal auditor of the Bank was Edin Sehovic.

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 of December 31, 2019.

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

These financial statements represent the individual financial statements of the Bank. In accordance with Article 134 of the Law on Banks of Montenegro ("Official Gazette of Montenegro" No. 17/08, 44/10, 40/11, 73/17), the consolidated financial statements of the banking group do not include subordinate members of the banking group whose the balance sheet is less than 1% of the balance sheet of the parent group member. Since the Bank, as of December 31, 2019 has control over one subordinate entity, and fulfills the condition from Article 134 of the Law on Banks, the Bank does not compile consolidated financial statements, using exemption from consolidation right.

In preparing these financial statements, the Bank has applied the accounting policies disclosed in Note 3.

2.2. Rules of estimates

Financial statements are prepared on historical cost basis, except for the following positions measured at fair value:
- Financial assets at fair value through profit and loss,
- Financial assets at fair value through other comprehensive income,
- Financial liabilities at fair value through profit and loss.

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 it is established that there were changes in the estimated value of assets and liabilities, the determined effects are recognized in financial statements in the period when the change in estimation occurred, unless the change in estimation affects only the given accounting period or the period when the change in estimation occurred and in subsequent accounting periods, if the changein estimation affects on current 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. BASIS FOR PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

2.5 Changes in accounting policy and disclosures

New and amended standards and interpretations

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

- *IFRS 16: Leases*

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

In Montenegro, the application of IFRS 16 has been postponed to January 1, 2020, by the Notification of the Central Bank of Montenegro No. 03-105-1 / 2019 from January 9, 2019. The Bank's management expects the effects of the implementation of IFRS 16 on the Bank's financial statements of approximately EUR 290 thousand in the balance sheet (recognition of investments in property, plant and equipment, or related liabilities), while the effect on the income statement is not material.

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

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These amendments did not have a material effect on the Bank's financial statements.

- *IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)*

The Amendments relate to whether the measurement, in particular impairment requirements, of long- term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These amendments did not have a material effect on the Bank's financial statements.

- *IFRIC Interpretation 23: Uncertainty over Income Tax Treatments*

Interpretation refers to the accounting treatment of income tax in cases where there is uncertainty affecting the application of IAS 12. The interpretation provides guidance on taking into account uncertainties regarding tax treatment individually or jointly, on review by tax authorities, on the appropriate method of expressing uncertainty, and accounting for changes in facts and circumstances. These amendments did not have a material effect on the Bank's financial statements.

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

2.5 Changes in accounting policy and disclosures (continued)

New and amended standards and interpretations (continued)

- *IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)*

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements.These amendments did not have a material effect on the Bank's financial statements.

The International Accounting Standards Board (IASB) has issued Annual Improvements to IFRSs: 2015-2017 Cycle, which is a collection of amendments to IFRSs. The Bank's management does not expect material implementation effects on the Bank's financial statements.

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

Standards issued but not yet in force and not in early application:

- *Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Long-Term Investments in Subsidiaries and Joint Ventures: Sale or Contribution to Assets between the Investor and its Subsidiaries or Joint Ventures*

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

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

2.5 Changes in accounting policy and disclosures (continued)

Standards issued but not yet in force and not in early application (continued):

- *Conceptual framework of IFRS*

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The Bank's management does not expect material implementation effects on the Bank's financial statements.

- *IFRS 3: Business Combinations (Amendments)*

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU.The Bank's management does not expect material implementation effects on the Bank's financial statements.

- *IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material Significance (Amendments)*

The amendments shall enter into force on 1 January 2020, with earlier application permitted. The definition of material significance and its manner of application are clarified. The new definition states that "information is material if it is reasonable to expect that its omission, misrepresentation or concealment would affect the decisions of the primary users of general purpose financial statements when making decisions based on financial statements that provide financial information about a particular reporting entity." Additionally, the explanations that accompany the definition have been improved. The amendments also ensure consistent application of the definition of materiality across all IFRS standards. The Bank's management does not expect material implementation effects on the Bank's financial statements.

2.5 Changes in accounting policy and disclosures (continued)

Standards issued but not yet in force and not in early application (continued):

- *Interest rate benchmark reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)*

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

- IAS 1 Presentation of Financial Statements: Classification of Liabilities as Short-Term or Long-Term (Amendments)

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU.The Bank's management does not expect material implementation effects on the Bank's financial statements.

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 2019.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic accounting policies applicable when compiling the financial statements for 2019 are listed below.

3.1. Income and Expenses on the basis of Interests

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 lifetime 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 takes into account all agreed terms, but not for ECL, when estimating future cash flows. 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 valuated 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.

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.

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 amortized value of financial asset. The calculation of interest income does not return to gross basis not even when the credit risk is improved.

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.

Default interest and other income and other expenses related to interest-bearing assets, ie interest-bearing liabilities, are calculated according to the principle of causality of income and expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Interest and commission income and expense

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 income are recognized at the time when the correspondent service is done.

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.

3.4. Foreign exchange translation

Transactions denominated in foreign currencies are translated into EUR at the date of transaction. Assets and liabilities denominated in a foreign currency are translated into EUR by applying the official exchange rate, as determined on the exchange rate list from Central bank of Montenegro valid on day given. For currencies that are not on this list, the exchange rate from the Interbank foreign exchange market is used. The treatment of assumed and contingent liabilities in foreign currency is identical.

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.

3.5. Leasing

Leasing is classified as a finance lease in all cases where the lease transfers substantially all the risks and rewards of ownership to the Bank. Every other lease is classified as an operating lease. 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. When an operating lease is terminated before the end of the lease term, all payments required by the lessor for a penalty are recognized as an expense in the period in which the lease is terminated.

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 income 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Taxes and Contributions (continued)

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.

3.7. 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 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 recognition at the balance sheet date of the transaction.

Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at fair value through profit and loss, transaction costs are added to, or subtracted from, this amount. Financial assets at fair value, which effect of changes in fair value are recognized in the income statement, initially recognized at fair value, and transaction cost are charged to operating expenses in the income statement.

3.8.2 Classification

The Bank classifies all its financial assets based on the business model for managing the assets and the assets contractual terms, measured at either:

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

Financial liabilities, other than liabilities held for trading or derivative instruments where fair value measurement is applied, are measured at amortized cost. In this case, changes in fair value are recorded in the income statement.

3.8. Financial instruments (continued)

3.8.3 Financial assets and liabilities

3.8.3.1 Due from banks, loans and advances to clients, financial investments at amortized cost

The Bank only measures placements of the Bank, loans and advances to clients 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 contractual cash flows;
- The contractual terms of the financial asset give rise on specified date to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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 the financial asset 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 at initial recognition and may change over the lifetime of the financial asset (for example, if there are principal repayments or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of the money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as currency in which the financial asset is denominated, and the period for which the interest rate is set.

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

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

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

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 reclassified 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 mandatory required to be measured at fair value under IFRS 9. 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 which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- The liabilities contain 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. 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.

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 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, these contracts are in the scope of the ECL requirements.

3.8.4 Reclassification of financial assets and liabilities

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 2019.

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 POCI.

When assessing whether or not to derecognize a loan to a customer, among 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

3.8.5 Derecognition of financial assets and liabilities (continued)

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, canceled 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 their entirety only if the Bank has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than accumulated loss allowance, the difference is first treated as an addition to the allowance that is ten applied against the gross garrying amount.. Any subsequent recoveries are credited to credit loss expense.

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 defaults on covenants, or significant concerns raised by 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 that led to classification in POCI or 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.

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 Bank is obliged to assess the quality of assets at least quarterly, determine whether there is objective evidence of impairment of balance sheet assets, or probable loss on the basis of off-balance sheet items and to calculate the adequate amount of such impairment, or probable loss, and to classify these items in the appropriate classification. group, in accordance with the mentioned Decision.
For the purposes of assessing impairment of financial assets and calculation of impairment, the Bank applies the Methodology for estimating impairment and expected loss according to IFRS 9.

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)
(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) Calculation of interest income on non – performing assets is defined as amortized cost.

Forward looking information

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 the expert impact of assessment.
Although macroeconomic indicators may differently impact risk parameters in the calculation of 12-months and lifetime losses and that the mathematical formula is a risk factor, the Bank will adjust one risk parameter i.e. the probability of default (PD) with one comprehensive macroeconomic indicator i.e. expectation of 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 it assignes probability in percentage. The sum of probability of three mentioned scenarios equals 100%.
As a part of expert assessment the value of relative shift of the risk parameter on lifetime level is assigned to every scenario, 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.

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.

3.8. Financial instruments (continued)

3.8.8 Impairment of financial assets and provision (continued)

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 indicate 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.

Client has the default status if the credit rating is D and E, i.e. all exposures that are classified in stage 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 there is a low risk of default of financial instrument, if the debtor is capable tp fulfill all its contractual obligations in a short term, in terms of cash flow and if unfavorable changes in the economic and business conditions can with low degree of certainty in a long term decrease the ability of the debtor to fulfil his contractual obligations in terms of cash flow.

Financial instruments are not considered as instrument with the low credit risk when the risk from loss on the basis of those instruments is consider low only because of the value or security of 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.

Since the Bank in its 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, aforementioned exposures may be considered as low risk financial assets.

Transfer to stages

(i) Transfer to stage 1

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

(ii) Transfer to stage 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 Stage 2 according to the criteria of client creditworthiness and days past due for legal entities and individuals.

Recovery from Stage 2, i.e. return to stage 1 for legal, individuals and SME (in which the shift is conditioned by the days past due) is possible for clients classified as A, B and C if the client at the end of the accounting period meets the condition for belonging to stage 1.

An exception from the previous paragraph refers to performing 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;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (continued)

3.8.8 Impairment of financial assets and provision (continued)

The Bank may also classify certain exposures into Stage 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 Stage 2. Each security will be considered on individual level.

(iii) Transition to Stage 3

Criteria for client allocation in Stage 3 are objective evidence of impairment, and by definition they are:
1. delay in repayment for more than 90 days,
2. 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. terminated contracts, bankruptcy or liquidation, POCI
5. clients with current classification of D or E.

Transition from Stage 3 to Stage 2 and from Stage 2 to Stage 1 is possible only in steps and as follows:
- the condition for the transition from stage 3 to stage 2 is possible after the expiration of a period of 3 months with condition that at the end of the reporting periods during the trial period there are no delays of more than 90 days, 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;
- Transition from Stage 2, i.e. the return to stage 1 for legal entities, individuals and SME (in which the transition is conditioned by the days past due) is for clients classified as 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, with 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 Stage 3.

Affiliation to the stage for clients with the greater number of individual exposures is defined by those with the largest days past due.

<u>POCI assets</u>

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted effective interest rate. The ECL allowance is only recognised or reversed to the extent that there is a subsequent change in the expected credit losses.

<u>Impairment principles for balance sheet and off–balance sheet items</u>

The Bank identifies balance sheet items and the expected loss on the basis of risk items and calculates the appropriate amount of impairment, i.e. expected loss on:
- Individual basis for materially significant receivables with the default status;
- 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).

3.8.8 Impairment of financial assets and provision (continued)

Individual basis of the assessment of expected losses

Assessment of expected losses on an individual basis relates to exposures of clients that exceed 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. There are three expected scenarios with different probabilities. The amount of impairment represents the discounted value of cash flows through the collection scenarios weighted by their respective probabilities.

- 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 agreement with the client). The expected cash flows are the result of the probability weighted outcomes as explained before - the inclusion of forward looking 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 outcomes. 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.

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 stages defined by Methodology, and as follows:

a. for Stage 1 at the level of 12m ECL;
b. for Stage 2 at the level of lifetime ECL;
c. for Stage 3 at the level of lifetime ECL for which the probability of entering in default status equals 1.

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

Risk parameters 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 frame) by monitoring exposures that are not in default for twelve months in all segments and reflecting the percentage of exposure that has passed into default status during that period. The obtained PD values will be used as the base 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.

3.8. Financial instruments (continued)

3.8.8 Impairment of financial assets and provision (continued)

Based on days past due, the Bank determines the following groups (buckets):

Bucket	Credit balance	Days past due
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 defined as:

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

where:

$N_{[t-1,\,t)}^{i \to default}$ - the number or transitions 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 single party level. Corporate portfolio migration matrices are based on the client level.

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

Lifetime PD

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

$$\mathrm{PD}_{\mathrm{conditional}}(\mathrm{t}) = \frac{\mathrm{PD}_{\mathrm{cumulative}}(\mathrm{t}) - \mathrm{PD}_{\mathrm{cumulative}}(\mathrm{t}-1)}{1 - \mathrm{PD}_{\mathrm{cumulative}}\,(t-1)}$$

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:

$$\mathrm{PD}_{\mathrm{marginal}}(\mathrm{t}) = \mathrm{PD}_{\mathrm{conditional}}(\mathrm{t}) * (1 - \mathrm{PD}_{\mathrm{cumulative}}(\mathrm{t}-1)$$

*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 forward looking information.

PD for securities

The PD parameter for securities is used according to the Moody's and S&P rating 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 the introduction.

(ii) LGD

The LGD parameter is used for securities according to the values and rating scale of Moody's, or S&P.

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

$$\mathrm{LGD} = (1 - \mathrm{CR}) * \left(\frac{\mathrm{EAD} - \max\{0, \text{value of effective collateral}\}}{\mathrm{EAD}}\right)$$

where:
LGD – Loss Given Default,
CR – Cure Rate, obtained from migration matrices on the twelve months level (for stage 3 amounts to 0)

In the case where the effective value of the collateral equals or is greater than amount of EAD-a, and with the aim for LGD that is not equal zero, in the formula $\left(\frac{\mathrm{EAD}-\max\{0,\text{value of effective collateral}\}}{\mathrm{EAD}}\right)$ 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).

The LGD parameter is not macro-economically corrected, since the adjustment is at PD level, and is taken into account by multiplying it 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 the EAD.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (continued)

3.8.8 Impairment of financial assets and provision (continued)

(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 amortization plan.
For off-balance sheet itmes, as a basis for impairment calculation, the amount of off-balance sheet item is used together with the credit conversion factor as defined by the Methodology (i.e. as a product of off-balance sheet item and credit conversion factor).

(iv) Credit conversion factor (CCF)

As defined in Article 13 of the Decision on capital adequacy of banks, the values of the credit conversion factor for different types of off-balance sheet items are used.

Impairment calculation

(i) Impairment calculation on a group basis

The calculation of impairment for exposures on a group basis is done according to the formulas set 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 Stage 1 and for which the expected credit loss at the twelve-month level is calculated on a group basis, the following formula is used:

$$\mathbf{12EL = PD_S \cdot LGD_S \cdot EAD_S}$$

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 to which part (percentage) of the contract that is 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

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

(a) For performing exposures:

$$\mathrm{LEL} = \sum_{\mathrm{t}=1}^{\mathrm{lifetime}} \mathrm{EAD}_S[\mathrm{t}] * \mathrm{mPD}_S[\mathrm{t}] * \mathrm{LGD}_S[\mathrm{t}]$$

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (continued)

3.8.8 Impairment of financial assets and provision (continued)

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 exposures and establishing the existence of one or more objective evidence for 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 weighted by the probability scenarios of the estimated cash flows discounted to the present value, i.e. value on the reporting date.
Impairment (Pind) is calculated on an individual basis as:

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

where:

CA	Carrying amount of financial assets
RA	The amount that the Bank expects to collect at individually impaired asset through probability weighted scenarios. RA is defined as present value of the future cash flows CFt.

RA calculation is presented in the following formula:

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

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. The final amount of RA is the sum of the collection amount according to the weighted probability scenario.

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 Stage 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.
EIR p.m. = (1 + EIR p.a.)1/12 – 1

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (continued)

3.8.8 Impairment of financial assets and provision (continued)

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 asset.

For the impairment calculation of the off–balance sheet items and future cash flow discounting, the effective interest rate can be determined by 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 possiblly 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 exposures;
- Expected collection of the cash flows (principal, interest, fee) from original repayment plan or corrected in accordance with delay or experience;
- Expected collection of the collateral, if the collection is not expected from cash flows. Collateral value is entered decreased by the appropriate haircut., defined by the procedure.

Considering the determination 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 that the credit loss wont occur the Bank will define the percentage of 0,1% as a minimum amount of impairment at individual exposure level.

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 items (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)

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 shall, depending on probability of incurring losses, classify asset items into one of the following classification categories:

- A category (“Pass”) - including loan and other receivables for which there are highly documented evidences that it will be collected in full in accordance with the agreed terms and conditions
- B category (“Special Mention”) - with B1 and B2 subcategories - including loan for which there is remote probability of incurring losses and require special attention of the Bank, as the potential risk, if not adequately monitored, might result in poor perspective for its repayment.
- C category (“Substandard”) – with C1 and C2 subcategories for which there is high probability of loss, due to clearly disclosed weaknesses jeopradising their repayment;
- D category (“Doubtful”) – if there is a low probability of the collection of loan in full, taking into consideration debtor’s credit capacity, value and possibility of collateral enforcement;
- 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.
On monthly basis, based on the performed classification of balance sheet items and off-balance sheet items, the Bank calculates provisions for potential losses, applying percentages as presented in the following table:

Risk classification category	% of provision	Days past due 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 IFRS 9.

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 Bank’s own assets.

3.9. Property, Plant, Equipment and Intangible Assets

Property, Plant, Equipment and Intangible Assets on December 31, 2019 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Property, Plant, Equipment and Intangible Assets (continued)

		Rate in %
	2019	**2018**
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.

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 of 31 December 2019 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,
- when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation,
- When a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures required to settle the obligation.

Provisions are reassessed at each balance sheet date and adjusted to reflect the best current estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed through the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12. Non-current Assets held for sale (continued)

Non-current assets held for sale 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 resulting accounting assumptions will by the definition rarely be equal with the archived results. The most significant uses of estimates and judgments are as follows:

Impairment of loan value

The Bank monitors and checks the quality of the loan portfolio on a monthly basis, both on an individual and collective basis, with the aim of ongoing assessment of the required amount of security. In determining the amount of impairment on an individual basis, the Bank estimates the value of future cash flows, including from collateral, using a certain degree of impairment of collateral (hair-cuts) and a certain collection period.

Management uses historical loss estimates for assets with similar credit risk characteristics to assess the level of impairment of collateral and the period of collection. The methodology and assumptions used in estimating the amounts and periods of future cash flows are reviewed regularly to eliminate any differences between estimated losses and actual experience.

Stress testing for credit risk predicts the impact of adverse macroeconomic conditions on non-collection and loss rates. Based on historical experience, the relationship between macroeconomic and risk factors is assessed and a benchmark for existing exposures is applied to assess the additional default rate and the provision required to respond to the identified risk. The assumption in these scenarios is that the exposure does not change over the course of one year. Low-risk loans and lower-exposure loans are reviewed collectively.

Fair value of financial instruments

The fair value of financial instruments traded in an active market is obtained based on the published market price on the valuation date.
Determining the fair value of financial assets and liabilities for which there is no observable market price requires the use of various valuation techniques. Although valuation techniques reflect market conditions to a good extent on the day of measurement, they may still differ from market conditions before and after that day.
For financial instruments that are not traded frequently and have low price transparency, fair value is less objective and requires some degree of valuation variation depending on liquidity, concentration, uncertainty of market factors, price assumptions and other risks affecting a particular instrument. A change in the estimates of these factors could affect the fair value of the financial instruments shown.

Long-term employee benefits

The cost of long-term employee benefits is determined on the basis of actuarial calculation, using actuarial assumptions: discount rate, future wage growth in line with inflation and promotion rates, and wage growth based on past work, as well as changes in the number of employees entitled to compensation . Given the long-term nature of these plans, estimates are subject to significant uncertainty. Actuarial calculation is performed by an independent actuary.

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.

Litigation

The Bank's management estimates the amount of provisions for outflows due to litigation based on an assessment of the probability that the outflow of resources will actually occur under a contractual or legal obligation from prior periods.

5. RISK MANAGEMENT

5.1. Introduction

The Bank is exposed in its operation to various risks, 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 analyse 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 controls in order to adequately respond to the changes in the market, products and services.

Risk monitoring, management and reporting department is responsible for monitoring the Bank's exposure to individual risks which is reported on a monthly basis to the Asset and Liability Committee and to the Board of Directors.

5.2. Credit risk

Bank is exposed to the credit risk being a risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations in full amount and on time. Credit risk is identified as the most significant risk of the Bank's portfolio. Bank recognises provisions for expected credit losses as defined in Methodology for impairment and expected credit loss assessment in accordance with IFRS 9 (paragraph 3.3.8). 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 provisoned for in the statement of financial position. Therefore, Bank's managament carefully oversees Bank's exposure to credit risk.

5.2.1. Credit risk management

Credit risk exposure is a risk of a financial loss resulting from the borrower's inability to meet in full amount the contractual obligations towards the Bank.
The Bank's strategic commitment is aimed at ensuring optimal diversification of risks and sources of income in the direction of increasing profitability in the existing segment of products and services, as well as promoting and affirming new ones. The Bank manages the assumed credit risk by setting limits in respect to large exposures, single borrowers and related parties. Aforementioned risks are monitored and reviewed on an ongoing basis.
Exposure to credit risk is managed by regular analysis of the borrowers' and potential borrowers' repayment capacity of liabilities in the form of interest and principal.

Irrevocable and contingent commitments based on loan

The primary purpose of these instruments is to ensure that funds are available to the client as required and agreed. Payment guarantees and letters of credit represent irrevocable assurances that the Bank will make payments in the event that the client cannot meet its obligations to third parties, and therefore bear the same credit risk as loans.

5.2.2. Impairment loss provisions in accordance with accounting standards of Montenegro

For the statement of financial position items and off-balance sheet items on the basis of which the Bank is exposed to the credit risk, the Bank performs the impairment assessment for statement of financial position items and the assessment of expected loss for the off-balance sheet items. In accordance with the methodology, the Bank has the financial instruments divided into groups (portfolios) with similar credit risk characteristics. Taking into consideration the current size and structure of the loan portfolio, the division is performed on: loans to corporate clients (legal entities and entrepreneurs) and loans to retail clients. The Bank determines at the reporting date if there was an impairment of financial instrument. Objective proofs indicating that there has been an impairment of an instrument are explained in Note 3.8.8.

5. RISK MANAGEMENT (CONTINUED)

5.2. Credit risk (continued)

5.2.3. Maximum exposure to credit risk for statement of financial position and off-balance sheet items

TOTAL CREDIT RISK EXPOSURE **In thousand EUR**

	31 December 2019		31 December 2018	
	Gross	**Net**	**Gross**	**Net**
I. Review of the assets				
Cash balances and assets w Central Bank	91,764	91,764	93,503	93,503
Loans and receivables from Banks and other financial institutions	13,737	13,725	17,116	17,113
Loans and receivables from clients	92,564	89,593	92,874	91,165
Other financial assets	34	12	23	10
Securities	109,975	109,975	54,235	54,235
Other assets	5,588	5,467	2,720	2,665
	313,662	**310,536**	**260,471**	**258,691**
II. Off – balance sheet items				
Payment guarantees	4,218	4,066	2,129	2,073
Performance guarantees	1,568	1,512	835	825
Irrevocable commitments	8,425	8,305	2,942	2,914
Other	482	481	723	683
	14,693	**14,364**	**6,629**	**6,495**
Total (I+II)	**328,355**	**324,899**	**266,867**	**264,979**

The catalogue of eligible collaterals defines the types of collateral (collateral instrument as a security for loan repayment to the Bank) and determines which instruments and claims can be treated as a collateral. Precisely, which instruments and claims and under which conditions the Bank takes into account for the analysis and assessment of the borrower's credit risk. Aforementioned improves credit risk management.

Taking into account the risk of the collateral value change when estimating the cash flows from collateral, the Bank applies to all real estates the haircut of at least 30% and up to 100% depending on the type of real estate and location, while on the collateral in the form of stock on movables the 90% haircut is applied.

Types of loan collateral 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

5. RISK MANAGEMENT (CONTINUED)

5.2. Credit risk (continued)

5.2.4. Loans and receivables

LOANS AND RECEIVABLES FROM CLIENTS, BANKS AND OTHER FINANCIAL INSTITUTIONS

In thousand EUR

31 December 2019	S1	S2	S3	Total	Impairment S1	Impairment S2	Impairment S3	Total impairment	Net
Housing loans	481	321	298	1,100	2	24	238	264	836
Cash loans	2,362	37	274	2,673	31	9	275	315	2,358
Tourist loans	15	48	-	63	-	-	-	-	63
Other	822	29	453	1,304	12	5	444	461	843
Microbusiness	-	-	-	-	-	-	-	-	-
Total retail	**3,680**	**435**	**1,025**	**5,140**	**45**	**38**	**957**	**1,040**	**4,100**
Large and medium enterprises	76,268	5,687	3,302	85,256	602	477	794	1,873	83,383
Small enterprises	119	-	45	164	-	-	45	46	118
State	1,993	-	-	1,993	11	-	-	11	1,982
Other	10	-	-	10	-	-	-	-	10
Corporate clients	**78,390**	**5,687**	**3,347**	**87,423**	**613**	**478**	**840**	**1,930**	**85,493**
Total	**82,069**	**6,122**	**4,372**	**92,563**	**658**	**515**	**1,797**	**2,970**	**89,593**
Banks	**13,737**	**-**	**-**	**13,737**	**12**	**-**	**-**	**12**	**13,725**

5. RISK MANAGEMENT (CONTINUED)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

LOANS AND RECEIVABLES FROM CLIENTS, BANKS AND OTHER FINANCIAL INSTITUTIONS

In thousand EUR

31 December 2018	S1	S2	S3	Total	Impairment S1	Impairment S2	Impairment S3	Total impairment	Net
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	-	-	-	-	-	-	-	-	-
Total retail	**2,512**	**399**	**1,216**	**4,127**	**55**	**22**	**552**	**629**	**3,498**
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
Corporate clients	**80,194**	**5,719**	**2,834**	**88,747**	**372**	**392**	**316**	**1,080**	**87,667**
Total	**82,706**	**6,118**	**4,050**	**92,874**	**427**	**414**	**868**	**1,709**	**91,165**
Banks	**17,119**	**-**	**-**	**-**	**6**	**-**	**-**	**-**	**17,113**

5. RISK MANAGEMENT (CONTINUED)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

Table of changes in impairement values for loan portfolio:

In thousand EUR

	31 December 2018	Increase in impairment	Elimination of impairment	31 December 2019
Retail	629	1,230	(819)	1,040
Corporate clients	1,080	2,113	(1,263)	1,930
Total	**1,709**	**3,343**	**(2,082)**	**2,970**
Receivables from banks	**6**	**37**	**(31)**	**12**

a) Information on exposure to the credit risk based on sectors and category of receivables, impairment status and number of days past due:

RECEIVABLES FROM CLIENTS - STAGE 1 **In thousand EUR**

31 December 2019	Not in delay	Delay of up to 30 days	From 31-60 days	From 61-90 days	Total
Housing loans	161	321	-	-	**482**
Cash loans	1,677	685	-	-	**2,362**
Tourist loans	10	5	-	-	**15**
Other	252	541	28	-	**821**
Microbusiness	-	-	-	-	**-**
Total retail	**2,100**	**1,552**	**28**	**-**	**3,680**
Large and medium enterprises	54,639	21,629	-	-	**76,268**
Small enterprises	62	57	-	-	**119**
State	1,993	-	-	-	**1,993**
Other	3	7	-	-	**10**
Corporate clients	**56,697**	**21,693**	**-**	**-**	**78,390**
Total	**58,797**	**23,245**	**28**	**-**	**82,070**
Restructured:	16,051	4,458	-	-	20,509
Receivables from banks	**13,737**	**-**	**-**	**-**	**13,737**

5. RISK MANAGEMENT (CONTINUED)
5.2. Credit risk (continued)
5.2.4. Loans and receivables (continued)

a) Information on exposure to the credit risk based on sectors and categories receivables, impairment status and number of days past due (continued):

RECEIVABLES FROM CLIENTS-STAGE 1 — In thousand EUR

31 December 2018	Not in delay	Delay of up to 30 days	From 31-60 days	From 61-90 days	Over 90 days
Housing loans	147	465	-	-	**612**
Cash loans	802	520	-	-	**1,322**
Tourist loans	5	30	-	-	**35**
Other	30	513	-	-	**543**
Microbusiness	-	-	-	-	**-**
Total retail	**984**	**1,528**	**-**	**-**	**2,512**
Large and medium enterprises	71,874	3,216	-	-	**75,090**
Small enterprises	55	11	-	-	**66**
State	5,000	-	-	-	**5,000**
Other	-	33	-	5	**38**
Corporate clients	**76,929**	**3,260**	**-**	**5**	**80,194**
Total	**77,913**	**4,788**	**-**	**5**	**82,706**
Restructured:	29	27	-	-	56
Receivables from banks	**17,119**	**-**	**-**	**-**	**17,119**

RECEIVABLES FROM CLIENTS-STAGE 2 — In thousand EUR

31 December 2019	Not in delay	Delay of up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing loans	-	292	29	-	-	**321**
Cash loans	9	4	14	10	-	**37**
Tourist loans	-	-	48	-	-	**48**
Other	11	5	13	-	-	**29**
Microbusiness	-	-	-	-	-	**-**
Total retail	**20**	**301**	**104**	**10**	**-**	**435**
Large and medium enterprises	1,430	2,206	24	2,027	-	**5,687**
Small enterprises	-	-	-	-	-	**-**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Corporate clients	**1,430**	**2,206**	**24**	**2,027**	**-**	**5,687**
Total	**1,450**	**2,507**	**128**	**2,037**	**-**	**6,122**
Restructured:	870	213	4	-	-	**1,087**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (CONTINUED)
5.2. Credit risk (continued)
5.2.4. Loans and receivables (continued)
a) Information on exposure to the credit risk based on sectors and categories receivables, impairment status and number of days past due (continued):

RECEIVABLES FROM CLIENTS-STAGE 2 **In thousand EUR**

31 December 2018	Not in delay	Delay of up to 30 days	From 31-60 days	From 61-90 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	-	-	-	-	-	**-**
Total retail	**5**	**159**	**192**	**43**	**-**	**399**
Large and medium enterprises	1,628	2,869	1,221	-	-	**5,718**
Small enterprises	-	-	-	1	-	**1**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Corporate clients	**1,628**	**2,869**	**1,221**	**1**	**-**	**5,719**
Total	**1,633**	**3,028**	**1,413**	**44**	**-**	**6,118**
Restructured:	119	1,248	3	-	-	1,370
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

Non-perfmorming receivables by days past due:

RECEIVABLES FROM CLIENTS-STAGE 3 **In thousand EUR**

31 December 2019	Not in delay	Delay of up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing loans	-	-	-	-	298	**298**
Cash loans	-	-	2	-	273	**275**
Tourist loans	-	-	-	-	-	**-**
Other	6	-	-	2	444	**452**
Microbusiness	-	-	-	-	-	**-**
Total retail	**6**	**-**	**2**	**2**	**1,015**	**1,025**
Large and medium enterprises	793	416	1,063	588	443	**3,303**
Small enterprises	-	-	-	-	45	**45**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Corporate clients	**793**	**416**	**1,063**	**588**	**488**	**3,347**
Total	**799**	**416**	**1,065**	**590**	**1,503**	**4,372**
Restructured:	540	-	1,063	588	596	2,787
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (CONTINUED)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

a) Information on exposure to the credit risk based on sectors and categories receivables, impairment status and number of days past due (continued):

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	-	-	-	-	**-**	**-**
Total retail	**30**	**5**	**-**	**5**	**1,176**	**1,216**
Large and medium enterprises	1,453	183	734	48	**370**	**2,788**
Small enterprises	-	-	-	-	**46**	**46**
State	-	-	-	-	**-**	**-**
Other	-	-	-	-	**-**	**-**
Corporate clients	**1,453**	**183**	**734**	**48**	**416**	**2,834**
Total	**1,483**	**188**	**734**	**53**	**1,592**	**4,050**
Restructured:	869	-	734	30	825	2,458
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.

5. RISK MANAGEMENT (CONTINUED)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

a) **Information on exposure to the credit risk based on sectors and categories receivables, impairment status and number of days past due (continued):**

An overview of non-performing receivables, collateral for non-performing receivables, and changes to these receivables is given in the following tables:

RECEIVABLES FROM CLIENTS – STAGE 3

In thousand EUR

31 December 2019	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
Retail	**5,140**	**1,040**	**1,025**	**432**	**957**	**19,95%**	**2,285**
Housing loans	1,100	264	298	27	238	27.13%	1,134
Cash loans	2,673	315	275	239	275	10.27%	248
Tourist loans	63	-	-	-	-	0.00%	-
Other	1,304	461	452	166	444	34.69%	903
Micro business	-	-	-	-	-	0.00%	-
Corporate	**87,423**	**1,930**	**3,347**	**2,354**	**840**	**3.83%**	**6,398**
Agriculture	190	158	158	-	158	83.38%	87
Manufacturing industry	279	144	197	141	142	70.62%	525
Electricity	-	-	-	-	-	0.00%	-
Construction	1,867	72	598	587	29	32.04%	1,942
Wholesale and retail trade	21,284	611	76	30	74	0.36%	133
Service activities	53,173	599	1,210	534	323	2.28%	1,730
Real estate activities	151	-	-	-	-	0.00%	-
Other	10,479	346	1,108	1,063	114	10.58%	1,981
Total	**92,563**	**2,970**	**4,372**	**2,787**	**1,797**	**4.72%**	**8,683**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (CONTINUED)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

a) Information on exposure to the credit risk based on sectors and categories receivables, impairment status and number of days past due (continued):

RECEIVABLES FROM CLIENTS – STAGE 3

In thousand EUR

31 December 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
Retail	**4,416**	**629**	**1,216**	**639**	**552**	**27.54%**	**4,261**
Housing loans	726	20	40	-	5	5.51%	88
Cash loans	2,231	492	677	222	436	26.85%	1,680
Tourist loans	573	91	449	417	90	178.35%	1,491
Other	597	26	50	-	21	8.39%	1,002
Micro business	-	-	-	-	-	0.00%	-
Corporate	**89,458**	**1,080**	**2,834**	**1,819**	**316**	**3.16%**	**5,983**
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
Real estate activities	32,081	32	-	-	-	0.00%	-
Other	22,521	426	1,332	734	65	5.91%	2,984
Total	**93,874**	**1,709**	**4,050**	**2,458**	**868**	**4.31%**	**10,244**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

a) Restructured loans and receivables

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

- extended the repayment period for principal or interest,
- reduced the interest rate on the approved loan,
- took over the debtor's claim against a third party, in the name of full or partial collection of the loan,
- reduced the amount of principal or interest,
- capitalized interest on the loan approved to the debtor,
- replaced existing loan or loans with new ones (loan renewal),
- made other similar benefits that facilitate the borrower's financial position.

During the loan restructuring, the Bank performs a financial analysis of the borrower and assesses the borrower's ability. after the loan restructuring to generate cash flows that will be sufficient to repay the principal and interest of the loan. During 2019 the Bank restructured loans in the amount of EUR 20.498 thousand of which EUR 19.951 thousand (2018: EUR 3.117 thousand) related to legal entities and 547 thousand (2018: EUR 765 thousand) to individuals.

Information on restructured receivables is presented below:

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

a) Restructured loans and receivables (continued)

RESTRUCTURED LOANS AND RECEIVABLES

In thousand EUR

31 December 2019	Restructured receivables - Gross exposure	S1 Restructured receivables	S2 Restructured receivables	S3 Restructured receivables	Impairment restructured receivables	Impairment S1 restructured receivables	Impairment S2 restructured receivables	Impairment S3 restructured receivables	Share of restructured receivables in gross exposure	Amount of collateral for restructured receivables
Retail	**1,314**	**672**	**210**	**432**	**441**	**1**	**13**	**427**	**25.56%**	**1,989**
Housing loans	267	30	210	27	40	-	13	27	24.29%	643
Cash loans	855	615	-	239	241	1	-	240	31.98%	845
Tourist loans	-	-	-	-	-	-	-	160	0.00%	-
Other	192	27	-	166	160	-	-	-	14.69%	501
Micro business	-	-	-	-	-	-	-	-	0.00%	-
Corporate	**23,069**	**19,837**	**877**	**2,355**	**347**	**20**	**8**	**320**	**26.39%**	**26,250**
Agriculture	-	-	-	-	-	-	-	-	0.00%	-
Manufacturing industry	140	-	-	140	141	-	-	141	50.34%	421
Electricity	-	-	-	-	-	-	-	-	0.00%	-
Construction	588	-	-	588	29	-	-	-	31.47%	1,859
Wholesale and retail trade	41	-	11	30	30	-	-	29	0.19%	137
Service activities	21,237	19,837	866	535	50	20	8	30	39.94%	22,109
Real estate activities	-	-	-	-	-	-	-	23	0.00%	-
Other	1,063	-	-	1,062	97	-	-	97	10.14%	1,724
Total	**24,383**	**20,509**	**1,087**	**2,788**	**788**	**21**	**21**	**747**	**26.34%**	**28,239**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

a) Restructured loans and receivables (continued)

RESTRUCTURED LOANS AND RECEIVABLES

31 December 2018	Restructured receivables - Gross exposure	S1 Restructured receivables	S2 Restructured receivables	S3 Restructured receivables	Impairment restructured receivables	Impairment S1 restructured receivables	Impairment S2 restructured receivables	Impairment S3 restructured receivables	Share of restructured receivables in gross exposure	Amount of collateral for restructured receivables
Retail	**766**	**51**	**76**	**639**	**249**	**1**	**1**	**247**	**17.35%**	**2,124**
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%	-
Corporate	**3,118**	**5**	**1,294**	**1,819**	**201**	**-**	**123**	**78**	**3.49%-**	**8,378**
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
Real estate activities	-	-	-	-	-	-	-	-	0.00%	-
Other	1,913	5	1,174	734	157	-	121	36	8.49%	3,599
Total	**3,884**	**56**	**1,370**	**2,458**	**450**	**1**	**124**	**325**	**4.14%**	**10,502**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

b) Restructured loans and receivables (continued)

CHANGES IN RESTRUCTURED S1 RECEIVABLES

In thousand EUR

	Gross restructured S1 receivables 31 December 2018	New restructured S1 receivables	Reduction of restructured S1 receivables	Gross 31 December 2019	Net 31 December 2019
Housing loans	25	10	(5)	30	30
Cash loans	26	692	(103)	615	614
Tourist loans	-	-	-	-	-
Other	-	26	-	27	27
Micro business	-	-	-	-	-
Retail	**51**	**728**	**(108)**	**671**	**671**
Large and medium enterprises	5	20,433	(600)	19,838	19,818
Small enterprises	-	-	-	-	-
State	-	-	-	-	-
Other	-	-	-	-	-
Corporate	**5**	**20,433**	**(600)**	**19,838**	**19,818**
Total	**56**	**21,161**	**(708)**	**20,509**	**20,488**
Receivables from banks	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

b) Restructured loans and receivables (continued)

CHANGES IN RESTRUCTURED S2 RECEIVABLES

In thousand EUR

	Gross restructured S2 receivables 31 December 2018	New restructured S2 receivables	Reduction of restructured S2 receivables	Gross 31 December 2019	Net 31 December 2019
Housing loans	3	208	(1)	210	197
Cash loans	50	-	(50)	-	-
Tourist loans	23	-	(23)	-	-
Other	-	-	-	-	-
Micro business	-	-	-	-	-
Retail	**76**	**208**	**(74)**	**210**	**197**
Large and medium enterprises	1,294	-	(417)	877	869
Small enterprises	-	-	-	-	-
State	-	-	-	-	-
Other	-	-	-	-	-
Corporate	**1,294**	**-**	**(417)**	**877**	**869**
Total	**1,370**	**208**	**(491)**	**1,087**	**1,066**
Receivables from banks	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

b) Restructured loans and receivables (continued)

CHANGES IN RESTRUCTURED S3 RECEIVABLES

In thousand EUR

	Gross restructured S3 receivables 31 December 2018	New restructured S3 receivables	Reduction of restructured S3 receivables	Gross 31 December 2019	Net 31 December 2019
Housing loans	-	27	-	27	-
Cash loans	222	25	(8)	239	-
Tourist loans	417	-	(417)	-	-
Other	-	166	-	166	6
Micro business	-	-	-	-	-
Retail	**639**	**218**	**(425)**	**432**	**6**
Large and medium enterprises	1,819	589	(54)	2,355	2,035
Small enterprises	-	-	-	-	-
State	-	-	-	-	-
Other	-	-	-	-	-
Corporate	**1,819**	**589**	**(54)**	**2,355**	**2,035**
Total	**2,458**	**807**	**(479)**	**2,787**	**2,041**
Receivables from banks	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4. Loans an receivables (continued)

c) Geographical concentration

The geographical concentration of the Bank's net exposures to the credit risk is presented in the table below:

GEOGRAPHICAL CONCENTRATION RISK — **In thousand EUR**

31 December 2019	**Receivables from S1 and S2 clients**					**Receivables from S3 clients**				
	Montenegro	**EU**	**Europe-other**	**Other**	**Total - net**	**Montenegro**	**EU**	**Europe-other**	**Other**	**Total - net**
Retail	**2,882**	**30**	**818**	**300**	**4,030**	**65**	**-**	**3**	**-**	**68**
Housing loans	776	-	-	-	776	61	-	-	-	61
Cash loans	1,566	30	792	-	2,358	-	-	-	-	-
Tourist loans	63	-	-	-	63	-	-	-	-	-
Other	477	-	26	300	833	5	-	3	-	8
Micro business	-	-	-	-	-	-	-	-	-	-
Corporate	**56,383**	**1,795**	**687**	**24,118**	**82,983**	**2,510**	**-**	**-**	**-**	**2,510**
Agriculture	31	-	-	-	31	-	-	-	-	-
Manufacturing industry	79	-	-	-	79	56	-	-	-	56
Electricity	-	-	-	-	-	-	-	-	-	-
Construction	1,226	-	-	-	1,226	569	-	-	-	569
Wholesale and retail trade	7,075	1,795	-	11,801	20,671	2	-	-	-	2
Service activities	39,369	-	-	12,317	51,686	888	-	-	-	888
Real estate activities	151	-	-	-	151	-	-	-	-	-
Other	8,452	-	687	-	9,139	995	-	-	-	995
Total	**59,265**	**1,825**	**1,505**	**24,418**	**87,013**	**2,576**	**-**	**3**	**-**	**2,579**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

c) Geographical concentration (continued)

GEOGRAPHICAL CONCENTRATION RISK — In thousand EUR

31 December 2018	Receivables from S1 and S2 clients					Receivables from S3 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
Real estate activities	-	-	-	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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

d) Industrial concentration

Concentration by business activities of the Bank's net exposure to credit risk is shown in the table below:

	Banks and the Ministry of Finance	Transport, telecommunications, traffic	Services, tourism and catering	Trade and real estate	Construction	Mining	Administration	Professional, scientific and technical activities	Agriculture, hunting and fishing	Production	Other	Individuals	Total
Financial assets at amortized cost	15,729	3,685	15,830	35,393	15,619	1,280	1,610	9,730	61	-	293	4,100	*103,330*
-Loans and receivables from banks	13,725	-	-	-	-	-	-	-	-	-	-	-	13,725
-Loans and receivables from clients	1,992	3,685	15,830	35,393	15,619	1,280	1,610	9,730	61	-	293	4,100	89,593
Other financial assets	12	-	-	-	-	-	-	-	-	-	-	-	12
Financial assets at fair value through other comprehensive income	109,703	-	-	-	-	-	-	-	-	-	-	-	*109,703*
-Securities	109,703	-	-	-	-	-	-	-	-	-	-	-	109,703
Financial assets held for sale	272	-	-	-	-	-	-	-	-	-	-	-	*272*
-Securities	272	-	-	-	-	-	-	-	-	-	-	-	272
Other assets	-	-	-	-	-	-	-	-	-	-	5,467	-	5,467
31 December 2019	**125,704**	**3,685**	**15,830**	**35,393**	**15,619**	**1,280**	**1,610**	**9,730**	**61**	-	**5,760**	**4,100**	**218,772**
31 December 2018	**76,358**	**2,734**	**11,962**	**36,072**	**15,472**	**1,513**	**1,165**	**12,580**	**73**	-	**2,861**	**4,191**	**164,981**

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

e) Loans and receivables from clients secured by collateral

LOANS AND RECEIVABLES FROM CLIENTS SECURED BY COLLATERAL

In thousand EUR

31 December 2019	S1 CLIENTS				S2 CLIENTS			S3 CLIENTS			
	Real estate	Deposits	Other collateral	Total	Real estate	Other collateral	Total	Real estate	Deposits	Other collateral	Total
Housing loans	1,378	-	-	1,378	1,184	-	1,184	1,134	-	-	1,134
Cash loans	293	720	331	1,344	-	-	-	213	-	34	248
Tourist loans	559	-	-	559	147	-	147	-	-	-	-
Other	104	372	-	476	-	-	-	903	5	-	907
Micro business	-	-	-	-	-	-	-	-	-	-	-
Retail	**2,334**	**1,092**	**331**	**3,757**	**1,133**	**-**	**1,331**	**2,250**	**5**	**34**	**2,289**
Large and medium enterprises	17,629	47,472	10,214	75,315	5,634	784	6,418	5,934	-	377	6,311
Small enterprises	435	-	-	435	-	-	-	87	-	-	87
Country	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Corporate	**18,064**	**47,472**	**10,214**	**75,750**	**5,634**	**784**	**6,418**	**6,021**	**-**	**377**	**6,398**
Total	**20,398**	**48,564**	**10,545**	**79,508**	**6,966**	**784**	**7,750**	**8,271**	**5**	**411**	**8,687**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4. Loans and receivables (continued)

e) Loans and receivables from clients secured by collateral (continued)

LOANS AND RECEIVABLES FROM CLIENTS SECURED BY COLLATERAL **In thousand EUR**

31 December 2018

	S1 CLIENTS				S2 CLIENTS			S3 CLIENTS		
	Real estate	Deposits	Other collateral	Total	Real estate	Other collateral	Total	Real estate	Other collateral	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 enterprises	2,513	57,695	14,882	75,090	5,023	695	5,718	2,670	118	2,788
Small enterprises	66	-		66	-	1	1	42	4	46
Country	-	-	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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.5. Off-balance sheet items

The maturity of the off-balance sheet items for which the Bank is exposed to the credit risk is as follows:

In thousand EUR

31 December 2019	Undrawn credit lines	Guarantees	Letters of credit	Total
Up to 1 year	7,831	2,863	13	10,707
From 1 to 5 years	594	3,406	-	4,000
	8,425	**6,269**	**13**	**14,707**

In thousands of EUR

31 December 2018	Undrawn credit lines	Guarantees	Letters of credit	Total
Up to 1 year	227	1,099	8	1,334
From 1 to 5 years	2,715	2,589	-	5,304
	2,942	**3,688**	**8**	**6,638**

5.3. Market risk

The Bank is exposed to market risks. Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Limits for exposure to market risks are internally prescribed and in line with limits prescribed by the Central Bank of Montenegro**.**

5.3.1. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Exposure to currency risk is regularly monitored through compliance with limits prescribed by the Central Bank of Montenegro. The exposure to currency risk as of 31 December 2019 is shown in the table below:

(In thousand EUR)	**USD**	**GBP**	**CHF**	**Other**	**Total**
Assets in foreign currency	3,140	6,680	167	33,397	43,384
Liabilities in foreign currency	2,473	6,811	148	33,312	42,744
Net open position:					
- 31 December 2019	667	(131)	19	85	640
- 31 December 2018	(8)	12	126	17	147
% of share capital:					
- 31 December 2019	(5.86%)	(1.15%)	0.17%	0.75%	
- 31 December 2018	(0.12%)	0.18%	1.91%	0.15%	
Aggregate open position:					
- 31 December 2019	640				
- 31 December 2018	147				
% of share capital:					
- 31 December 2019	5.62%				
- 31 December 2018	(3.95%)				

5. RISK MANAGEMENT (continued)

5.3. Market risk (continued)

5.3.1. Currency risk (continued)

The following table shows the Bank's assets and liabilities in the most significant currencies as of 31 December 2019:

In thousand EUR

	GBP	Other currency	Total foreign currency	Local currency (EUR)	Total
FINANCIAL ASSETS					
Cash and deposit accounts with central banks	45	732	777	90,987	91,764
Financial assets at amortized cost					
-Loans and receivables from banks	1,003	4,656	5,659	8,066	13,725
-Loans and receivables from customers	-	-	-	89,593	89,593
-Other financial resources	-	-	-	12	12
Derivatives held for risk protection	5,163	28,748	33,911	(33,856)	55
Financial assets at fair value through profit or loss					
-Securities	-	45	45	109,930	109,975
Other funds	469	2,523	2,992	2,455	5,467
Total financial assets	**6,680**	**36,704**	**43,384**	**267,207**	**310,591**
FINANCIAL LIABILITIES					
Financial liabilities carried at amortized cost					
-Client deposits	6,681	35,323	42,134	243,261	285,395
-Loans to non-bank clients	-	-	-	3,882	3,882
Derivative financial liabilities as a hedging instrument	-	-	-	276	276
Other obligations	-	610	610	6,866	7,476
Subordinated debt	-	-	-	1,002	1,002
Total financial liabilities	**6,811**	**35,933**	**42,744**	**255,287**	**298,031**
Net foreign exchange exposure:					
- 31 December 2019	**(131)**	**771**	**640**	**11,920**	**12,560**
- 31 December 2018	**(8,074)**	**(650)**	**(8,724)**	**11,829**	**3,105**

5.3.2. Interest rate risk

Interest rate risk is the impact that changes in interest rates could have on the Bank's margins, profit or loss, and equity. Interest risk arises from the mismatch of interest payable on the Bank's liabilities and the interest earned on its assets.

5. RISK MANAGEMENT (continued)

5.3. Market risk (continued)

5.3.2. Interest rate risk

The following table shows the Bank's interest-bearing and non-interest-bearing assets and liabilities as of 31 December 2019:

In thousand EUR

	Interest-bearing	Non Interest-bearing	Total
FINANCIAL ASSETS			
Cash and deposit accounts in central banks	10,099	81,665	91,764
Financial assets at amortized cost			
-Loans and receivables from banks	1,221	12,504	13,725
-Loans and receivables from customers	89,593	-	89,593
-Other financial assets	-	12	12
Financial assets at fair value through profit or loss			
-Securities	109,703	-	109,703
Financial assets held for trading			
-Securities	-	272	272
Derivatives held for risk protection	-	55	55
Other assets	15	5,452	5,467
Total financial assets	**210,631**	**99,960**	**310,591**
FINANCIAL LIABILITIES			
Financial liabilities carried at amortized cost			
-Client deposits	57,774	227,621	285,395
-Loans to non-bank clients	3,882	-	3,882
Derivative financial liabilities as a hedging instrument	-	276	276
Other obligations	-	7,476	7,476
Subordinated debt	1,002	-	1,002
Total financial liabilities	**62,658**	**235,373**	**298,031**
Exposure to interest rate risk:			
- 31 December 2019	**147,973**	**(135,413)**	**12,560**
- 31 December 2018	**87,947**	**(84,842)**	**3,105**

Loans to legal entities are granted at the following interest rates:
- Short-term loans with fixed interest rate: 2.00% - 8.00%
- Long-term loans with fixed interest rate: 4.00% - 11.00%
- Loans covered by cash collateral with a fixed interest rate of 2.00% -7.50%

Lending interest rates applied for loans to individuals during 2019 are as follows:

Loan type	**Interest rate**
Cash loans	5.50% -11.00%
Student loans	7.50%
Loans for tourism development	9.00%
Micro loans	13.00%
Loans to retirees	7.95% - 10.50%
Dedicated car loans	9.90%

5. RISK MANAGEMENT (continued)

5.3. Market risk (continued)

5.3.2. Interest rate risk (continued)

Interest rates applied to deposits of legal entities, received during 2019, are as follows:

Deposit type	Interest rate
Short-term deposit	0.25%-1.00%
Long-term deposit	1.25%-2.30%

Interest rates applied to deposits of individuals, received during 2019, are as follows:

Deposit type	Interest rate
Demand deposits	-
Time deposits in EUR:	
- from 1 - 3 months	0.10%
- from 3 - 6 months	0.50%
- from 7-12 months	0.75%
- from 13 to 24 months	1.25%
- from 24 to 36 months	1.75%
Time deposits in foreign currencies:	
- from 1 - 6	0.10%
- from 9 - 12	0.25%
- from 24 and more	0.50%

5.4 Liquidity risk

Liquidity risk is defined as the risk that the Bank does not have sufficient liquid financial resources to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Maturity and interest rate match and controlled mismatch for assets and liabilities are of great importance to the Bank's management. It is not uncommon for the Bank to have a fully matched position, as business transactions often have an indefinite maturity and are of different types. An mismatched position potentially increases profitability while simultaneously increases the risk of loss.

Maturity of assets and liabilities and the Bank's ability to secure sources of funding at eligible costs at maturity of liabilites are important factors in assessing the Bank's liquidity and its exposure to changes in interest rates and exchange rates. Liquidity needed to cover guarantees or activated letters of credit are significantly less than the amount of aformentioned commitments, since the Bank does not expect a third party to withdraw the contracted funds. The total outstanding amount of a contractual obligation to extend an loan does not necessarily lead to future liquidity requirements, as many of these obligations will expire or be terminated without funding.

The Bank is exposed to daily withdrawal requests from clients that affect the available funds from current accounts and deposits. The Bank does not need to maintain the level of cash to meet all potential requirements, taking into account that the estimate of the minimum reinvestment level of maturing assets can be predicted with adequate degree of certainty.

5. RISK MANAGEMENT (continued)

5.4 Liquidity risk (continued)

5.4.1. Liquidity risk management

The maturity profile of the Bank's gross financial assets and liabilities by expected maturities with the balance as as 31 December 2019 is presented in the table below:

In thousand EUR

	Up to 1 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
Financial assets							
Cash and deposit accounts with central banks	81,665	-	-	-	10,099	-	91,764
Financial assets at amortized cost							
-*Loans and receivables from banks*	11,708	-	1,220	-	809	-	13,737
-*Loans and receivables from clients*	2,440	843	2,581	18,013	29,201	39,049	92,127
-*Other financial assets*	34	-	-	-	-	-	34
Financial assets at fair value through profit or loss							
-*Securities*	700	33,989	5,000	12,000	3,990	52,234	107,913
Financial assets held for sale							
-*Securities*	-	-	272	-	-	-	272
Derivative financial assets as hedging instruments	15	40	-	-	-	-	55
Other assets	3,862	228	905	47	3,010	-	8,052
	100,424	**35,100**	**9,978**	**30,060**	**47,109**	**91,283**	**313,955**
Financial liabilities							
Financial liabilities carried at amortized cost							
-*Clients deposits*	33,526	8,712	5,225	34,870	198,635	4,427	285,395
- *Loans to non-bank customers*	7	156	213	503	2,160	843	3,882
Derivative financial liabilities as hedging instruments	276	-	-	-	-	-	276
Other liabilities	2,341	382	1,338	2,466	949	-	7,476
Subordinated debt	-	-	-	2	-	1,000	1,002
	36,150	**9,250**	**6,776**	**37,841**	**201,744**	**6,270**	**298,031**
Maturity mismatch							
- 31 December 2019	64,274	25,850	3,202	(7,781)	(154,635)	85,013	15,924
Cumulative Gap	64,274	90,124	93,326	85,545	(69,090)	15,923	
% of the total sources of funds	**20.5%**	**28.7%**	**29.7%**	**27.2%**	**(22.0%)**	**5.1%**	**-**
- 31 December 2018	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	
% of the total sources of funds	**27.9%**	**30.6%**	**30.1%**	**24.7%**	**(13.7%)**	**1.2%**	**-**

5. RISK MANAGEMENT (continued)

5.4 Liquidity risk (continued)

5.4.1. Liquidity risk management (continued)

The structure of assets and liabilities as of 31 December 2019 indicates to the existence of a maturity mismatch for a period from 1 to 5 years based on the remaining maturity of assets and liabilities. The Bank's liquidity and its ability to meet due obligations on time depends on the balance sheet structure, as well as the harmonization of inflows and outflows.

The resulting negative gaps are predominantly due to the high level of demand deposits on the one hand and approved loans and long-term securities purchased on the other hand. The Bank is ready to assume the risk of this mismatch solely due to the fact that for all securities it holds in its portfolio there is a developed secondary market and therefore the purchased securities are treated as a secondary liquidity reserve.
Based on the previous business experience in 2019 the Bank developed a Methodology for determining the stable level of demand deposit. It resulted in a more adequate redistribution of demand deposits according to which the cumulative GAP covers all negative period individual GAPs in other time intervals.

5. RISK MANAGEMENT (continued)

5.4 Liquidity risk (continued)

5.4.2. Analysis of financial liabilities according to the remaining contractual maturities (undiscounted cash flows)

31 December 2019

In thousand EUR

	On demand	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
FINANCIAL LIABILITIES							
Financial liabilities carried at amortized cost							
-Clients deposits	227,942	-	800	24,091	28,118	4,444	285,395
- Loans to non-bank clients	7	156	213	503	2,160	843	3,882
Derivative financial liabilities as hedging instruments	276	-	-	-	-	-	276
Other liabilities	7,061	403	11	1	-	-	7,476
Subordinated debt	-	-	-	2	-	1,000	1,002
Total	**235,286**	**559**	**1,024**	**24,597**	**30,278**	**6,287**	**298,031**

31 December 2018

In thousand EUR

	On demand	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
FINANCIAL LIABILITIES							
Financial liabilities carried at amortized cost							
-Clients deposits	177,596	316	1,360	26,576	35,571	3,596	245,015
- Loans to non-bank clients	5	-	283	822	2,869	1,196	5,175
Derivative financial liabilities as hedging instruments	45	-	113	-	-	-	158
Other liabilities	1,465	3	-	133	121	-	1,722
Subordinated debt	-	-	-	-	-	5,031	5,031
Total	**179,111**	**319**	**1,756**	**27,531**	**38,561**	**9,823**	**257,101**

5. RISK MANAGEMENT (continued)

5.5 Fair value of financial assets and liabilities

In thousand EUR

	Book value		Fair value	
	2019.	2018.	2019.	2018.
Financial assets				
Cash and deposit accounts with central banks	91,764	93,503	91,764	93,503
Financial assets at amortized cost				
-Loans and receivables from banks	13,725	17,113	13,725	17,113
-Loans and receivables from clients	89,593	91,165	89,593	91,165
-Other financial assets	12	10	12	10
Financial assets at fair value through other comprehensive income				
-Securities	108,543	54,277	109,703	54,235
Financial assets held for trading				
-Securities	318	-	272	-
Derivative financial assets as hedging instruments	54	1	54	1
Other assets	5,467	2,458	5,467	2,458
Total	**309,476**	**258,527**	**310,590**	**258,484**
Financial liabilities				
Financial liabilities carried at amortized cost				
-Clients deposits	285,395	245,015	285,395	245,015
- Loans to non-bank clients	3,882	5,175	3,882	5,175
Derivative financial liabilities as hedging instruments	276	158	276	158
Other liabilities	7,476	1,722	7,476	1,722
Subordinated debt	1,002	5,031	1,002	5,031
Total liabilities	**298,031**	**257,101**	**298,031**	**257,101**

There are no available market prices for a certain part of the Bank's financial instruments. In conditions where no market prices are available fair value is estimated using discounted cash flow model or other models. Changes in the assumptions underlying the estimates, including discount rates and estimated cash flows, significantly affect the result. Therefore, the estimated fair values may differ from those obtained during the actual sale of the financial instrument.

In estimating the fair value of financial instruments for which such value can be determined, the following methods and assumptions have been applied:

a) Loans and receivables from banks

Receivables from other banks include interbank placements and positions in the collection process.

The fair value of variable interest rate placements and overnight deposits is approximately equal to the carrying amount of these financial assets stated at the balance sheet date.

b) Loans and receivables from clients

In order to determine the fair value of loans to clients with fixed interest rates expressed at amortized cost, the Bank performed compariosn of interest rates at which loans were granted to clients with available information on prevailing market interest rates in the banking sector of Montenegro, resepectively average weighted interest rates by industry.

5. RISK MANAGEMENT (continued)

5.5 Fair value of financial assets and liabilities (continued)

The Bank's management believes that the Bank's interest rates do not deviate significantly from the prevailing market interest rates in the banking sector of Montenegro. Accordingly, the fair value of the loans to clients is calculated as the present value of future cash flows discounted by the applicable current market rates, resepctively average weighted interest rates for the banking sector. Fair value of the loans to clients do not deviate significantly from the stated carrying amounts of loans at the balance sheet date. In the management's opinion, amounts reported in the financial statements reflect the fair value as the most reliable and useful for the purposes of financial reporting in the given circumstances.

c) *Securities*

Bonds are valued at fair value based on market prices. As of 31 December 2019, the market prices of bonds measured at fair value in the Bank's portfolio were available.

Treasury bills are issued by the Ministry of Finance of Montenegro with a maturity of 182 days (maturing in February 2019). Given the short maturity of these bonds, the Bank's management 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, as well as term deposits with a remaining maturity of less than one year, it is assumed that the estimated fair value does not deviate significantly from the book value.

In the management's opinion, the Bank's interest rates are adjusted to current market interest rates and accordingly the amounts in the financial statements reflect the fair value which in the circumstances most accurately reflects the fair value of fixed interest rate deposits with a remaining maturity of more than one year.

The fair value of variable interest rate borrowings is assumed to be approximate to the carrying amount of these liabilities at the reporting date.

g) Fair value hierarchy

The accounting regulations in Montenegro, as well as the application of IFRS 13 require the disclosure of fair value measurements according to the following hierarchical levels:

- quoted prices (unadjusted) on the active market for the same assets or the same liabilities (level 1);
- information, other than quoted prices included in level 1, which is based on available market data for assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices) (level 2).
- information on an asset or liability that is not based on available market data (level 3).

g) Fair value hierarchy (continued)

The fair value of financial instruments traded in an active market is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded on an active market is determined using various valuation techniques. The Bank applies various methods and makes assumptions based on market conditions that exist at the balance sheet date. These methods include quoted market prices or quoted prices for similar instruments and estimated discounted cash flow values.

5. RISK MANAGEMENT (cotinued)

5.5 Fair value of financial assets and liabilities (continued)

h) Cash and deposit accounts with central banks

Cash and deposit accounts with central banks include cash and cash equivalents in the bank's vault and accounts within the Central Bank of Montenegro.

The fair value of these financial assets is approximately equal to the carrying amount of the financial assets stated at the balance sheet date.

i) Other financial rceivables

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

The fair value of these financial assets is approximately equal to the carrying amount of the financial assets stated at the balance sheet date.

Hierarchy of fair value of financial instruments measured at fair value

The estimated fair value of financial instruments, according to the fair value hierarchy is given in the following table:

31 December 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at fair value through other comprehensive income				
-Securities	75,498	33,989	216	109,703
Financial assets held for sale				
-Securities	272	-	-	272
Derivative financial assets as hedging instruments	-	55	-	55
Total assets	75,770	34,044	216	110,030
Derivative financial liabilities as hedging instruments	-	276	-	276
Total liabilities	**-**	**276**	**-**	**276**

31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at fair value through other comprehensive income				
-Securities	54,235	-	-	54,235
Total assets	54,235	-	-	54,235
Derivative financial liabilities as a hedging instrument	-	158	-	158
Total liabilities	**-**	**158**	**-**	**158**

5. RISK MANAGEMENT (continued)

5.6. Capital management

Capital management aims to:

- comply with regulatory requirements,
- protect the Bank's ability to maintain business continuity in order to be able to provide payments to shareholders and compensation to other owners, and
- provide capital to support the further development of the Bank.

The Bank's management controls capital adequacy using the methodology and limits prescribed by the Central Bank of Montenegro by 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 state and structure of capital to the Central Bank of Montenegro. The Bank's own funds consist of share capital and supplementary capital. The sum of the basic elements of own funds, less the sum of deductible items, represents the share capital of the Bank.

The basic elements of the Bank's own funds are:

1. paid-in share capital at nominal value, excluding cumulative preference shares;
2. collected issue premiums;
3. reserves for estimated losses upon regulatory requirement, allocated in accordance with the decision prescribing minimum standards for credit risk management in banks;
4. reserves formed at the expense of profit after its taxation (legal, statutory and other reserves);
5. retained earnings from previous years;
6. the amount of profit in the current year, if the General Meeting of Shareholders has made a decision to be included in the share capital of the Bank.

Deductible items in the calculation of the Bank's share capital are:

1. loss from previous years;
2. loss from the current year;
3. intangible assets in the form of goodwill, licenses, patents, trademarks and concessions;
4. nominal amount of acquired own shares, excluding cumulative preference shares;
5. unrealized loss on the basis of value adjustment of financial assets available for sale, at fair value;
6. a positive difference between the amount of accrued provisions for potential losses and the sum of the amount of impairment for balance sheet assets and provisions for off-balance sheet items;
7. the amount in excess to the limit of investment in real estate and fixed assets, determined by a special regulation of the Central Bank.

The sum of additional elements of own funds, less the sum of deductible items, represents the additional capital of the Bank.

Additional elements to own funds that are included in the Bank's additional capital are:

1. nominal amount of paid-in preference cumulative shares;
2. collected issue premiums based on cumulative priority shares;
3. the amount of general reserves, up to a maximum of 1.25% of total risk-weighted assets;
4. subordinated debt, for which the conditions from the CBM Decision on Capital Adequacy are met;
5. hybrid instruments, for which the conditions from the CBM Decision on capital adequacy are met;
6. revaluation reserves for real estate owned by the Bank.

Deductible items in the calculation of additional capital are:

1. acquired own preferred cumulative shares;
2. receivables and contingent liabilities secured by hybrid instruments or subordinated debt of the Bank up to the amount in which these instruments are included in additional capital.

5. RISK MANAGEMENT (continued)

5.6. Capital management (continued)

In accordance with the regulations of the Central Bank of Montenegro, the Bank is obliged to maintain a minimum capital adequacy ratio of 10%. The Bank is obliged to harmonize the scope of its operations with the prescribed indicators, respectively to harmonize the scope and structure of its risk bearing placements with the Law on Banks and the regulations of the Central Bank of Montenegro. As of 31 December 2019, the capital adequacy ratio calculated by the Bank was equal to 20.08% (2018: 25.40%). The Bank 's compliance with regulatory indicators is given in Note 23.

5.7. Sensitivity analysis

5.7.1. Sensitivity analysis (currency risk)

Management of currency risk exposure, in addition to the analysis of the Bank's receivables and liabilities denominated in foreign currency, also includes the analysis of sensitivity to changes in foreign exchange rates. The following table represents the scenario analysis of exchange rate change in the range from + 10% to -10% in relation to EUR.

In thousand EUR

		2019.	Exchange rate change	
	Total	**Amount in foreign currency**	**10%**	**-10%**
Financial assets				
Cash and deposit accounts with central banks	91,764	777	78	(78)
Financial assets at amortized cost				
- Loans and receivables from banks	13,725	5,659	566	(566)
Financial assets held for sale	272	45	5	(5)
Other assets	5,467	2,992	299	(299)
Off-balance sheet - Contracts for the purchase of foreign currencies	33,911	33,911	3,391	(3,391)
Total financial assets and off-balance sheet assets exposed to foreign exchange risk	**145,139**	**43,384**	**4,339**	**(4,339)**
Financial liabilities				
Financial liabilities carried at amortized cost				
-Clients deposits	285,395	42,134	4,213	(4,213)
- Loans to non-bank clients	3,882	-	-	-
Derivative financial liabilities as hedging instruments	276	-	-	-
Other liabilities	7,476	610	61	(61)
Total Financial liabilities	**297,029**	**42,744**	**4,274**	**(4,274)**
Net exposure to currency risk:				
- 31 December 2019			**64**	**(64)**
- 31 December 2019			**15**	**(15)**

5. RISK MANAGEMENT (continued)

5.7.1. Sensitivity analysis (foreign exchange risk continued)

As of 31 December 2019, assuming that all other parameters remain unchanged by the change in the EUR exchange rate against other currencies by + 10% and -10%, the Bank's profit would decrease or increase by EUR 64 thousand (as of 31 December 2018: profit would decrease or increase by the amount of EUR 15 thousand). The reason for the Bank's low exposure to changes in foreign exchange rates is the fact that most of the Bank's receivables and liabilities are denominated in EUR and that the Bank's open position in foreign exchange risk is reduced through derivatives used for hedging against foreign exchange risk.

5.7.2. Sensitivity analysis (interest rate risk)

During the process of managing interest rate risk, the Bank performs sensitivity analysis of changes in receivables and liabilities with variable interest rates. The following table shows the effect of changes in variable interest rates on receivables and liabilities 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 changes in interest rates		
	2019	**+0.4 b.p. EUR IR**	**-0.4 b.p. EUR IR**
Financial assets			
Cash and deposits accounts with cenral banks	91,764	-	-
Financial assets at amortized cost			
-Loans and receivalbes from banks	13,725	-	-
-Loans and receivables from clients	89,605	358	(358)
-Other financial receivables	12	-	-
Financial assets at fair value through other comprehensive income			
-Securities	109,703	439	(439)
Other assets	5,467	-	-
	310,276	**797**	**(797)**
Financial liabilities			
Financial liabilities carried at amortized cost			
-Clients deposits	285,395	1,142	(1,142)
- Loans to non-bank clients	3,882	16	(16)
Derivative financial liabilities as hedging instruments	276	-	-
Subordinated debt	1,002	4	(4)
	290,555	**1,161**	**(1,161)**
Net exposure to interest rate risk:			
- 31 December 2019		**(364)**	**364**
- 31 December 2018		**(439)**	**439**

Assuming that all other parameters are unchanged. by increasing or decreasing the variable interest rate on receivables and liabilities in EUR by 0.4 percentage points, the Bank's profit would increase or decrease by EUR 364 thousand.

6. INTEREST INCOME AND EXPENSES

a) Interest and similar income

(In thousands of EUR)	2019	2018
Deposits with foreign banks	89	43
Loans:		
- companies	2,977	2,538
- individuals	306	316
	3,772	2,897
Securities	1,062	922
	4,434	3,819
Loan fee income	136	122
	4,570	**3,941**

b) Interest and similar expenses

(In thousands of EUR)	2019	2018
Deposits with foreign banks	75	-
Deposits:		
- companies	826	507
- individuals	185	296
Securities	-	348
Loans and other borrowings	79	176
	1,165	**1,327**

7. NET EXPENSE BASED FOR IMPAIRMENT OF FINANCIAL INSTRUMENTS WHICH ARE NOT VALUED AT FAIR VALUE THROUGH INCOME STATEMENT

a) Impairment costs

(In thousands of EUR)	2019	2018
Loans and receivables from customers	1,253	353
Loans and receivables from banks	5	5
Securities	416	64
Off-balance sheet exposures	194	(173)
Other assets	1,287	(2)
	3,155	**247**

b) Changes in impairment accounts in 2019

	Loans to clients	Loans to banks	Securities	Off-balance exposures	Other asets	Provisions for severance	**Total**
Balance at December 31. 2018	1,709	6	39	134	39	2	**1,929**
Increase in provisions during the year	3,343	37	610	391	1,296	-	**5,667**
Cancellation of reservations during the year	(2,082)	(31)	(157)	(197)	(55)	-	**(2,552)**
Balance at December 31. 2019	2,970	12	492	328	1,280	2	**5,084**

8. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and commission income

(In thousands of EUR)	2019	2018
Fees for overseas payment services	2,904	1,321
Account opening and maintenance fee	403	410
Credit card transactions	618	534
Fees for payment services and e-banking	235	168
Fees from brokerage and custody transactions	124	65
Fees on commission transactions	1,431	627
Fees for off-balance sheet transactions	64	73
Exchange fees	1,280	-
Other fees and commissions	38	245
	7,097	**3,443**

b) Fee and commission expenses

(In thousands of EUR)	2019	2018
Deposit protection premium fees	1,378	1,102
Fees to the Central Bank	418	403
Visa and Master fees	367	221
Fees for international payment services	143	124
Electronic banking fees	93	104
Other fees	180	107
	2,579	**2,061**

9. EMPLOYEE COSTS

(In thousands of EUR)	2019	2018
Net earnings	912	731
Taxes, surtaxes and earnings contributions	595	510
Remuneration to members of the Board of Directors	66	125
Travel and subsistence expenses	35	52
Fees for occasional jobs	20	20
Employee training	16	2
Other net compensation of employees	-	10
	1,644	**1,450**

10. GENERAL AND ADMINISTRATIVE COSTS AND DEPRECIATION COSTS

10a. General and administrative costs

(In thousands of EUR)	2019	2018
Representation costs	352	307
Maintenance of computers and equipment	251	163
Various costs	125	109
Rental costs	80	84
Membership fees and donations	40	115
Security costs	59	71
Advertising and marketing	207	19
Communication network costs	42	45
Intellectual services	73	45
Electricity and fuel costs	48	41
Insurance	49	51
Phone	33	38
Representation costs	91	42
Costs of auditing financial statements	34	30
Other costs	22	43
	1,506	**1,203**

10b. DEPRECIATION COSTS

(In thousands of EUR)	2019	2018
Property, plant and equipment (note 16)	206	197
Intangible assets (Note 17)	192	174
	398	**371**

11. OTHER INCOME

(In thousands ofEUR)	2019	2018
Income from collection of written-off loans	4	4
Rental income	10	5
Other extraordinary income	80	5
	94	**14**

12. INCOME TAX

a) Income tax components

(In thousands of EUR)	2019	2018
Calculated current tax	410	62
Calculated deferred tax	(114)	11
	269	**73**

12. INCOME TAX (continued)

b) Reconciliation of income tax amounts in the income statement and products of results before tax and the prescribed tax rate

(In thousands EUR)	2019	2018
Result in the income statement before tax	3,537	1,113
Depreciation expense in the income statement	398	371
Depreciation costs for tax purposes	(423)	(512)
Expenses on impairment of assets that are not recognized for tax purposes	1,236	-
Other	66	166
In total	**4,814**	**1,138**
Capital gains	(75)	(224)
Capital losses	-	-
Effects of the application of legal regulations as at 01.01.2013.	-	101
Profit in the tax balance	4,817	914
Loss in the tax balance	-	-
Used tax losses from previous years	-	432
Total capital gains for the current year	**75**	**224**
The amount of capital gains tax	7	20
The amount of tax from the tax return	440	65
Deferred income tax	(114)	11
Income tax expense	326	76
Reduction of tax liability based on timely payment	26	3
Total cost of income tax	300	73
Effective tax rate	**8.48%**	**6.5%**

a) Deffered tax

Deferred tax revenue is recognized in the amount of EUR 114 thousand as:

- Income in the amount of EUR 111 thousand as 9% of the amount of impairment of other assets that are not recognized for tax purposes. but will be recognized at the time of disposal of assets.
- Revenue in the amount of EUR 6 thousand as 9% of the amount of other expenses that are not recognized for tax purposes, but will be recognized at the time of payment.
- Expenditure in the amount of EUR 2 thousand as 9% on the difference between the current book value and the tax base of fixed assets arising as a result of the difference between the calculated accounting and tax depreciation of fixed assets for 2019.

Deferred tax liabilities in the amount of EUR 149 thousand are recognized for gains in the fair value of debt instruments classified in the FVOCI model. These deferred tax liabilities are recognized in equity.

13. CASH AND DEPOSIT ACCOUNTS WITH CENTRAL BANKS

(In thousands od EUR)	December 31, 2019.	December 31, 2018.
Cash on hand:		
- in EUR	105	149
- in foreign currency	-	8
Cash in vault:		
- in EUR	13,262	12,829
- in foreign currency	-	571
Cash at ATMs	-	-
Bank account	58,198	61,051
Reserve requirement with the Central Bank of Montenegro	20,199	18,895
	91,764	**93,503**

The required reserve as at 31 December 2019 was allocated in accordance with the Decision of the Central Bank of Montenegro on the required reserve of banks with the Central Bank of Montenegro ("Official Gazette of Montenegro" 35/11. 22/12. 61/12 and 57/13. 52/14. 7/15 and 70/17) (hereinafter: the Decision), which stipulates that banks allocate the required reserve by applying a rate of:

- 7.5% on the part of the base consisting of demand deposits and deposits with a maturity of up to one year, ie up to 365 days, and
- 6.5% on the part of the base consisting of deposits with a maturity of over one year, or over 365 days.

Cash and cash equivalents (for the purpose of compiling the Individual Statement of Cash Flows)

(In thousands of EUR)	December 31, 2019.	December 31, 2018.
Cash on hand		
- in EUR	105	149
- in foreign currency	-	8
Cash in vault		
- in EUR	13,262	12,829
- in foreign currency	-	571
-		
Bank account	58,198	61,051
Reserve requirement with the Central Bank of Montenegro	20,199	18,895
Loans and receivables from banks	13,307	16,319
	105,071	**109,822**

On 31 December 2019. the difference of EUR 418 thousand (31 December 2018: EUR 794 thousand) between cash and cash equivalents and the sum of balance sheet items, cash and deposit accounts with central banks and loans and receivables from banks, represents time deposits with banks with maturity of more than 3 months, thus losing the characteristics of the cash equivalent.

The Bank allocates the calculated required reserve to the required reserve account in the country and / or to the accounts of the Central Bank of Montenegro abroad. The required reserve is allocated in EUR.

Until 31 December 2019:
- on 50% of the allocated reserve requirements the Central Bank pays to the Bank monthly until the eighth of the month for the previous month, a fee calculated at the rate of EONIA reduced by 10 basis points per year, provided that this rate cannot be less than zero.

The bank may use up to 50% of allocated reserve requirements to maintain daily liquidity. The Bank does not pay a fee for the used amount of required reserves that is returned on the same day. The bank is obliged to pay a monthly fee on the amount of required reserve funds that it does not return on the same day at the rate determined by a special regulation of the Central Bank of Montenegro.

14. FINANCIAL ASSETS AT AMORTIZED COST

14.a. Loans and receivables from banks

(In thousands of EUR)	December 31, 2019	December 31, 2018
Correspondent accounts and time deposits with foreign banks	13,737	17,119
Impairment (Note 8b)	(12)	(6)
Total	**13,725**	**17,113**

14.b. Loans and receivables from clients

(In thousands of EUR)	December 31, 2019	December 31, 2018
Loans:		
- privately owned companies	87,056	88,294
- individuals	4,909	4,191
- other: entrepreneurs and non-governmental organizations	162	101
	92,127	92,586
Thereof:		
Short-term loans:		
- privately owned companies	11,357	5,972
- individuals	51	58
	11,408	6,030
Long-term credit:		
- privately owned companies	75,634	82,322
- individuals	4,933	4,133
- other: entrepreneurs and non-governmental organizations	152	101
	80,719	86,556
Interest receivables:		
-loans	402	327
Accruals:		
-interest on loans	358	251
-loan fees	(324)	(290)
	92,563	92,874
Minus:		
Impairment of loans (Note 8b)	(2,703)	(1,576)
Impairment of interest (Note 8b)	(267)	(133)
	(2,970)	(1,709)
	89,593	**91,165**

14. FINANCIAL ASSETS AT AMORTIZED COST (continued)

14.b. LOANS AND RECEIVABLES FROM CLIENTS (continued)

Short-term loans to companies are mostly granted for working capital with a term of one month to 12 months. while long-term loans are approved for a period of 12 to 240 months and mainly relate to companies in the field of hospitality. trade. mining and quarrying and energy. services. etc.

Retail loans include cash loans. housing loans. tourism loans. retirement loans. and micro loans. approved for a period of 12 to 240 months.

The geographical concentration of loans to customers by the Bank in the loan portfolio includes mostly customers based in Montenegro. mainly in the central region and on the coast.

The concentration by activities of total gross loans to customers by the Bank is as follows:

(In thousands of EUR)	December 31, 2019	December 31, 2018
Construction	16,231	15,028
Population	4,935	4,191
Arts. entertainment and recreation	4,126	3,467
Traffic and storage	1,000	1,122
Trade and real estate	35,473	36,072
Manufacturing industry	746	789
Accommodation and catering services	16,423	11,962
Public administration and compulsory social security	2,011	5,000
Electricity supply	-	141
Mining and quarrying	584	724
Health and social protection	1,065	1,165
Professional. scientific and technical activities	4,922	10,938
Agriculture. forestry and fishing	63	73
Administrative and support service activities	1,674	127
Information and communication	2,830	1,612
Other service activities	44	175
	92,127	**92,586**

Gross exposure transfers by Stage (s) are shown in the following table:

(In thousands of EUR)	Stage 1	Stage 2	Stage 3	Total
December 31, 2018	**82,706**	**6,118**	**4,050**	**92,874**
New receivables	40,306	-	-	40,306
Reduction / Repayment of receivables	(38.340)	(1,614)	(663)	(40,617)
Transfer to Stage 1	775	(766)	(9)	-
Transfer to Stage 2	(2,705)	3,599	(894)	-
Transfer to Stage 3	(673)	(1,215)	1,888	-
December 31, 2019	**82,069**	**6,122**	**4,372**	**92,563**

14. FINANCIAL ASSETS AT DEPRECIATED VALUE (continued)

14b. LOANS AND RECEIVABLES FROM CLIENTS (continued)

Impairment transfers by Stage (s) are shown in the following table:

(In thousands of EUR)	Stage 1	Stage 2	Stage 3	Total
December 31, 2018.	**427**	**414**	**868**	**1,709**
New receivables	826	-	-	826
Reduction / Repayment of receivables	(222)	(107)	(118)	(447)
Impairment during the year	234	26	622	822
Transfer to Stage 1	2	(2)	-	-
Transfer to Stage 2	(346)	354	(8)	-
Transfer to Stage 3	(263)	(170)	433	-
December 31, 2019.	**658**	**515**	**1,797**	**2,970**

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER TOTAL RESULT

(In thousands of EUR)	December 31, 2019	December 31, 2018
Debt securities	109,488	54,020
Capital investment of subsidiaries (FVOCI option)	215	215
	109,703	**54,235**
Impairments of bonds	(492)	(39)

Government bonds as at 31 December 2019 amount to EUR 71,534 thousand (December 31. 2018: EUR 29,027 thousand) and relate to euro bonds issued by the Ministry of Finance of Montenegro with a fixed interest rate of 2.55% to 5.75 % and maturity from May 2019 to October 2029.

As at 31 December 2019. treasury bills amount to EUR 33,989 thousand (December 31. 2018: EUR 24,993 thousand) and were issued by the Ministry of Finance of Montenegro with a maturity of 182 days, ie until February 2020. Yield rates ranged from 0.20% to 0.50%.

16. PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment for 2019 and 2018 are shown in the following table:

(In thousands of EUR)	Constructio n objects	Equipment and others resources	Current investment	Total
Purchase value				
Balance at January 1, 2018	2,839	1,867	72	4,778
Increases	-	113	334	447
Transfers to intangible assets	-	-	(275)	(275)
Alienation and expenditure	-	(555)	(115)	(670)
Balance at December 31, 2018	**2,839**	**1,425**	**16**	**4,280**
Increases	-	77	241	318
Transfers to intangible assets	-	-	(71)	(71)
Reduction-write-offs	-	(31)	-	(31)
Downloads	-	-	(83)	(115)
Balance at December 31, 2019	**2,839**	**(1,411)**	**103**	**4,413**
Value adjustment				
Situation. January 1, 2018	(79)	(1,235)	-	(1,314)
Depreciation (Note 12b)	(29)	(169)	-	(198)
Alienation and expenditure	-	552	-	552
Balance at December 31, 2018	**(108)**	**(852)**	**-**	**(960)**
Depreciation (Note 12b)	(28)	(178)	-	(206)
Alienation and expenditure	-	12	-	552
Balance at December 31, 2019	**(136)**	**(1,030)**	**-**	**(1,154)**
Present value:				
- December 31, 2019	**2,703**	**453**	**103**	**3,259**
- December 31, 2018	**2,731**	**573**	**16**	**3,320**

As at December 31. 2019 the Bank has no pledged assets that serve as an instrument to secure the repayment of loans and other liabilities.

17. INTANGIBLE ASSETS

Intangible assets mostly consist of licenses and software. The following overview shows the movements on intangible assets during 2019 and 2018:

(In thousands of EUR)	December 31, 2019	December 31, 2018
Purchase value		
Balance at January 1st	1,435	1,437
Write-off	(143)	(277)
Return on property. plant and equipment (Note 18)	71	275
	1,363	**1,435**
Balance. December 31st		
Value adjustment	750	845
Balance at January 1st	192	174
Depreciation (Note 12b)	(81)	(269)
Write-off	861	750
Write-off value as at 31 December	**502**	**685**

18. OTHER ASSETS

(In thousands of EUR)	December 31, 2019	December 31, 2018
Assets acquired on the basis of collection of receivables	2,525	3,939
Trade receivables	401	392
Receivables from card business	905	827
Receivables from correspondent banks	3,563	972
Prepaid expenses	229	341
Other receivables	358	122
	7,980	**6,593**

19. FINANCIAL LIABILITIES EXPRESSED AT DEPRECIATED VALUE

19.a. Clients deposits

(In thousands of EUR)	December 31, 2019	December 31, 2018
A-vista deposits:		
- privately owned companies	169,700	101,435
- companies with majority state ownership	-	-
- funds	339	320
- regulatory agencies	134	134
- entrepreneurs	47	47
- individuals	57,145	75,605
- non-profit organizations	38	19
- the others	266	32
	277,621	177,592
Short-term deposits:		
- privately owned companies	20,441	21,457
- individuals	5,567	4,606
	26,008	26,063
Long-term deposits:		
- privately owned companies	20,669	5,702
- individuals	10,783	35,434
	31,452	41,136
Interest on deposits	314	224
	285,395	**245,015**

19.b. Loans to non-bank customers

(In thousands of EUR)	December 31, 2019	December 31, 2018
European Investment Bank	280	600
Interest payable	2	4
	282	604
Investment and Development Fund AD. Podgorica	3,600	4,571
Total	**3,882**	**5,175**

19. FINANCIAL LIABILITIES EXPRESSED AT DEPRECIATED VALUE (continued)

19.b. Loans to non-bank customers (continued)

Liabilities for loans and borrowings from non-bank entities as at 31 December 2019 amount to EUR 282 thousand (31 December 2018: EUR 604 thousand) and relate to liabilities to the European Investment Bank for financing small and medium-sized enterprises . The interest rate on loans taken from the EIB ranges from 2.19% to 3.66%. The maturity is from 7 to 11 years. The Bank has no obligation to meet financial indicators for these loans.

As at 31 December 2019 liabilities on loans and borrowings in the amount of EUR 3.600 thousand (31 December 2018: EUR 4.571 thousand) relate to liabilities to the Investment and Development Fund of Montenegro on the basis of several long-term loans. The interest rate on loans ranges from 1% to 4%. The maturity is from 3 to 10 years. The Bank has no obligation to meet financial indicators for these loans.

Maturity by years is shown in the following tables:

European Investment Bank:

(In thousands of EUR)	December 31, 2019	December 31, 2018
Up to 1 year	280	320
Up to 2 years	-	218
Up to 3 years	-	62
Up to 4 years	-	-
Up to 5 years	-	-
	280	**600**

Investment Development Fund:

(In thousands of EUR)	December 31, 2019	December 31, 2018
Up to 1 year	658	788
Up to 2 years	667	713
Up to 3 years	663	723
Up to 4 years	419	720
Up to 5 years	350	433
Over 5 years	843	1.194
	3,600	**4,571**

20. OTHER LIABILITIES

(In thousands of EUR)	December 31, 2019	December 31, 2018
Payables	171	95
Founding capital payments	13	160
Advances received	12	133
Custody liabilities	5,970	775
Liabilities for brokerage business	54	216
Other liabilities	1,266	343
	7,476	**1,722**

21. SUBORDINATED DEBT

As at 31 December 2019 part of the Bank's subordinated debt in the amount of EUR 1,002 thousand (31 December 2018: EUR 1,002 thousand) relates to funds received from SDS Management DMCC. Funds were received in two lines, one amounting to EUR 751 thousand with interest at a rate of 0.50% and a maturity date of 24 August 2023, and another amounting to EUR 251 thousand with an interest rate of 0.50% and a maturity date of 3 June 2023 (taken over from NER Holding LTD pursuant to the Assignment Agreement).

At the General Meeting of Shareholders of the Bank, held on 28 May 2018. the Decision on the issue of convertible bonds to the pre-known buyer SDS Management DCC Dubai in the total amount of EUR 2,024 thousand was adopted. Based on the decision of the Securities Commission of 22 June 2018, the Bank successfully issued convertible bonds in the specified amount with a maturity of 5 years and 6 months and a yield at a fixed interest rate of 1% per annum. As at 31 December 2018, the balance of these bonds amounts to EUR 4,029 thousand, which represents the second part of the total subordinated debt which as at 31 December 2018 amounts to a total of EUR 5,031 thousand (31 December 2017: EUR 2,997 thousand).

These bonds in the amount of EUR 4,024 thousand were converted into share capital by the Decision of the General Meeting of Shareholders of the Bank held on 10 October 2019 (Note 22).

22. ISSUED CAPITAL

As at 31 December 2019 the Bank's issued capital consists of 23,954 thousand ordinary shares (31 December 2018: 16,002 ordinary shares). individual nominal value EUR 0.50605821 (31 December 2018: individual nominal value EUR 0.50605821)

The Law on Banks ("Official Gazette of Montenegro" No. 17/08. 44/10. 40/11 and 73/17) defined the minimum amount of money capital of the bank in the amount of EUR 5 million.

At the Extraordinary General Meeting of Shareholders of the Bank held on 10 October 2019 a Decision was made to increase the capital by issuing shares based on the conversion of convertible bonds (hybrid instrument) into shares in the amount of EUR 4,024 thousand. The changes were registered in the Central Register of Business Entities on 20 November 2019.

The ownership structure of the Bank as at 31 December 2019 and 2018 is as follows:

	2019.			2018.		
Shareholders name	**Number of shares**	**(Thousands of EUR)**	**% share**	**Number of shares**	**(Thousands of EUR))**	**% share**
Sigma Delta Holdings	21,606	10,934	90.20%	13,653	6,910	85.32%
Sigma Delta Investments	2,288	1,158	9.55%	2,288	1,158	14.30%
Seriatos Gerasimos	20	10	0.08%	20	10	0.12%
Saveljić Tijana	15	8	0.06%	15	8	0.09%
Aleksić Milutin	8	4	0.03%	8	4	0.05%
Others	17	8	0.08%	18	8	0.12%
	23,954	**12,122**	**100.00%**	**16,002**	**8,098**	**100.00%**

23. COMPLIANCE WITH REGULATIONS OF CENTRAL BANK OF MONTENEGRO

In accordance with the regulations of the Central Bank of Montenegro the Bank is obliged to maintain a minimum capital adequacy ratio of 10%. The Bank is obliged to harmonize the scope of its operations with the prescribed indicators, ie to harmonize the scope and structure of its risky placements with the Law on Banks and the regulations of the Central Bank of Montenegro.

	Achieved business indicators	
(In thousands of EUR)	**2019**	**2018**
Issued capital (minimum amount EUR 5 million)	12,122	8,098
Bank's own funds (Total risk capital : minimum amount EUR 5 million)	12,381	11,606
Capital adequacy ratio (minimum 10%)	20.08%	25.40%
Daily liquidity ratio as of December 31 (minimum coefficient 0.9)	1.41	1.85
Decade liquidity ratio for the decade ending on 31 December (minimum ratio 1)	1.38	1.81
The Bank's exposure to a single entity or group of related parties (limit 25% of the Bank's own funds)	11.92%	20.43%
Sum of large exposures (limit 800% of the Bank's own funds)	190.22%	144.37%
Total exposure to Bank`s related parties (limit 200% of the Bank's own funds)	16.34%	8.44%
Total exposure to the Bank's employee	0.41%	0.45%
Total exposure to BoD member, member of Audit Committee or Executive Director (max 2% of Bank`s own funds)	0.24%	0.10%
Total exposure to qualified shareholders, including exposures towards affiliated entities (max 20 of Bank`s own funds)	1.47%	4.73%
Total exposure to non-qualified shareholders, including exposures towards affiliated entities (max 10 of Bank`s own funds)	0.02%	0.05%

As at 31 December 2019 the Bank had no exposure to one or a group of related parties that exceeded 25% of its own funds.

24. OFF-BALANCE RECORDS

	December 31, 2019	December 31, 2018
Irrevocable loan obligations - non-withdrawn credit lines	8,425	2,942
Irrevocable documentary letters of credit issued for payment abroad	13	8
Warranties issued	6,267	3,688
Commission work	93,261	40,156
Other off-balance sheet records of the bank	384	388
Collateral on the basis of receivables	105,928	110,474
	199,352	150,861
Provisions for losses on off-balance sheet records (Note 8b)	**214,057**	**157,499**
	(328)	(135)

25. RELATED PARTY TRANSACTIONS

The Law on Banks ("Official Gazette of Montenegro" No. 17/08. No. 44/10. 40/11 and No. 73/17) defines that persons who appoint at least one representative in the Board have a significant influence on the Bank's operation, director or similar body, either through ownership of shares, by agreement with the owners or in any other way. In accordance with the Law on Banks. transactions with related parties are shown in the following tables:

(In thousands of EUR)	**December 31, 2019**	**December 31, 2019**
Loans and receivables		
-individuals	502	263
-legal entities:		
Adriatic Properties d.o.o.. Budva	10,500	10,500
Golden Estate d.o.o.. Podgorica	4,400	4,400
Nova Pobjeda d.o.o.. Podgorica	145	156
Adriatic Yachting Servises d.o.o.. Budva	10	10
Portal Press d.o.o.. Podgorica	10	10
Benatureyou Limired Gibraltar	-	5
Innovative Recycling S.A. Švajcarska	414	-
	15,981	15,344
Other receivables:		
Nova Pobjeda d.o.o. Podgorica	348	379
Total loans and receivables	**16,329**	**15,723**

25. RELATED PARTY TRANSACTIONS (continued)

(In thousands of EUR)	December 31, 2019.	December 31, 2018
Deposits:		
-individuals	1,507	1,415
-legal entities:		
Golden Estate d.o.o.. Podgorica	20	12
SDS Management DMCC Dubai	9,435	3,237
Adriatic Properties d.o.o.. Budva	1,005	1,642
Sigma Delta Holdings d.o.o.. Podgorica	73	77
Nova Pobjeda d.o.o.. Podgorica	187	3
Adriatic Yachting services d.o.o.. Budva	200	59
Sigma Delta Investments d.o.o.. Podgorica	43	25
Universal Capital Development d.o.o.. Podgorica	6	3
First Financial Holdings d.o.o.. Podgorica	127	9
Epidaurus hotel d.o.o.. Zagreb	5	5
Vires d.o.o.. Podgorica	203	209
Adriatic Procurement d.o.o.. Budva	9	57
Novine d.o.o.. Podgorica	1	-
Portal Press d.o.o.. Podgorica	6	-
Dnevne novine d.o.o.. Podgorica	14	1
Monte Rock Internacional Dubai	178	635
RMR Europe Investments Limited Kipar	6	250
Viable Finance GMBH	100	100
Ebenus Events Managements LLC Emirati	68	77
SDS Gulf Limited	524	55
Benatureyou Limited Gibraltar	7	19
Global Solutions d.o.o. Podgorica	-	8
Nightsapphire Resorts LTD Kipar	2	2
Novi Tender Oglasi d.o.o. Podgorica	9	2
Pure Angel d.o.o. Budva	181	-
Seven Hills Holdings Limited	11	-
RMR Blue Essence Investment LTD Kipar	5	-
Mystic Quartz resorts LTD Kipar	1	-
Media – Nea d.o.o. Podgorica	9	1
Total deposits	**13,942**	**8,239**
Loans/Deposits net:	**2,387**	**7,484**

25. RELATED PARTY TRANSACTIONS (continued)

(In thousands of EUR)

	2019	2018
Interest income:		
-individuals	24	9
-legal entities:		
Adriatic Properties d.o.o.. Budva	250	250
SDS management DMCC. Dubai - UAE	-	19
Golden Estate d.o.o.. Podgorica	87	88
Nova Pobjeda d.o.o.. Podgorica	5	4
Total interest income	366	961
Fee income:		
-individuals	1	1
-legal entities:		
Adriatic Properties d.o.o. Budva	8	5
Golden Estate d.o.o. Podgorica	4	4
Nova Pobjeda d.o.o. Podgorica	-	1
Innovative Recycling S.A. Švajcarska	1	-
Total fee income	14	18
Fee income from commision activities		
Adriatic Properties d.o.o. Budva	80	81
Nightsapphire resorts LTD Kipar	11	7
RMR Innovative Recyucling International	1	-
Ocean Jasper resorts LTD Kipar	14	-
RMR Blue Essence Investment LTD Kipar	17	-
Mystic Quartz resorts LTD Kipar	1	-
Pure Larimar resorts LTD Kipar	2	-
Tiger Eye resorts LTD Kipar	30	-
Total fee income from commision activities	156	88
Interest income - other receivables:		
-Nova Pobjeda d.o.o. Podgorica	11	12
Total interest income. fees and commissions	711	1.308
Interest and fee expenses:		
-SDS Menagement DMCC Dubai	7	5
Total expenses	7	5
Net income	704	1.303

Remuneration to management and the Board of Directors based on gross salaries and fees in 2019 amounts to EUR 255 thousand (2018: EUR 287 thousand).

26. LITIGATIONS

As of 31 December 2019 several lawsuits are pending against the Bank by individuals in which the claims seek annulment or determination, ie performance, and are not aimed at compensation for damages and thus the amount of the claim is not determined (2018: EUR is not determined the amount of the claim).

As of 31 December 2019 the Bank's management believes that there will be no negative outcome based on litigation so it has not made provisions on this basis.

In addition, the Bank conducts several proceedings against legal entities and individuals for the collection of receivables in the total amount of EUR 2,333 thousand (2018: EUR 2,144 thousand).

27. FOREIGN EXCHANGE RATES

The official exchange rates used to convert foreign currency balance sheet items into EUR as of 31 December 2019 and 2018 were:

	December 31, 2019	December 31, 2018
USD	1.11890	1.14540
CHF	1.08710	1.12270
GBP	0.85208	0.90273

28. SUBSEQUENT EVENTS

The rapid spread of COVID-19. as well as the pandemic status declared by the World Health Organization (WHO) with associated social and economic effects, both globally and in Montenegro, may result in a revision of the assumptions and estimates on which business entities base their operations.

The Bank, as a socially responsible entity, has taken all necessary measures to protect its employees, customers, creditors and business partners. The measures were taken in a way to create safe conditions for the smooth operation of the Bank, respecting the recommendations of the Institute of Public Health of Montenegro, as well as the measures of the National Coordination Body for Infectious Diseases.

The course of the pandemic and the accompanying social and economic effects is unpredictable, so it is a great challenge for all business entities to overlook all the implications for business performance. Uncertainty also relates to a set of measures to combat the spread of the virus which have already been taken and will potentially be taken in the future. The measures may have a significant impact on the business environment in Montenegro and consequently on the Bank's operations.

The Bank's management believes that the effects of the current situation on the economy of Montenegro and the Bank's operations will be seen in terms of liquidity and quality of the loan portfolio. The Bank's liquidity will be most affected by the moratorium on repayment of loans and other receivables from legal entities and individuals and for a period of at least 90 days, starting from March 31, 2020 as well as related events. In addition, the emerging pandemic could affect the distribution of credit and the amount of impairment. The Bank's management is unable to predict the possible effects on the financial statements. In addition to the above, the Bank's management believes that there are no other significant events after the reporting date that would affect the individual financial statements for 2019.

Podgorica, March 31, 2020

Danijela Jović
CEO

Miloš Pavlović
Executive officer

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.