HIPOTEKARNA BANKA A.D., PODGORICA

FINANCIAL STATEMENTS
31 DECEMBER 2018

CONTENTS

Crowe

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 Hipotekarna banka AD Podgorica

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and objective presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

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

Opinion

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholders of Hipotekarna banka AD Podgorica (continued)

Other matter

The financial statements of the Bank as at and for the year ended 31 December 2017 were audited by another auditor, who expressed in his report dated 28 May 2018 an unmodified opinion on these financial statements.

Report on other legal and law requirements

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

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

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

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

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

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

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

DRUŠTVO ZA REVIZIJU "CROWE MNE" PODGORICA

Crowe MNE d.o.o. Podgorica

Đorđe Dimić, Certified Auditor

24 May 2019

(License no. 072 issued 9 March 2017

This is a translation of the original Independent Auditor's Report 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. We assume no responsibility for the correctness of the English translation of the Bank's financial statements.

BALANCE SHEET
In the period from 1 January to 31 December 2018
(In thousand EUR)

	Note	2018	2017
Interest income and similar income	3.1, 7	18,768	18,650
Interest income on impaired placements		-	-
Interest expense and similar expenses	3.1, 7	(3,679)	(4,685)
NET INTEREST INCOME		**15,089**	**13,965**
Fee and commission income	3.2, 9	14,489	12,017
Fee and commission expenses	3.2, 9	(7,328)	(5,880)
NET FEE AND COMMSSION INCOME		**7,161**	**6,137**
Net profit/loss from derecognition of financial instruments not measured at fair value through income statement.		105	300
Net foreign exchange gains		698	652
Net income/(expenses) based on derecognition of other assets		78	152
Other income	13	278	414
Staff costs	10	(5,173)	(4,807)
Depreciation/amortization cost	12	(955)	(836)
General and administrative costs	11	(8,761)	(8,224)
Net income/(expenses) based on impairment of financial instruments not valued at fair value through income statement	3.8.8, 8	(3,563)	(3,378)
Provision cost	3.14	(62)	11
Other expenses	14	(174)	(35)
OPERATING PROFIT		**4,721**	**4,351**
Income tax	3.6, 15	411	408
NET PROFIT		**4,310**	**3,943**

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

These financial statements are approved on behalf of Board of Directors of Hipotekarna banka A.D., Podgorica, as at 20 May 2019 in Podgorica.

Signed and approved on behalf of Hipotekarne banke A.D., Podgorica:

Esad Zaimović
Chief executive officer

Ana Golubović
Executive Director for Corporate

Jelena Vuletić
Executive Director for Risks

Nikola Špadijer
Executive director for retail

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BALANCE SHEET
As at 31 December 2018
(In thousand EUR)

	Note	31 December 2018	31 December 2017
ASSETS			
Cash and deposit accounts held with central banks	3.7, 16	**129,048**	**131,166**
Financial assets at amortized value		**257,272**	**265,721**
Loans and receivables from banks	3.8.3, 17.1	25,110	50,152
Loans and receivables from clients	3.8.3, 17.2	230,313	215,438
Other financial assets		1,849	131
Financial assets at fair value through other comprehensive income		**114,467**	**92,572**
Securities	18.1	114,467	92,572
Investments in associates and joint ventures at equity method		**5**	**8**
Property, Plants and Equipment	3.10, 19	**2,062**	**1,437**
Intangible assets	3.10, 20	**1,766**	**1,658**
Deferred tax assets	15c	**30**	**38**
Other assets	21	**2,188**	**1,935**
TOTAL ASSETS		**506,838**	**494,535**
LIABILITIES			
Financial liabilities not valued at amortized cost		**436,956**	**424,652**
Deposits due to banks and Central banks	22.1	1,410	3,059
Deposits due to clients	22.2	410,316	391,657
Borrowings from clients which are not banks	22.3	25,230	29,936
Reserves	23	**1,831**	**1,636**
Current tax liabilities		**417**	**451**
Deferred tax liabilities	15c	**43**	**311**
Other liabilities	24	**7,970**	**8,692**
Subordinated debt	26	**14,039**	**14,012**
TOTAL LIABILITIES		**461,256**	**449,754**
EQUITY			
Share equity	25	16,006	16,006
Share issue premium		7,444	7,444
Retained earnings		16,235	4,831
Profit for the current year		4,310	3,943
Other reserves		1,587	12,557
TOTAL EQUITY		**45,582**	**44,781**
TOTAL EQUITY AND LIABILITIES		**506,838**	**494,535**
OFF – BALANCE SHEET	28	**661,802**	**574,581**

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STATEMENT OF CHANGES IN EQUITY
In the period from 1 January to 31 December 2018

In thousand EUR	Share capital	Share issue premium	Profit	Other reserves	Total
Balance as at January 2017	16,006	7,444	5,462	9,930	**38,842**
Effects on the market value of securities available for sale	-	-	-	1,996	**1,996**
Transfer of the profit	-	-	(631)	631	**-**
Profit of the current year	-	-	3,943	-	**3,943**
Balance as at 31 December 2017	**16,006**	**7,444**	**8,774**	**12,557**	**44,781**
Effect of IFRS 9	-	-	(1,914)	(271)	(2,185)
Corrected balance as at 1 January 2018	**16,006**	**7,444**	**6,860**	**12,286**	**42,596**
Effect on the fair value of financial assets through other comprehensive income	-	-	-	(1,321)	**(1,321)**
Other impact of securities to the Equity	-	-	(3)	-	**(3)**
Transfer of the profit	-	-	9,378	(9,378)	**-**
Profit of the current year	-	-	4,310	-	**4,310**
Balance as at 31 December 2018	**16,006**	**7,444**	**20,545**	**1,587**	**45,582**

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STATEMENT OF CASH FLOWS
In the period from 1 January to 31 December 2018
(In thousand EUR)

	2018	2017
Cash flows from operating activities		
Inflows from interest and similar income	18,178	17,608
Outflows from interest and similar expense	(3,423)	(4,814)
Inflows from fees and commissions	15,966	12,972
Outflows from fees and commissions	(7,328)	(5,880)
Outflows based on earnings of the employees and costs for suppliers	(20,693)	(13,504)
Increase/decrease of the loans and other assets	(24,577)	(1,890)
Inflow/outflow based on deposits and other liabilities	15,837	61,903
Paid tax	(961)	(902)
Other income	(36,689)	(14,462)
Net cash inflow / outflow from operating activities	**(43,690)**	**51,031**
Cash flows from investing activities		
Purchase of property and equipment	(1,326)	(519)
Purchase of intangible assets	(430)	(688)
Treasury bills	15,534	17,422
Income from sale of tangible and fixed assets	67	3
Net cash inflow / outflow from investing activities	**13,845**	**16,218**
Cash flows from financing activities		
Increase in borrowings	(4,680)	(1,372)
Net cash (outflow)/inflow from financing activities	**(4,680)**	**(1,372)**
Effects of foreign exchange in cash and cash equivalents	698	651
Net (decrease)/increase in cash and cash equivalents	**(33,827)**	**66,528**
Cash and cash equivalents, beginning of year	**182,996**	**116,468**
Cash and cash equivalents, end of year	**149,169**	**182,996**

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1. BANK'S FOUNDATION AND ACTIVITY

Hipotekarna banka AD, Podgorica (hereinafter: the "Bank") was registered in 1991 as a shareholding company with the Central Registry of the Commercial Court under reg. number 4-0004632. The Bank is included in the Register of Security Issuers maintained by the Securities Commission under the number 3 (Decision no. 02/3-1/2-01). As at December 18, 2002, the Central Bank of Montenegro issued a Decision no. 0101-75/1-2002 thereby granting the Bank an operating license.

In accordance with the Law on Banks, and the Bank's Articles of Incorporation, Statute and Decision of the Central Bank of Montenegro, the Bank is involved in activities of reception of cash deposits and approval of loans for its own account. In addition, the Bank is also registered to perform the following activities:

- issuance of guarantees and undertaking of other off-balance sheet commitments;
- the purchase, sale and collection of receivables (factoring, forfeiting and other);
- issuance, processing and recording of payment instruments;
- perform payment transactions in the country and abroad in accordance with the regulations governing payment transfer;
- financial leasing;
- engage in operations involving securities in accordance with the relevant regulations;
- trading in its own name and for its own account or on behalf of the customer:
    a) with foreign payment instruments including exchange operations and
    b) with financial derivatives;
- perform depositary operations;
- prepare analyses and provide information and advice on the company and entrepreneur creditworthiness and other business matters;
- rental of safe deposit boxes;
- perform other ancillary operations and activities related to the Bank's core operations in accordance with the Articles of Incorporation;
- the Bank may perform other operations in accordance with the Law upon obtaining prior approval from the Central Bank of Montenegro.

The Bank's governing bodies are: Shareholder Assembly and Board of Directors. The Board of Directors has two standing committees – Audit committee and Credit risk Management Committee. Members of the Board of directors are appointed by the Shareholder Assembly. The Board of Directors has 5 (five) members, most of whom are not employees of the Bank.

The Bank is headquartered in Podgorica, at no. 67, Josipa Broza Tita Street. As at December 31, 2018, the Bank had 183 employees (December 31, 2017: 172 employees).

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

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

The Bank is obligated to maintain its accounting records and prepare its financial statements in conformity with the Law on Accounting (Official Gazette of Montenegro no. 052/16,) which requires implementation of International Accounting Standards and International Financial Reporting Standards and the Decision of the Central Bank of Montenegro regulation the financial reporting of the banks.

The accompanying financial statements of the Bank are prepared in accordance with the Decision on content, terms and manner of compiling the and submitting the financial statements of the Bank (Official Gazette of Montenegro no 15/12, 18/13 and 24/18).

In accordance with Law on Accounting, International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) published by the (International Accounting Standards Board) IASB, have to be adopted and published by the appropriate authority in Montenegro which possesses the right to translate and to publish accounting standards, approved by the International Federation of Accountants (IFAC). Therefore, only IFRS and IAS officially adopted and published by the relevant competent authorities of Montenegro may be applicable. Last officially translated IFRS and IAS are those translated in 2009 (excluding IFRS 7) and new adeptly IFRS 10, 11, 12, and 13 which are applicable from 2013.

Taking into consideration the effects that the above-mentioned departures of the Montenegro accounting regulations from IFRS and IAS can have on the presentation of the Bank's financial statements, the accompanying financial statements differ and depart from IFRS and IAS in that regard.

Financial statements are prepared in accordance with historical cost unless otherwise stated in accounting policies. In compiling these financial statements the Bank applied accounting policies disclosed in Note 3 which are based on accounting, banking and tax regulations of Montenegro.

2.1. Rules of estimates

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

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

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

2.3. Official currency of the reports

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

2.4. Use of estimates

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

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

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

2.5. Changes in accounting policy and disclosures

New and amended standards and interpretations

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

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

- **IFRS 9 Financial Instruments**

In accordance with selected model of initial implementation of IFRS 9, the Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018.

(i) Classification and measurement

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

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

- Financial assets at amortized cost
- Financial assets at fair value through other comprehensive income (FVOCI),
- Financial assets held for trade
- Financial assets measured at fair value through other comprehensive income not held for trade

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

2.5. Changes in accounting policy and disclosures (continued)

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

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

Financial asset is classified as FVOCI if it belongs to the business model whose goals are the collection of contracted cash flows and the sale of financial assets and contractual terms of financial asset give the right to the collection of the cash flow on the specific dates whereby the cash flow relate exclusively to the principal collection and interest on the remaining part of the principal.
All other financial assets – i.e. financial assets which do not meet the classification criteria which involve additional valuation at amortized cost or FVOCI are classified as financial assets which are additionally measured at fair value with the recognition of the change in fair value at income statement. In addition, the Bank has an option, when initially recognizing financial asset to irrevocably identify the financial asset as FVTPL, if it eliminates or significantly reduces the inconsistency during the valuation and recognition – i.e. "Accounting discrepancy" which would otherwise arise from the valuation of the assets and liabilities i.e. the recognition of the gains and losses on another basis.

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

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

The Bank's classification of the financial assets and sources of the assets is explained in Note 3.8.2 The quantitative impact of IFRS 9 as at 1 January 2018 is explained in Note 5.

(ii) Impairment

IFRS 9 replaced the IAS 39 model of realized credit losses with the expected credit loss model (hereinafter: ECL). The new impairment calculation model applies to the commitments for undrawn loans and financial guarantees, but does not apply to equity participation.
In accordance with IFRS 9, credit losses are recognized earlier than in accordance with IAS 39. A detailed explanation of impairment in accordance with the requirements of IFRS 9 is shown in Note 3.8.8. while the quantitative impact of the application of IFRS 9 as at January 1, 2018 is published in Note 5

(iii) Transitional stipulations

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

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

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

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

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

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

- *IFRS 16 Leases*

At January 2016 IASB issued IFRS 16 applicable starting from or after January 1, 2019. IFRS 16 replaces existing guidelines for calculating the lease at IAS 17 – Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases - Incentives and SIC – 27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

Exceptions from leases recognition refers to short – term lease contracts and low value rental contract. For every lease contract it is assessed if it contains lease i.e. if the contract has the right to control the use of identified assets in contractual period in exchange for compensation. The assets are initially recognized at cost and are additionally amortized during the lease term.

The lease obligation is initially measured at current value of the lease payment that are not paid at the effective date, discounted using implicit interest rate at the lease, or if the rate cannot be easily determined, customer borrowing rate.

The Central Bank of Montenegro extended the implementation of IFRS 16 until 1 January 2020.

2.6. Going concern

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

2.7. Reconciliation of receivables and liabilities

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

2.8. Long term employee provision

Amount of Long-term employee provision is determined based on the actuarial report. The Actuarial calculation includes assumptions on discount rates, future growth of salaries and changes in the number of employees. Considering the long-term nature of these plans, the amount of provision is subjected to significant uncertainty.

2.9. Useful life of intangible assets and Property, Plant & Equipment

The Bank reviews the assumed useful lives of intangible assets and Property, Plants &Equipment in every reporting period.

2.10. Litigations

The Management of the Bank assesses the amount of provision for the outflow of economic resources relating to litigations based on the estimate of legal representatives of the Bank, the probability that the outflow will actually occur based on constructed or legal obligations from previous periods.

2.11. Consolidation

The Bank has no control over any entity.

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

2.12. Comparative data

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

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

Position	Reference	Old position	New position	Amendment
Interest and similar income	(A)	17,547	18,650	1,103
Fee and commission income	(B)	12,972	12,017	(955)
Net profit/loss based on derecognition of other assets	(C)	-	152	152
Dividend income	(D)	72	-	(72)
Other income	(E)	497	414	(83)
Impairment costs / Net income / expenses based on impairment of financial instruments not valued at fair value through income statement	(F)	(3,426)	(3,378)	48
Provision costs	(G)	207	11	(196)
Other expenses	(H)	(38)	(35)	3

(A) From the interest income impairment cost of interest receivables are excluded in the amount of EUR 148 thousand, and income from loan processing fee are included in the amount of EUR 955 thousand;

(B) Fee income is decreased in the amount of EUR 955 thousand from loan processing fee which are included in interest income.

(C) New position in chart of accounts which includes profit/loss from the sale of acquired assets. In the previous chart of account mentioned profit/losses were included in the position of other income / expenses.

(D) Income from dividend in the amount of EUR 72 thousand in accordance with the new chart of accounts are included in the position other revenues.

(E) Other revenues are less for the amount of EUR 83 thousand. The part of the income with the new chart of accounts is included in the position net profit/loss based on derecognition of other assets in the amount of EUR 155 thousand, while the revenues from dividend in the amount of EUR 72 thousand in accordance with the new chart of accounts makes an integral part of other income.

(F) Impairment cost are increased for impairment cost of interest receivables in the amount of EUR 148 thousand and provision cost for off – balance sheet liabilities in the amount of EUR 196 thousand.

(G) Provision cost for off balance sheet items in the amount of EUR 196 thousand with the new chart of accounts include impairment cost.

(H) From other expenses are excluded losses in the amount of EUR 3 thousand from the sale of acquired assets and other assets in the net position profit/loss from derecognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Income and Expenses on the basis of Interests

Accounting policy applied after January 1, 2018.

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

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

The effective interest rate method is a method of calculating the amortized cost of a financial assets or financial liabilities and allocating interest income or interest expense over the relevant periods. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the present value of financial assets or financial liabilities. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of financial instruments (e.g. prepayment options) but does not consider future credit losses arising from credit risk. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Amortized cost 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 (or impairment occurred in the period before 1 January 2018.)

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

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

For financial assets which became credit – impaired after initial recognition the interest rate is calculated by applying effective interest rate method at amortized value of the 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.

For financial assets which are credit-impaired at the time of initial recognition, interest income is calculated for using a loan-adjusted interest rate on the amortized value of a financial asset. The calculation of interest income does not return to gross basis even when credit risk is improved.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Income and Expenses on the basis of Interests (continued)

Accounting policy applied before January 1, 2018.

Interest income and expense are recognized in the income statement for all financial instruments measured at amortized value using the effective interest rate method

The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of a financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (e.g. Advance payment option) but does not consider future credit losses.

Calculations include all fees and commissions paid or received between contracting parties that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3.2. Fee and commission income and expenses

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

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

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

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

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

3.4. Foreign exchange translation

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

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

Net foreign exchange gains or losses arising upon the foreign exchange transactions, and in the conversion of balance sheet items denominated in foreign currency are credited or charged to the statement of comprehensive income as gains or losses based on foreign exchange.
Commitments and contingent liabilities denominated in foreign currencies are translated into EUR by applying the official exchange rates prevailing on the Interbank Market, at the statement of financial position date.

3.5. Leases

Leasing arrangements in which the lessor retains a significant part of risk and benefits deriving from ownership right are classified as operating leases. Leasing payments are recognized as expenses in the Profit and loss statement on a proportional basis during the lease term. If the operating lease is terminated before the lease term expire, all payments demanded by the lessor are recognized as expense in the period in which the lease has terminated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.65/01, 12/02, 40/08, 86/09, 73/10, 40/11, 14/12, 61/13 and 55/16). The profit tax rate is proportional and amounts to 9% of the tax base.

Taxable income is determined based on the profit stated in the Bank's income statement after the adjustments of income and expenses performed in accordance with Corporate Income Tax Law (Articles 8 and 9, regarding the adjustment of income and Articles 10 to 20 pertaining to the adjustment of expenses) and Central Bank of Montenegro's Decision on Chart of Accounts for Banks (Official Gazette of Montenegro, no. 82/17).

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

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

Deferred income taxes

Deferred income tax is determined using the balance sheet liability method, for the temporary differences arising between the tax bases of assets and liabilities, and their book values. The tax rates effective at the balance sheet date 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 and other banks.

Cash equivalents are short term highly liquid investments which are quickly converted into well-known cash amounts and are not under the significant impact of the risk change in value. Cash equivalents represent term deposits with commercial banks for the period up to three months.

3.8 Financial instruments

3.8.1. Recognition

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (continued)

3.8.2. Classification

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

The Bank classifies financial assets into the following four categories:

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

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

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

3.8.3. Financial assets and liabilities

3.8.3.1 Due from banks, Loans and advances to customers, Financial investments at amortized cost

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

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

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

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

3.8.3.2 Business model assessment

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (continued)

3.8.3. Financial assets and liabilities (continued)

3.8.3.3 SPPI test

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

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

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

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

3.8.3.4 Debt instruments valued at FVOCI (Policy applied from 1January 2018)

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. ECL calculation for debt instruments at FVOCI is explained in Note 3.8.8. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial instruments (continued)

3.8.3 Financial assets and liabilities (continued)

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

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

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

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

3.8.3.7 Financial guarantees, letters of credit and undrawn loan commitments

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

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

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

3.8.3.8 Loans and receivables (policy applied before 1 January 2018)

Loans and receivables represent non derivative financial assets with fixed or determinable payments which are not quoted in any active market. They occur when the Bank approves the money or services directly from clients without the intention of trading those receivables. Loans and receivables include loans and receivables from banks and clients.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial instruments (continued)

3.8.3 Financial assets and liabilities (continued)

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

Held to maturity investments represent non – derivative financial assets which are not classified in any of the three remaining categories of financial assets i.e. they are not financial assets held to maturity, financial assets at fair value which effects of changes in fair value are recognized in income statement or loans. Investments available for sale for which there is intention to be held for indefinitely time and which can be sold in the case of need for liquidity i.e. in the case of change in interest rate, or the cost of equity.

Financial assets held to maturity are financial assets with fixed and determinable payment period for which the Bank when purchasing unequivocally declares its intention and ability to hold them up to maturity.

3.8.4. Reclassification of financial assets and liabilities

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2017.

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, amongst others, the Bank considers the following factors:

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

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.
Recognition of financial liability terminates when the liability is met i.e. when the debt is paid, cancelled or expired.

3.8.6. Write off

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial instruments (continued)

3.8.7. Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties
The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy.
Financial difficulty indicators include outstanding liabilities to covenants, or significant concerns from the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions.
Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

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

From 1 January 2018, when the loan is re-negotiated or amended, but has not ceased to be recognized, the Bank again assesses whether there has been a significant increase in credit risk. The Bank also considers whether assets will need to be classified as Stage 3.
Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

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

3.8.8 Impairment of financial assets and provision

Impairment of financial assets (Applied after 1 January 2018)

As minimum it is necessary to cover following units which the Bank covered by its internal acts.

- Basic principle of the implementation of IFRS 9,
- Inclusion of future information
- Individual significant receivables,
- Default status
- Exposure of the high and low credit risk,
- Transfer to phases
- POCI assets,
- Principles of impairment of balance sheet assets and off-balance sheet assets,
- Risk parameters in calculation of expected losses,
- Impairment calculation,
- Presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (continued)

3.8.8 Impairment of financial assets and provision (continued)

The procedure for Hipotekarna Banka for valuation of assets and off – balance sheet defines a structure for adequate measurement of impairment due to credit losses in accordance with International Financial Reporting Standards 9 (hereinafter IFRS 9) and the Decision on minimum standard for Credit Risk Management in banks (from 8 December 2017).

It specifically defines:

- General definition of the type of impairment,
- The scope of the changes in the terms of client's exposure,
- Indicators for impairment test,
- Key principles for calculation of impairment: assessment of cash flow, assets differentiation in relation to cash flow assessment,
- Exception in the calculation impairment,
- Recognition of the interest and revenues after impairment (unwinding),
- Budgeting process, prediction and monitoring
- Roles and responsibilities of key organizational units.

The total portfolio is divided into three stages:

At stage 1 there are clients which are approved with the days of delay less than 30 days. At Stage 1 in collective assessment the expected credit loss is calculated for the period of 12 months as a part of expected credit loss in a lifetime of the asset arising from the case of default of financial asset during 12 months after the reporting period or shorter period if the expected credit loss of the financial instruments is less than 12 months.

At stage 2 there are clients with the days of delay 31-90 days with a worsen qualification at Central Bank of Montenegro between two quarters and watch list at collective calculation. The expected credit loss is calculated for the duration period of financial asset.

At stage 3 there are clients with the days of delay 90 days and placed with POCI label. At collective assessment the expected credit loss is calculated for the duration period of the financial asset.

Client can migrate between stages except POCI (must be stage 3 by the end of financial lifetime).

The Bank performs the division of portfolio on: I) individual assessment and II) collective assessment.

Individual assessment is performed for all borrowers/loans who are meeting one of the following criteria:

- total gross exposure of >= 30,000.00 and delay over 90 days and matured receivable A) for legal entities >= 200,00 EUR and B) for individuals >= 20,00 EUR or,
- Gross exposure >= M EUR and categories C, D, E or,
- Gross exposure >= 1 M EUR and bucket 2-3 (A and B gradation at Central Bank of Montenegro),
- Debt instruments (government or corporate bonds) for which there is no rating from internationally recognized rating agency,
- If a bankruptcy or insolvency of the client has been initiated
- When we restructure the loan in which the restructuring is necessary due to the reduction of the credit / financial ability of the borrower,
- Impairment of the collateral and more percentages (Decrease >= 20%),
- Lack of cooperation by the client in case of problem with repayment of debts,
- Collection of the debts through the realization of collateral as only collection option,
- Transfer of the group of related parties in the sector for risk management

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (continued)

3.8.8 Impairment of financial assets and provision (continued)

The collective assessment is made based on:

- For all the clients which are not on individual assessment,
- If the impairment for credit losses on individual basis less that calculation on collective based - except for specific clients, parties and where there are clear and easily determinable facts that it is the reality of a particular placement

***if the client is assessed individually, he can not be returned to the collective assessment in the following quartal. The "cooling" period of 6 months is applied.

Within the collective assessment we have a division and subdivision:

- Legal entities
- Individuals (cash, consumer and housing)

The exposure at the time of the default status (EAD) which is applied when calculating the expected credit loss depends on characteristic of financial instrument:

- Loans with fixed repayment plan – the assessment of EAD curve of the lifetime of financial instrument as the loan approaches the maturity date
- Guarantees and Letters of Credit - fixed EAD on the maturity date
- Placements (loans) without clear repayment plan where the average expiration date is calculated

At the date of initial recognition of the financial asset the Bank should determinate of the asset is impaired. The responsibility for qualification is on commercial sector that launches the initiative. When reprograming client in the forced collection the responsibility for classification is at the Department for Risk Management placements. POCI label is assigned on a level ID (account – party) when opening the new account – party.

Definition of POCI assets: Reprogramed loans with a delay of more than 90 days or a loan reprogram with a C classification or worse, according to the Central Bank of Montenegro classification (A, B1, B2, C1, C2, D and E) or the purchase of impaired financial assets from other banks.

The calculation and approval of the impairment for individual risks, as well as the bookkeeping of approved impairment on a collective basis, can and should be performed continuously.
The bookkeeping is done in the Core System (Dabar). After bookkeeping of impairment for expected credit losses, reports are generated.

The impairment of the ECL in the balance sheet is presented as follows:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (continued)

3.8.8 Impairment of financial assets and provision (continued)

Impairment of financial assets (Applied before 1 January 2018)

The general policy of Hipotekarna banka for assets and off – balance sheet valuation defines the framework for the adequate measurement of the impairment due to the expected credit losses in accordance with International Accounting standard 39 (hereinafter IAS 39) and the Decision on Minimum Standards for credit risk management in banks (from 12 April 2012).

It specifically defines:

- General definitions of the impairment type,
- The scope of implementation in terms of customer exposure,
- Indicators for the impairment test,
- The assessment of the cash flow, assets differentiation in relation to cash flow assessment,
- Exceptions in the impairment calculation,
- Interest and income interest recognition after impairment (unwinding),
- Budgeting process, prediction and monitoring
- Roles and responsibilities of key organizational units.

There are two general types of impairment:

i. Provisions for individual NPL placements (Delayed more than 90days and Gross exposure>= 30.000,00 EUR and matured receivable: A) for legal entities >= 200,00 EUR and B) For individuals = 20,00 EUR) or Gross exposure >= 1 M EUR and categories C, D, E or Gross exposures >= 1 M EUR i bucket 2-3 (A i B gradation at CB of Montenegro) –> Individual impairment – (Individual Assessment),
ii. Collective impairment (CI – Collective Impaired, CA – Collective Assessment) for all the placements which do not meet the condition specified under i) (for Individual Assessment) and all off – balance sheet categories (guarantees, letters of credit etc if they are not in Pale guarantees).

During the entire duration of the exposure relevant in terms of credit risk, a risk placements management service provider and / or a credit officer in the commercial sector is responsible for timely recognition of objective events or deterioration of the client's behaviour that indicates the probability of default (in addition to quantitative and clear, precise indicators). Upon learning about objective events and wrong behaviour of the client, responsible persons are required to report Top management about potential clients who formally do not meet the Individual Assessment requirement. Top management decides whether one of these clients leads through an Individual impairment (Individual Assessment).

Calculation and approval of the impairment for individual risks, as well as the bookkeeping of approved impairment on a collective basis, may and should be performed on an ongoing basis.
Posting is done in Core System (Dabar). After impairment bookkeeping for expected credit losses, reports are created.

Reprogrammed loans

For placements where there are problems with repayment, the Bank always tries to reprogram them first, if there are any conditions for it, as it considers it a better solution than the collateral takeover. The reprogram may include extension of repayment and agreement on new loan conditions. Once the conditions are reprogrammed, the loan is no longer considered to be due, but is monitored with special attention to ensure that all criteria are met and that future payments are certain. The loan is still a subject of individual or collective assessment and impairment, which is calculated using the original effective interest rate on the loan and is treated as a default for the next six months.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Provisions and impairment of loans and receivables

Calculation of Provisions for Potential Losses

The Bank is required to classify balance sheet and off-balance sheet exposures to credit risk in the appropriate classification group as well as to calculate the provisions for potential losses in accordance with the applicable Decision on Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro no. 22/12, 55/12, 57/13, 44/17 and 82/17). In accordance with the above-mentioned Decision, the Bank implemented the following percentages and numbers of days in default per risk category in calculation of potential losses:

	As at 31 December 2018	
Risk Category	**% Provision**	Days of delay
A	-	<30
B1	2	31-60
B2	7	61-90
C1	20	91-150
C2	40	151-270
D	70	271-365
E	100	>365

The Bank is required to determine the difference between the amount of provision for potential losses and the sum of allowance for losses on items of the balance sheet assets and provisions for off-balance sheet items calculated in accordance with the Bank's internal methodology by applying the International Accounting Standard 9.

The positive difference between the amount of provisions for potential losses and the sum of impairment on items of the balance sheet assets and provisions for off-balance sheet items represents a deductible item of own funds.

3.10. Property, Plant, Equipment and Intangible Assets

Property, Plant and Equipment

Property, plant and equipment are valued at cost less accumulated depreciation and accumulated impairment, if any. The cost comprises the price billed by the supplier, as well as other costs related to the purchase and the costs of putting the assets into use.

Residual value and useful life of the asset are revised, and as needed, corrected at the reporting date. The Bank assesses if there is objective evidence of the assets being impaired. If there is objective evidence of impairment, the Bank will assess the recoverable amount. The recoverable amount is the higher amount of net realizable value and the value in use. If the recoverable amount is higher than the carrying amount, the asset is not impaired.

Subsequent expenses: replacement of parts of equipment (installation of new spare parts), overhauls and general repairs of business premises are recognized as increases in the carrying value of business premises and equipment if it is probable that the future economic benefits will flow to the Bank and if such costs can be measured reliably.

Regular maintenance of equipment: replacement and installation of small spare parts and consumable materials and daily repairs are expensed as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Property, Plant and Equipment (continued)

Gains or losses arising on disposal or write off of business premises and equipment are determined as the difference between the sales price and the current carrying value of business premises and equipment, and are recognized in the income statement of the period in which the sale or disposal occurred.

Depreciation/amortization is calculated on a straight-line basis applying the following depreciation and amortization rates to the cost of business premises and equipment in order to write them off over their expected useful lives. The depreciation and amortization rates in use are as follows:

Major groups of assets	Depreciation/Amortization rates (%)
Buildings	2,00
Vehicles	15,00
Furniture and other equipment	15,00 – 20,00
Computer equipment	33,33
Tools and fixtures	50

Period of depreciation of fixed assets begins when they are available for use. Gains and losses on disposals are determined by comparing cash proceeds with carrying amount and are recognized in the income statement.

Intangible Assets

Intangible assets comprise of software and licenses. Intangible assets acquired are measured at cost value on the transaction date. After initial recognition, intangible assets are carried at acquisition cost less accumulated amortization and accumulated impairment losses, if any.

Expense directly attributable to a particular software and which are expected to generate economic benefits in the period longer than one year are capitalized and treated as intangible assets. Maintenance and development costs are recognized as expense as they are incurred.

Amortization is evenly calculated to cost value of intangible assets over a period of 5 years, with the aim that intangible assets be fully written off during their useful life. The calculation of amortization of intangible assets begins when the assets are put into use.

3.11. The Bank's Equity

The Bank's equity includes share capital, share premium, the Bank's reserves, as well as retained earnings (accumulated losses).
The shareholders' equity of the Bank includes funds invested by the founders and shareholders of the Bank in the monetary or non-monetary form. The Law on Securities defines that securities shall be dematerialized and shall exist in an electronic form in the system of the Central Depositary Agency. The excerpt obtained from the Registry of the Central Depositary Agency is the only and exclusive proof of ownership over securities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12. Employee benefits

Taxes and 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. These obligations involve the payment of contributions on behalf of an employee, by the 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 on their behalf to transfer the withheld portions directly to the appropriate government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

Retirement Benefits or Other Long-Term Employee Benefits

In accordance with the Report of the Actuary, the Bank has calculated obligation is under obligation to pay retirement benefits to an employee upon his/her regular retirement in the amount of 6 net average salaries earned by the Bank's employees in the month preceding the month of benefit payment.

Total expense of long-term provisions relating to the future outflows arising from the retirement of employees are assessed on the basis of an actuarial calculation. In assessing, the Bank engaged an authorized actuary who calculates future obligations, discounting estimated future outflows using actuarial methods projected unit.

Liabilities are measured in the amount of the present value of future expenditure, taking into account the growth of future earnings and other conditions, which are allocated to employee benefits on the basis of past and future working life.

3.13. Fair Value

The fair value is defined as a price which would be received for transaction of selling assets or payments for the transfer of liability in a regular transaction between market participants at the valuation date. The determination of fair value is based on the assumption that the transaction has taken place in a primary market of the asset or liability, or, in the absence of the primary market, on the most favourable market.

In the case that there is primary market for the asset or liability, fair value is the price on that market.

Fair value of the asset or a liability is determined based on the assumption that, when determining the price on the market, participants act in their best interest.

Fair value of a non-financial asset takes in to account the option of the participant in the market transaction to generate the highest economic benefits from the use of the asset or sell to another participant who would make the best use of the asset

The Bank uses valuation techniques that are appropriate to circumstances and for which data for the determination of fair value are available and the use of relevant observable input data is maximized and the use of non – observable data is minimized. Valuation techniques are revised periodically to ensure that they reflect current market conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. Fair Value (Continued)

All assets and liabilities that are valued at fair value or whose fair value is disclosed in the financial statements are classified into three levels of hierarchy of fair value:

Level 1 – Quoted prices (uncorrected) on active markets for identical prices and liabilities
Level 2 – Valuation techniques in which the smallest level of the input data significant for the determination of fair value is directly or indirectly observable
Level 3 - Valuation techniques in which the smallest level of the input data significant for the determination of fair value is directly or indirectly non - observable.

For assets or liabilities that are continuously measured at fair value in the financial statements, the Bank establishes re-evaluation of categorization at each balance sheet date to determine whether transitions between levels of the hierarchy occurred.

3.14. Provisions

Provisions are recognized when:

- the Bank has a present legal or a constructive obligation as a result of the previous events
- if it is probable that a settlement of the obligation will require outflow of the assets and
- and a reliable estimate of its amount can be made

Provisions are measured by the net present value of the economic outflows necessary to settle the obligation.

Provisions are revised at the balance sheet date and corrected so to reflect the best possible current estimate. If it is no longer probable that the economic outflow will be required to settle the obligation, the provision will be reversed over the profit and loss statement.

4. ACCOUNTING POLICIES AND ASSUMPTIONS

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

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

Applicable only for 2018

Losses from impairment of the financial assets

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

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

4. ACCOUNTING POLICIES AND ASSUMPTIONS (CONTINUED)

Applicable on 2018 and 2017

Fair Value

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

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

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

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

Contingent liabilities

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

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.

Applicable only for 2017

Impairment

The Bank performs an overview of receivables and other placements in the aim of impairment and provisions on a monthly level. While determining if the losses based on impairment of receivables and other placements should recognize in the income statement, the Bank assesses if there are information/evidence which indicate the existence of a measurable decrease in the estimated future cash flow on a group level before such losses can be identified at a level of individual receivables i.e. placements.
Information that can indicate losses based on receivables and placements include: irregularity and delay in settling obligations, market and economic conditions on a local level which condition the delays in settling the obligations and similar.
The assessment of the management about the impairment and other placements by assessing the future cash flow is based on actual losses from the past which are realized on financial assets with similar risk and similar causes of impairment. Methodology and assumptions while defining the amount and the period of the inflow of the cash based on placements are the subject of the regular control in order to minimize the differences of the assessed losses and actual losses.

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

Adjustment of the carrying value at IAS 39 in amounts at IFRS 9 as at 1 January 2018 is as follows:

	MRS 39 31 December 2017					MSFI 9 1 January 2018			
	Category	Gross	Impairment	Net	Reclassified	Gross	Impairment	Net	Category
I. Review of the assets					-				
Cash balances and assets with central banks	L&R	131,166	-	131,166	-	131,166	-	131,166	AC
Loans and receivables from banks and other financial institutions	L&R	50,152	-	50,152	-	50,152	48	50,104	AC
Loans and receivables from clients	L&R	224,606	9,168	215,438	-	224,606	10,826	213,780	AC
Other assets	L&R	5,208	-	5,208	-	5,208	-	5,208	AC
					-				-
II. Off – balance sheet items					-				
Guarantees	L&R	80,231	890	79,341	-	80,231	672	79,559	AC
Irrevocable commitments	L&R	22,687	402	22,285	-	22,687	315	22,372	AC
Other	L&R	51	1	50	-	51	1	50	AC
III Financial assets available for sale	**AFS**	**94,771**	**2,200**	**92,571**	(94,771)	-	-	-	-
***Reclassified in:* Financial assets at FVOCI**	-	-	-	-	**94,771**	**94,771**	**2,985**	**91,786**	**FVOCI**
Total (I+II+III)		**608,872**	**12,661**	**596,211**	-	**608,872**	**14,847**	**594,025**	

The effect of the implementation of IFRS 9 on provision and retained earnings is as follows, where the following table adjust the total balance provision for credit losses at IAS 39 and provision for loans and contracts at financial guarantees in accordance with IAS 37 Provisions. Contingent liabilities and Contingent Assets with ECL provisions for credit losses at IFRS 9:

5. DISCLOSURE OF THE EFFECTS OF THE FIRST IMPLEMENTATION OF IFRS 9 (CONTINUED)

In thousand EUR

	Impairment		
	31 December 2017	MSFI 9	1 January 2018.
I. Review of the assets			
Cash balances and assets with central banks	-	-	-
Loans and receivables from banks and other financial institutions	-	48	48
Loans and receivables from Banks	9,168	1,657	10,825
Financial assets (securities)[1]	2,200	785	2,985
Other assets	-	-	-
II. Off – balance sheet items			
Payable guarantees	890	(218)	672
Irrevocable commitments	402	(87)	315
Other	1	-	1
Total (I+II)	**12,661**	**2,185**	**14,846**

6. RISK MANAGEMENT

6.1 Risk management - introduction

The Bank has established a comprehensive risk management system which includes a defined strategy for risk management, adopted policies and processes for risk management, defined powers and responsibilities for risk management, efficient and reliable information technology system, procedures for unforeseen situations, stress testing.

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

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

Risk management strategy includes: overview, objectives and criteria for all risks to which the Bank is or may be exposed. The risk management procedures are designed to identify and analyses risks, to define limits and controls required for risk management and to monitor the Bank's exposure to each individual risk. The risk management procedures are subject to regular review in order to allow adequate response to the changes in the market, products and services.

The Risk Management Department is responsible for monitoring the Bank's exposures to certain risks, and compliance with procedures for managing risks and prescribed limits, which is reported to the Board of Directors on a monthly basis. In addition, monitoring of the Bank's exposures to certain risks is the responsibility of Credit Risk Management Committee. Also, the Bank follows changes in regulation and analyses impact of the risk in order to timely align its operations with the regulations.

Bank tests the sensitivity of the Bank to certain types of risk and aggregate basis, using several types of stress scenarios. Stress scenario include assumptions about changes in market and other factors which may have a material impact on its operations.

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk

In its operations, the Bank seeks to do business with customers of good financial position, in order to reduce as much as possible exposure to credit risk which is a risk that counterparty will be unable to settle liabilities to the bank in full and as due. The Bank makes provisions for impairment losses related to the losses incurred as at the statement of financial position date. While making decisions on borrowing, the Bank takes into account the changes in the economy and certain industries comprising a part of the Bank's loan portfolio could result in the losses different from losses that gave rise to provisions formed as at the statement of financial position date.

The Central Bank of Montenegro adopted the Decision on Minimum Standards for Credit Risk Management in Banks ("Official. Gazette of Montenegro" no. 22/12, 55/12, 57/13, 44/17 and 82/17), which was implemented as at January 1, 2013, and which involves the use of International financial reporting standards on measurement and disclosure of off-balance sheet items of assets and off-balance sheet items. Pursuant to the above decision, the Bank has established a methodology for assessment of impairment of balance sheet assets and probable losses on off- balance sheet items. The Bank has consistently applied the methodology, reviewed at least annually and, if necessary, adjusted the results of the review, and adjusted the assumptions upon which the methodology is based.
Credit risk mitigation entails maintenance of risk at an acceptable level of the Bank, i.e. maintaining acceptable loan portfolio. Credit risk mitigation is carried out through contracting of adequate collaterals for receivables.

6.2.1. Credit risk management

Credit risk exposure is a risk of a financial loss resulting from the borrower's inability to meet all the contractual obligations toward the Bank. The bank manages the risk assumed by setting limits in respect of large loans, single borrowing entities and groups of related borrowing entities. Such risks are monitored and reviewed on a yearly basis or even more frequently. All loans exceeding the defined limits are approved by the Credit Risk Management Committee.

Industry loan concentrations are continuously monitored in accordance with the limits prescribed by the Central Bank of Montenegro.

Risk exposure per single debtor, including other banks and financial institution is further limited by determining sub-limits relative to the balance sheet and off-balance sheet exposures. Actual exposure relative to the limits defined is subject to regular monitoring.

Credit risk exposure is managed by means of regular analyses of the ability of borrowers and potential borrowers to pay off liabilities. Customers with specific problems in business, the Bank reschedules receivables, in order to maximize the opportunities available for the settlement of receivables, and at the same time the ability of the borrower to regularly service the debt is sustainable.

Irrevocable and contingent commitments based on loan

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

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.2. Provision for impairment losses

As of the date of preparation of the financial statements, the Bank assesses whether there is any objective evidence that a financial asset or a group of financial assets are impaired in accordance with IAS 39. Objective evidence that there has been a decrease in the value of a financial asset or group of financial assets includes information that the holder of the asset can be observed on the following loss events such as:

- delay in the payment of interest or principal;
- rescheduling of loans;
- breach of contract, the financial difficulties of the debtor;
- high probability of bankruptcy or liquidation proceedings, the process of debt collection by the state;
- initiation of litigation against the debtor;
- default status at the level of the group of related parties.

In accordance with the adopted methodology, the Bank performs individual assessment as to whether there is objective evidence of impairment of individually significant financial assets.

By calculating the present value of estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from excluding reduction of costs for obtaining and selling the collateral, regardless of whether the exclusion is probable or not.

For the purpose of collective impairment assessment, financial assets that are not individually significant are grouped based on similar credit risk features.

6.2.3. Maximum Credit Risk Exposure per Balance Sheet and Off-Balance Sheet Items

The following table presents gross maximum exposure to the credit risk of balance and off-balance sheet position:

	31 December 2018		31 December 2017	
	Gross	**Net**	**Gross**	**Net**
I. Review of the assets				
Financial assets at amortized value				
Loans and receivables from banks	25,119	25,110	50,152	50,152
Loans and receivables from clients	243,045	230,313	224,606	215,438
Financial assets at FVOCI				
Securities	114,467	114,467	94,772	92,572
	382,631	**369,890**	**369,530**	**358,162**
II. Off-balance sheet items				
Payable guarantees	39,466	38,972	35,575	35,017
Performance guarantees	25,696	25,603	20,720	20,587
Irrevocable commitments	30,508	29,846	23,205	22,083
Other	25,040	24,863	24,879	24,678
	120,710	**119,284**	**104,379**	**102,365**
Total (I+II)	**503,341**	**489,174**	**473,909**	**460,527**

The Bank's management believes that cash and deposit accounts with central banks, as well as other financial and business receivables, are not exposed to credit risk and are therefore not shown in the table above. The same relate to cash and cash equivalents, as well as funds for settlement and obligatory reserve with CBM, as well as other receivables that are not exposed to credit risk.
Exposure to credit risk is controlled by obtaining collateral and guarantees of legal entities and individuals.

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.3. Maximum Credit Risk Exposure per Balance Sheet and Off-Balance Sheet Items (continued)

Before approving loans and other investments, the Bank assesses the debtor's creditworthiness, taking into account the criteria established by the internal regulation, and the validity of the estimated value of collateral.

Collateral value is calculated as its net worth, by which is meant the market value less any costs relating to the realization of collateral.

Types of collaterals are as follows:

- deposits;
- pledge liens constituted over industrial machinery, securities, inventories and vehicles;
- mortgages assigned over property and fiduciary transfer of ownership;
- bills of exchange;
- collection authorizations;
- administrative bans;
- endorsers;
- insurance policies;
- guarantees

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placements

The quality of financial assets exposed to credit risk is presented as follows:

In thousand EUR

31 December 2018	S1	S2	S3	Total	Impairment S1	Impairment S2	Impairment S3	Total impairment	Net
Housing loans	1,021	164	107	**1,292**	(6)	(6)	(57)	**(69)**	**1,223**
Cash loans	72,352	9,493	1,581	**83,426**	(1,032)	(903)	(653)	**(2,588)**	**80,838**
Vehicle purchase	428	25	-	**453**	(4)	(1)	-	**(5)**	**448**
Adaptation of residential or business premises	-	5	2	**7**	-	-	(1)	**(1)**	**6**
Other	5,084	729	224	**6,037**	(65)	(41)	(94)	**(200)**	**5,837**
Total retail	**78,885**	**10,416**	**1,914**	**91,215**	**(1,107)**	**(951)**	**(805)**	**(2,863)**	**88,352**
Large enterprises	8,758	7,700	1,933	**18,391**	(273)	-	(1,933)	**(2,206)**	**16,185**
Medium enterprises	25,018	8,454	-	**33,472**	(1,432)	(573)	-	**(2,005)**	**31,467**
Small enterprises	73,090	8,652	8,217	**89,959**	(1,306)	(548)	(3,800)	**(5,654)**	**84,305**
State	10,008	-	-	**10,008**	(4)	-	-	**(4)**	**10,004**
Other	-	-	-	**0**	-	-	-	**-**	**-**
Corporate clients	**116,874**	**24,806**	**10,150**	**151,830**	**(3,015)**	**(1,121)**	**(5,733)**	**(9,869)**	**141,961**
Total	**195,759**	**35,222**	**12,064**	**243,045**	**(4,122)**	**(2,072)**	**(6,538)**	**(12,732)**	**230,313**
Banks	**25,119**	**-**	**-**	**25,119**	**(9)**	**-**	**-**	**(9)**	**25,110**

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placements (continued)

The quality of financial assets exposed to credit risk is presented as follows:

In thousand EUR

1 January 2018.	S1	S2	S3	Total	Impairment S1	Impairment S2	Impairment S3	Total impairment	Net
Housing loans	1,540	53	112	**1,705**	(13)	-	(53)	**(66)**	**1,639**
Cash loans	67,011	1,696	794	**69,501**	(1,146)	(197)	(357)	**(1,700)**	**67,801**
Vehicle purchase	183	-	-	**183**	(2)	-	-	**(2)**	**181**
Adaptation of residential or business premises	10	-	5	**15**	-	-	(3)	**(3)**	**12**
Other	11,405	386	229	**12,020**	(165)	(35)	(162)	**(362)**	**11,658**
Total retail	**80,149**	**2,135**	**1,140**	**83,424**	**(1,326)**	**(232)**	**(575)**	**(2,133)**	**81,291**
Large enterprises	12,199	2,181	-	**14,380**	(145)	(1,949)	-	**(2,094)**	**12,286**
Medium enterprises	29,473	4,314	-	**33,787**	(1,181)	(97)	-	**(1,278)**	**32,509**
Small enterprises	75,556	1,519	5,928	**83,003**	(2,510)	(302)	(2,458)	**(5,270)**	**77,733**
State	10,012	-	-	**10,012**	(16)	-	-	**(16)**	**9,996**
Other	-	-	-	-	-	-	-	-	-
Corporate clients	**127,240**	**8,014**	**5,928**	**141,182**	**(3,852)**	**(2,348)**	**(2,458)**	**(8,658)**	**132,524**
Total	**207,389**	**10,149**	**7,068**	**224,606**	**(5,178)**	**(2,580)**	**(3,033)**	**(10,791)**	**213,815**
Banks	**50,152**	**-**	**-**	**50,152**	**(48)**	**-**	**-**	**(48)**	**50,104**

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placements (continued)

The quality of financial assets exposed to credit risk is presented as follows:

In thousand EUR

31 December 2017	Non problematic receivables	Problematic receivables	Total	Impairment of non-problematic receivables	Impairment of problematic receivables	Total impairment	Net
Housing loans	1,586	119	**1,705**	(7)	(52)	**(59)**	**1,646**
Cash loans	68,463	1,038	**69,501**	(1,043)	(356)	**(1,399)**	**68,102**
Vehicle purchase	183	-	**183**	(2)	-	**(2)**	**181**
Adaptation of residential or business premises	10	5	**15**	-	(3)	**(3)**	**12**
Other	11,797	223	**12,020**	(205)	(153)	**(358)**	**11,662**
Total retail	**82,039**	**1,385**	**83,424**	**(1,257)**	**(564)**	**(1,821)**	**81,603**
Large enterprises	12,025	2,355	**14,380**	(104)	(1,999)	**(2,103)**	**12,277**
Medium enterprises	22,256	11,531	**33,787**	(399)	(229)	**(628)**	**33,159**
Small enterprises	69,700	13,303	**83,003**	(1,066)	(3,550)	**(4,616)**	**78,387**
State	10,012	-	**10,012**	-	-	**-**	**10,012**
Other	-	-	-	-	-	**-**	**-**
Corporate clients	**113,993**	**27,189**	**141,182**	**(1,569)**	**(5,778)**	**(7,347)**	**133,835**
Total	**196,032**	**28,574**	**224,606**	**(2,826)**	**(6,342)**	**(9,168)**	**215,438**
Receivables from Banks	**50,152**	**-**	**50,152**	**-**	**-**	**-**	**50,152**

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placements (continued)

Receivables from clients at Stage 1 is presented in the tables below:

In thousand EUR

31 December 2018	Not in delay	Delay up to 30 days	From 31-60 days	From 61-90 days	Total
Housing loans	1,021	-	-	-	1,021
Cash loans	72,130	222	-	-	72,352
Vehicle purchase	428	-	-	-	428
Adaptation of residential or business premises	-	-	-	-	-
Other	4,583	501	-	-	5,084
Total retail	**78,162**	**723**	**-**	**-**	**78,885**
Large enterprises	8,758	-	-	-	8,758
Medium enterprises	25,016	2	-	-	25,018
Small enterprises	72,935	155	-	-	73,090
State	10,008	-	-	-	10,008
Other	-	-	-	-	-
Corporate clients	**116,717**	**157**	**-**	**-**	**116,874**
Total	**194,879**	**880**	**-**	**-**	**195,759**
Restructured	**3,614**	**-**	**-**	**-**	**3,614**
Receivables from Banks	**25,119**	**-**	**-**	**-**	**25,119**

1 January 2018	Not in delay	Delay up to 30 days	From 31-60 days	From 61-90 days	In thousand EUR Total
Housing loans	1,504	32	-	4	1,540
Cash loans	63,360	3,634	12	5	67,011
Vehicle purchase	183	-	-	-	183
Adaptation of residential or business premises	10	-	-	-	10
Other	10,382	1,018	-	5	11,405
Total retail	**75,439**	**4,684**	**12**	**14**	**80,149**
Large enterprises	9,379	2,820	-	-	12,199
Medium enterprises	29,422	51	-	-	29,473
Small enterprises	71,972	3,584	-	-	75,556
State	10,012	-	-	-	10,012
Other	-	-	-	-	-
Corporate clients	**120,785**	**6,455**	**-**	**-**	**127,240**
Total	**196,224**	**11,139**	**12**	**14**	**207,389**
Restructured	**10,973**	**2,364**	**4**	**-**	**13,341**
Receivables from Banks	**50,152**	**-**	**-**	**-**	**50,152**

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placements (continued)

Receivables from clients at Stage 2 are presented in the tables below:

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	70	64	30	-	-	**164**
Cash loans	3,595	4,621	1,236	41	-	**9,493**
Vehicle purchase	25	-	-	-	-	**25**
Adaptation of residential or business premises	-	-	5	-	-	**5**
Other	203	382	102	42	-	**729**
Total retail	**3,893**	**5,067**	**1,373**	**83**	**-**	**10,416**
Large enterprises	6,132	-	1,568	-	-	**7,700**
Medium enterprises	8,454	-	-	-	-	**8,454**
Small enterprises	4,173	3,620	859	-	-	**8,652**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Corporate clients	**18,759**	**3,620**	**2,427**	**-**	**-**	**24,806**
Total	**22,652**	**8,687**	**3,800**	**83**	**-**	**35,222**
Restructured	**6,072**	**1,071**	**483**	**-**	**-**	**7,626**
Receivables from Banks	**-**	**-**	**-**	**-**	**-**	**-**

In thousand EUR

1 January 2018	Not in delay	Delay up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing loans	-	-	50	-	**3**	**53**
Cash loans	265	190	1,216	25	**-**	**1,696**
Vehicle purchase	-	-	-	-	**-**	**-**
Adaptation of residential or business premises	-	-	-	-	**-**	**-**
Other	90	88	169	39	**-**	**386**
Total retail	**355**	**278**	**1,435**	**64**	**3**	**2,135**
Large enterprises	248	-	-	-	**1,933**	**2,181**
Medium enterprises	4,314	-	-	-	**-**	**4,314**
Small enterprises	101	149	842	32	**395**	**1,519**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Corporate clients	**4,663**	**149**	**842**	**32**	**2,328**	**8,014**
Total	**5,018**	**427**	**2,277**	**96**	**2,331**	**10,149**
Restructured	**3,438**	**-**	**286**	**1,937**	**-**	**5,661**
Receivables from Banks	**-**	**-**	**-**	**-**	**-**	**-**

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placements (continued)

In the table below are presented non – impaired receivables in accordance with IAS 39 as at 31 December 2017:

In thousand EUR

31 December 2017	Not in delay	Delay up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing loans	1,504	32	50	-	-	1,586
Cash loans	63,444	3,778	1,216	25	-	68,463
Vehicle purchase	183	-	-	-	-	183
Adaptation of residential or business premises	10	-	-	-	-	10
Other	10,472	1,105	175	45	-	11,797
Total retail	**75,613**	**4,915**	**1,441**	**70**	**-**	**82,039**
Large enterprises	9,205	2,820	-	-	-	12,025
Medium enterprises	22,205	51	-	-	-	22,256
Small enterprises	65,701	3,356	643	-	-	69,700
State	10,012	-	-	-	-	10,012
Other	-	-	-	-	-	-
Corporate clients	**107,123**	**6,227**	**643**	**-**	**-**	**113,993**
Total	**182,736**	**11,142**	**2,084**	**70**	**-**	**196,032**
Restructured	**6,865**	**2,267**	**246**	**-**	**-**	**9,378**
Receivables from Banks	**50,152**	**-**	**-**	**-**	**-**	**50,152**

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placements (continued)

Receivables from clients at Stage 3 as follows:

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	-	-	8	-	99	**107**
Cash loans	62	60	152	3	1,304	**1,581**
Vehicle purchase	-	-	-	-	-	-
Adaptation of residential or business premises	-	-	-	-	2	**2**
Other	45	28	10	5	136	**224**
Total retail	**107**	**88**	**170**	**8**	**1,541**	**1,914**
Large enterprises	-	-	-	-	1,933	**1,933**
Medium enterprises	-	-	-	-	-	-
Small enterprises	1,013	259	3	1,228	5,714	**8,217**
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate clients	**1,013**	**259**	**3**	**1,228**	**7,647**	**10,150**
Total	**1,120**	**347**	**173**	**1,236**	**9,188**	**12,064**
Restructured	**817**	**-**	**-**	**1,228**	**5,706**	**7,751**
Receivables from Banks	**-**	**-**	**-**	**-**	**-**	**-**

In thousand EUR

1 January 2018	Not in delay	Delay up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing loans	-	-	-	-	112	**112**
Cash loans	-	-	-	-	794	**794**
Vehicle purchase	-	-	-	-	-	-
Adaptation of residential or business premises	-	-	-	-	5	**5**
Other	-	-	6	6	217	**229**
Total retail	**-**	**-**	**6**	**6**	**1,128**	**1,140**
Large enterprises	-	-	-	-	-	-
Medium enterprises	-	-	-	-	-	-
Small enterprises	-	-	-	173	5,755	**5,928**
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate clients	**-**	**-**	**-**	**173**	**5,755**	**5,928**
Total	**-**	**-**	**6**	**179**	**6,883**	**7,068**
Restructured	**-**	**-**	**-**	**-**	**4,164**	**4,164**
Receivables from Banks	**-**	**-**	**-**	**-**	**-**	**-**

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placements (continued)

In the table below are presented problematic receivables in accordance with IAS 39 as at December 31, 2017:

In thousand EUR

31 December 2017	Not in delay	Delay up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing loans	-	-	-	-	119	**119**
Cash loans	180	47	12	-	799	**1,038**
Vehicle purchase	-	-	-	-	-	**-**
Adaptation of residential or business premises	-	-	-	-	5	**5**
Other	-	-	-	-	223	**223**
Total retail	**180**	**47**	**12**	**-**	**1,146**	**1,385**
Large enterprises	422	-	-	-	1,933	**2,355**
Medium enterprises	11,531	-	-	-	-	**11,531**
Small enterprises	6,371	378	199	205	6,150	**13,303**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Corporate clients	**18,324**	**378**	**199**	**205**	**8,083**	**27,189**
Total:	**18,504**	**425**	**211**	**205**	**9,229**	**28,574**
Restructured	**7,546**	**97**	**41**	**-**	**6,105**	**13,789**
Receivables from Banks	**-**	**-**	**-**	**-**	**-**	**-**

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placements (continued)

Receivables from clients at Stage 3:

In thousand EUR

31 December 2018	Gross exposure	Impairment	S 3 receivables	Restructured S3 receivables	Impairment S3	Percentage of S3 receivables in gross exposures	Amount of collateral for S3
Retail	**91,215**	**(2,863)**	**1,914**	**53**	**(805)**	**2.10%**	**4,136**
Housing loans	1,292	(69)	107	38	(57)	8.28%	775
Cash loans	83,426	(2,588)	1,581	15	(653)	1.90%	3,208
Vehicle purchase	453	(5)	-	-	-	0.00%	-
Adaptation of residential or business premises	7	(1)	2	-	(1)	28.57%	134
Other	6,037	(200)	224	-	(94)	3.71%	19
Corporate clients	**151,830**	**(9,869)**	**10,150**	**7,698**	**(5,733)**	**6.69%**	**25,097**
Agriculture	459	(152)	268	-	(149)	58.39%	464
Manufacturing industry	11,113	(2,091)	2,094	1,946	(1,953)	18.84%	893
Electricity	301	(12)	-	-	-	0.00%	-
Construction	25,398	(1,288)	475	-	(300)	1.87%	931
Wholesale and retail trade	49,455	(2,711)	1,612	963	(1,421)	3.26%	3,782
Service activities	826	(8)	-	-	-	0.00%	-
Activates related to real estate	3,598	(431)	1,228	1,228	(386)	34.13%	3,288
Other	60,680	(3,176)	4,473	3,561	(1,524)	7.37%	15,739
Total	**243,045**	**(12,732)**	**12,064**	**7,751**	**(6,538)**	**4.96%**	**29,233**
Receivables from Banks	**25,119**	**(9)**	**-**	**-**	**-**	**0.00%**	**-**

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placements (continued)

Receivables from clients at Stage 3:

In thousand EUR

1 January 2018	Gross exposure	Impairment	S 3 receivables	Restructured S3 receivables	Impairment S3	Percentage of S3 receivables in gross exposures	Amount of collateral for S3
Retail	**83,424**	**(2,133)**	**1,140**	**62**	**(575)**	**1.37%**	**3.072**
Housing loans	1,705	(66)	112	45	(53)	6.57%	624
Cash loans	69,501	(1,700)	794	17	(357)	1.14%	1.821
Vehicle purchase	183	(2)	-	-	-	0.00%	-
Adaptation of residential or business premises	15	(3)	5	-	(3)	33.33%	194
Other	12,020	(362)	229	-	(162)	1.91%	433
Corporate clients	**141,182**	**(8,658)**	**5,928**	**4,102**	**(2,458)**	**4.20%**	**15.363**
Agriculture	811	(122)	258	-	(90)	31.81%	463
Manufacturing industry	9,292	(701)	59	-	-	0.63%	282
Electricity	-	-	-	-	-	0.00%	-
Construction	22,007	(1,220)	32	-	(8)	0.15%	64
Wholesale and retail trade	43,574	(2,091)	1,939	1,259	(1,273)	4.45%	4.166
Service activities	423	(5)	16	-	-	3.78%	49
Activates related to real estate	3,687	(635)	-	-	-	0.00%	-
Other	61,388	(3,884)	3,624	2,843	(1,087)	5.90%	10.339
Total	**224,606**	**(10,791)**	**7,068**	**4,164**	**(3,033)**	**3.15%**	**18.435**
Receivables from banks	**50,152**	**(48)**	**-**	**-**	**-**	**0.00%**	**-**

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.

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placements (continued)

In the table below problematic receivables are presented in accordance with IAS 39, as at 31 December 2017:

In thousand EUR

31 December 2017	Gross exposure	Impairment	Problematic receivables	Restructured problematic receivables	Impairment of problematic receivables	Percentage of problematic receivables in gross exposure (%)	Amount of collateral for problematic receivables
Retail	**83,424**	**(1,821)**	**1,385**	**238**	**(564)**	**1.66%**	**3,587**
Housing loans	1,705	(59)	119	53	(52)	6.98%	787
Cash loans	69,501	(1,399)	1,038	185	(356)	1.49%	2,141
Vehicle purchase	183	(2)	-	-	-	0.00%	-
Adaptation of residential or business premises	15	(3)	5	-	(3)	33.33%	194
Other	12,020	(358)	223	-	(153)	1.86%	465
Corporate clients	**141,182**	**(7,347)**	**27,189**	**13,551**	**(5,778)**	**19.26%**	**64,393**
Agriculture	811	(103)	287	-	(93)	35.39%	468
Manufacturing industry	9,292	(652)	1,533	1,405	(518)	16.50%	3,155
Electricity	-	-	-	-	-	0.00%	-
Construction	22,007	(518)	9,521	-	(352)	43.26%	23,833
Wholesale and retail trade	43,574	(1,943)	2,664	1,454	(1,250)	6.11%	9,403
Service activities	423	(6)	40	22	-	9.46%	207
Activates related to real estate	3,687	(557)	2,453	2,193	(530)	66.53%	5,990
Other	61,388	(3,568)	10,691	8,477	(3,035)	17.42%	21,337
Total	**224,606**	**(9,168)**	**28,574**	**13,789**	**(6,342)**	**12.72%**	**67,980**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**0.00%**	**-**

6. RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placements (continued)

In the table below the changes in Stage 3 are presented i.e. problematic receivables:

In thousand EUR

	Gross 31 December 2017/1 January 2018	New S3 clients	Reduction of existing S3 clients	Increasement of existing S3 clients	Closed S3 clients	Gross 31 December 2018.
Housing loans	112	9	(10)	-	(4)	**107**
Cash loans	794	1,135	(105)	1	(244)	**1,581**
Vehicle purchase	-	-	-	-	-	-
Adaptation of residential or business premises	5	-	(1)	-	(2)	**2**
Other	229	178	(12)	3	(174)	**224**
Retail	**1,140**	**1,322**	**(128)**	**4**	**(424)**	**1,914**
Large enterprises	-	1,933	-	-	-	**1,933**
Medium enterprises	-	-	-	-	-	-
Small enterprises	5,928	3,196	(521)	-	(386)	**8,217**
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate clients	**5,928**	**5,129**	**(521)**	**-**	**(386)**	**10,150**
Total	**7,068**	**6,451**	**(649)**	**4**	**(810)**	**12,064**
Receivables from banks	-	-	-	-	-	-

6. RISK MANAGEMENT (CONTINIUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placement (continued)

The tables below, show the changes in Stage 3, i.e. problematic receivables

In thousand EUR

	Gross December 31, 2017 /January 1, 2018	New S3 clients	Reduction of existing S3 clients	Increase of existing S3 clients	Closed S3 clients	Gross December 31, 2018
Housing loans	112	9	(10)	-	(4)	107
Cash loans	794	1,135	(105)	1	(244)	1,581
Vehicle loans	-	-	-	-	-	-
Adaptation of residential or business premises	5	-	(1)	-	(2)	2
Other	229	178	(12)	3	(174)	224
Retail	**1,140**	**1,322**	**(128)**	**4**	**(424)**	**1,914**
Large enterprises	-	1,933	-	-	-	1,933
Medium enterprises	-	-	-	-	-	-
Small enterprises	5,928	3,196	(521)	-	(386)	8,217
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate	**5,928**	**5,129**	**(521)**	**-**	**(386)**	**10,150**
Total	**7,068**	**6,451**	**(649)**	**4**	**(810)**	**12,064**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

6. RISK MANAGEMENT (CONTINIUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placement (continued)

The tables below, show the changes in Stage 3, i.e. problematic receivables

In thousand EUR

	Gross December 31, 2017 /January 1, 2018	New S3 clients	Reduction of existing S3 clients	Increase of existing S3 clients	Closed S3 clients	Gross December 31, 2018
Housing loans	(53)	-	-	(4)	-	**(57)**
Cash loans	(357)	(378)	24	(55)	113	**(653)**
Vehicle loans	-	-	-	-	-	-
Adaptation of residential or business premises	(3)	-	-	-	2	**(1)**
Other	(162)	(57)	9	(9)	125	**(94)**
Retail	**(575)**	**(435)**	**33**	**(68)**	**240**	**(805)**
Large enterprises	-	(1,933)	-	-	-	**(1,933)**
Medium enterprises	-	-	-	-	-	-
Small enterprises	(2,458)	(1,179)	124	(358)	71	**(3,800)**
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate	**(2,458)**	**(3,112)**	**124**	**(358)**	**71**	**(5,733)**
Total	**(3,033)**	**(3,547)**	**157**	**(426)**	**311**	**(6,538)**
Receivables from banks	-	-	-	-	-	-

6. RISK MANAGEMENT (CONTINIUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placement (continued)

6.2.4.1. Restructured loans and placements

The table below gives an overview of the restructured receivables:

In thousand EUR

December 31, 2018	Restructured receivables – gross exposure	S1 restructured receivables	S2 restructured receivables	S3 restructured receivables	Impairment of restructured receivables	Impairment of S1 restructured receivables	Impairment of S2 restructured receivables	Impairment of S3 restructured receivables	Percentage of restructured receivables in gross exposure	Amount of collateral for restructured receivables
Retail	**811**	**759**	**-**	**52**	**(36)**	**(14)**	**-**	**(22)**	**1%**	**1,789**
Housing loans	85	47	-	38	(21)	-	-	(21)	7%	1,067
Cash loans	726	712	-	14	(15)	(14)	-	(1)	1%	722
Vehicle loans	-	-	-	-	-	-	-	-	0%	-
Adaptation of residential or business premises	-	-	-	-	-	-	-	-	0%	-
Other	-	-	-	-	-	-	-	-	0%	-
Corporate	**18,180**	**2,855**	**7,626**	**7,699**	**(5,013)**	**(146)**	**(472)**	**(4,395)**	**12%**	**43,961**
Agriculture	-	-	-	-	-	-	-	-	0%	-
Manufacturing industry	2,881	-	934	1,947	(1,943)	-	(10)	(1,933)	26%	1,952
Electricity	-	-	-	-	-	-	-	-	0%	-
Construction	71	-	71	-	-	-	-	-	0%	286
Wholesale and retail	3,567	1,696	909	962	(1,062)	(27)	(122)	(913)	7%	11,940
Service activities	-	-	-	-	-	-	-	-	0%	-
Real estate activities	1,893	129	536	1,228	(415)	(4)	(25)	(386)	53%	7,276
Other	9,768	1,030	5,176	3,562	(1,593)	(115)	(315)	(1,163)	16%	22,507
Total	**18,991**	**3,614**	**7,626**	**7,751**	**(5,049)**	**(160)**	**(472)**	**(4,417)**	**8%**	**45,750**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0%**	**-**

6. RISK MANAGEMENT (CONTINIUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placement (continued)

6.2.4.1. Restructured loans and placements (continued)

The table below gives an overview of restructured receivables:

In thousand EUR

December 31,2017	Restructured receivables- gross exposure	Restructured non - problematic receivables	Restructured problematic receivables	Impairment of restructured receivables	Impairment of non – problematic restructured receivables	Impairment of problematic restructured receivables	Percentage of restructured receivables in gross exposure	Amount of collateral for restructured receivables
Retail	**855**	**617**	**238**	**45**	**10**	**35**	**1%**	**2.029**
Housing loans	119	66	53	18		18	7%	783
Cash loans	682	497	185	27	10	17	1%	1,047
Vehicle loans	-	-	-	-	-	-	0%	-
Adaptation of residential or business premises	-	-	-	-	-	-	0%	-
Other	54	54	-	-	-	-	0%	199
Corporate	**22,312**	**8,761**	**13,551**	**4,909**	**176**	**4,733**	**16%**	**44,807**
Agriculture	-	-	-	-	-	-	0%	-
Manufacturing industry	2,452	1,047	1,405	520	12	508	26%	4,086
Electricity	-	-	-	-	-	-	0%	-
Construction	153	153	-	10	10	-	1%	583
Wholesale and retail	4,504	3,050	1,454	897	66	831	10%	15,168
Service activities	21	-	21	-	-	-	5%	158
Real estate activities	2,193	-	2,193	524	-	524	59%	5,502
Other	12,989	4,511	8,478	2,958	88	2,870	21%	19,310
Total	**23,167**	**9,378**	**13,789**	**4,954**	**186**	**4,768**	**10%**	**46,836**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**0%**	**-**

6. RISK MANAGEMENT (CONTINIUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placement (continued)

6.2.4.1. Restructured loans and placements (continued)

The table below gives an overview of restructured receivables:

In thousand EUR

	Gross restructured S1 receivables December 31, 2017/January 1, 2018	New restructured S1 receivables	Reduction of S1 restructured receivables	Impact of the course	Other changes	Gross December 31, 2018	Net December 31, 2018
Housing loans	71	-	-	-	(24)	47	47
Cash loans	652	205	(150)	-	5	712	698
Vehicle loans	-	-	-	-	-	-	-
Adaptation of residential or business premises	-	-	-	-	-	-	-
Other	54	-	(54)	-	-	-	-
Retail	**777**	**205**	**(204)**	**-**	**(19)**	**759**	**745**
Large enterprises	945	-	(141)	-	(804)	-	-
Medium enterprises	3,386	1,006	(3,387)	-	-	1,005	890
Small enterprises	8,213	217	(1,842)	-	(4,738)	1,850	1,819
State	-	-	-	-	-	-	-
Other	20	-	(20)	-	-	-	-
Corporate	**12,564**	**1,223**	**(5,390)**	**-**	**(5,542)**	**2,855**	**2,709**
Total	**13,341**	**1,428**	**(5,594)**	**-**	**(5,561)**	**3,614**	**3,454**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

6. RISK MANAGEMENT (CONTINIUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placement (continued)

6.2.4.1. Restructured loans and placements (continued)

The table below gives an overview of restructured receivables:

In thousand EUR

	Gross restructured S2 receivables December 31, 2017/January 1, 2018	New restructured S2 receivables	Reduction of S2 restructured receivables	Impact of the course	Other changes	Gross December 31, 2018	Net December 31, 2018
Housing loans	3	-	(3)	-	-	-	-
Cash loans	13	-	(13)	-	-	-	-
Vehicle loans	-	-	-	-	-	-	-
Adaptation of residential or business premises	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Retail	**16**	**-**	**(16)**	**-**	**-**	**-**	**-**
Large enterprises	1,933	-	-	-	(1,674)	259	259
Medium enterprises	3,410	-	(3,410)	-	5,387	5,387	5,052
Small enterprises	301	66	(21)	-	1,634	1,980	1,845
State	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Corporate	**5,644**	**66**	**(3,431)**	**-**	**5,347**	**7,626**	**7,156**
Total	**5,660**	**66**	**(3,447)**	**-**	**5,347**	**7,626**	**7,156**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

6. RISK MANAGEMENT (CONTINIUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placement (continued)

6.2.4.1. Restructured loans and placements (continued)

The table below gives an overview of restructured receivables:

In thousand EUR

	Gross restructured S3 receivables December 31, 2017/January 1, 2018	New restructured S3 receivables	Reduction of S3 restructured receivables	Impact of the course	Other changes	Gross December 31, 2018	Net December 31, 2018
Housing loans	45	-	(4)	-	(3)	38	17
Cash loans	17	-	-	-	(3)	14	14
Vehicle loans	-	-	-	-	-	-	-
Adaptation of residential or business premises	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Retail	**62**	**-**	**(4)**	**-**	**(6)**	**52**	**31**
Large enterprises	-	-	-	-	1,934	1,934	-
Medium enterprises	-	-	-	-	-	-	-
Small enterprises	4,101	719	-	-	945	5,765	3,303
State	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Corporate	**4,101**	**719**	**-**	**-**	**2,879**	**7,699**	**3,303**
Total	**4,163**	**719**	**(4)**	**-**	**2,873**	**7,751**	**3,334**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

6. RISK MANAGEMENT (CONTINIUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placement (continued)

6.2.4.2. Loans and receivables from customers covered by collateral

December 31, 2018	S 1 clients					S 2 clients					S 3 clients				
	Properties	Deposits	Guarantee	Other collateral	Total	Properties	Deposits	Guarantee	Other collateral	Total	Properties	Deposits	Guarantee	Other collateral	Total
Housing loans	1,021	-	-	-	**1,021**	164	-	-	-	**164**	107	-	-	-	**107**
Cash loans	18,873	3,239	-	50,240	**72,352**	4,651	193	-	4,649	**9,493**	605	34	-	942	**1,581**
Vehicle loans	-	-	-	428	**428**	-	-	-	25	**25**	-	-	-	-	-
Adaptation of residential or business premises	-	-	-	-	-	5	-	-	-	**5**	2	-	-	-	**2**
Other	607	298	-	4,179	**5,084**	102	47	-	580	**729**	-	5	-	219	**224**
Retail	**20,501**	**3,537**	-	**54,847**	**78,885**	**4,922**	**240**	-	**5,254**	**10,416**	**714**	**39**	-	**1,161**	**1,914**
Large enterprises	3,974	(4)	-	4,788	**8,758**	-	6,132	1,568	-	**7,700**	-	-	-	1,933	**1,933**
Medium enterprises	18,209	1,706	-	5,103	**25,018**	8,353	-	-	101	**8,454**	-	-	-	-	-
Small enterprises	52,952	2,941	-	17,197	**73,090**	7,688	116	-	848	**8,652**	7,105	-	-	1,112	**8,217**
State	-	-	-	10,008	**10,008**	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate	**75,135**	**4,643**	-	**37,096**	**116,874**	**16,041**	**6,248**	**1,568**	**949**	**24,806**	**7,105**	-	-	**3,045**	**10,150**
Large enterprises	**95,636**	**8,180**	-	**91,943**	**195,759**	**20,963**	**6,488**	**1,568**	**6,203**	**35,222**	**7,819**	**39**	-	**4,206**	**12,064**
Receivables from banks	-	-	-	**25,119**	**25,119**	-	-	-	-	-	-	-	-	-	-

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6. RISK MANAGEMENT (CONTINIUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placement (continued)

6.2.4.2. Loans and receivables from customers covered by collateral (continued)

December 31, 2017	Non problematic receivables					Problematic receivables				
	Properties	Deposits	Guarantee	Other collateral	Total	Properties	Deposits	Guarantee	Other collateral	Total
Housing loans	1,586	-	-	-	**1,586**	119	-	-	-	**119**
Cash loans	18,302	-	-	50,161	**68,463**	470	-	-	568	**1,038**
Vehicle loans	-	-	-	183	**183**	-	-	-	-	**-**
Adaptation of residential or business premises	10	-	-	-	**10**	5	-	-	-	**5**
Other	2,191	-	-	9,606	**11,797**	10	-	-	213	**223**
Retail	**22,089**	**-**	**-**	**59,950**	**82,039**	**604**	**-**	**-**	**781**	**1,385**
Large enterprises	4,566	-	-	7,459	**12,025**	2,074	-	-	281	**2,355**
Medium enterprises	16,910	-	-	5,346	**22,256**	10,819	-	-	712	**11,531**
Small enterprises	49,398	-	-	20,302	**69,700**	12,729	-	-	574	**13,303**
State	-	-	-	10,012	**10,012**	-	-	-	-	**-**
Other	-	-	-	-	**-**	-	-	-	-	**-**
Corporate	**70,874**	**-**	**-**	**43,119**	**113,993**	**25,622**	**-**	**-**	**1,567**	**27,189**
Large enterprises	**92,963**	**-**	**-**	**103,069**	**196,032**	**26,226**	**-**	**-**	**2,348**	**28,574**
Receivables from banks	**-**	**-**	**-**	**50,152**	**50,152**	**-**	**-**	**-**	**-**	**-**

6. RISK MANAGEMENT (CONTINIUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placement (continued)

6.2.4.3. Geographic concentration

The geographical concentration of the Bank's exposure to credit risk is shown in the following table:

December 31, 2018	Receivables from S1 and S2 clients				Receivables from S3 clients			
	Montenegro	EU	SAD and Canada	Other	Montenegro	EU	SAD and Canada	Other
Retail	**85,695**	**725**	**1**	**2,880**	**1,869**	**-**	**-**	**45**
Housing loans	1,185	-	-	-	107	-	-	-
Cash loans	78,365	692	-	2,788	1,537	-	-	44
Vehicle loans	453	-	-	-	-	-	-	-
Adaptation of residential or business premises	5	-	-	-	2	-	-	-
Other	5,687	33	1	92	223	-	-	1
Corporate	**138,244**	**3,436**	**-**	**-**	**8,216**	**1,934**	**-**	**-**
Agriculture	191	-	-	-	268	-	-	-
Manufacturing industry	9,020	-	-	-	160	1,934	-	-
Electricity	301	-	-	-	-	-	-	-
Construction	24,923	-	-	-	475	-	-	-
Wholesale and retail	44,527	3,316	-	-	1,612	-	-	-
Service activities	825	-	-	-	-	-	-	-
Real estate activities	2,370	-	-	-	1,228	-	-	-
Other	56,087	120	-	-	4,473	-	-	-
Total	**223,939**	**4,161**	**1**	**2,880**	**10,085**	**1,934**	**-**	**45**
Receivables from banks	**5,000**	**18,219**		**1,900**	**-**	**-**	**-**	**-**

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6. RISK MANAGEMENT (CONTINIUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placement (continued)

6.2.4.3. Geographic concentration (continued)

The geographical concentration of the Bank's exposure to credit risk is shown in the following table:

31.12.2017.	Non problematic receivables				Problematic receivables			
	Montenegro	EU	SAD and Canada	Other	Montenegro	EU	SAD and Canada	Other
Retail	**78,370**	**814**	**-**	**2,855**	**1,369**	**1**	**-**	**15**
Housing loans	1,585	-	-	-	119	-	-	-
Cash loans	64,965	781	-	2,717	1,032	-	-	6
Vehicle loans	183	-	-	-	-	-	-	-
Adaptation of residential or business premises	10	-	-	-	5	-	-	-
Other	11,627	33	-	138	213	1	-	9
Corporate	**109,215**	**4,778**	**-**	**-**	**25,223**	**1,933**	**-**	**33**
Agriculture	524	-	-	-	287	-	-	-
Manufacturing industry	7,758	-	-	-	1,533	1,933	-	-
Electricity	-	-	-	-	-	-	-	-
Construction	12,486	-	-	-	9,521	-	-	-
Wholesale and retail	40,922	3,139	-	-	2,664	-	-	-
Service activities	382	-	-	-	40	-	-	-
Real estate activities	1,234	-	-	-	2,453	-	-	-
Other	45,909	1,639	-	-	8,725	-	-	33
Total	**187,585**	**5,592**	**-**	**2,855**	**26,592**	**1,934**	**-**	**48**
Receivables from banks	**-**	**37,530**	**-**	**12,622**	**-**	**-**	**-**	**-**

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6. RISK MANAGEMENT (CONTINIUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placement (continued)

6.2.4.4. Industry concentration

The industrial concentration of the Bank's exposure to credit risk is shown in the following table:

In thousand EUR

	Finance	Transportation, traffic and telecommunication	Services, tourism and catering	Wholesale and retail trade and repair of motor vehicles and motorcycles	Construction	Energetics	Mining	Administration and service activities	Real estate trade	Agriculture, forestry and fishing	Production	Other	Individuals	Total
Financial assets at amortized value														
Loans and receivables from banks	8,832	-	-	-	-	-	-	-	-	-	-	16,278	-	25,110
Loans and receivables from clients	893	14,472	19,720	46,763	24,110	289	3,374	2,152	3,167	307	8,997	17,716	88,353	230,313
Financial asset at fair value through other result														
Securities	89,492	435	26	64	-	-	623	-	95	-	-	23,732	-	114,467
December 31, 2018	99,217	14,907	19,746	46,827	24,110	289	3,997	2,152	3,262	307	8,997	57,726	88,353	369,890
December 31, 2017	77,782	9,595	18,655	41,706	21,489	528	4,514	1,764	3,131	708	8,780	87,757	81,753	358,162

6. RISK MANAGEMENT (CONTINIUED)

6.2. Credit risk (continued)

6.2.4. Quality of financial placement (continued)

6.2.4.5. Off balance sheet items

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

In thousand EUR

	Undrawn credit lines	Guarantee	Letters of credit	Total
December 31, 2018				
Up to 1 year	25,650	74,031	-	**99,681**
From 1 to 5 years	2,282	13,972	-	**16,254**
Over 5 years	1,914	1,435	-	**3,349**
	29,846	**89,438**	**-**	**119,284**

In thousand EUR

	Undrawn credit lines	Guarantee	Letters of credit	Total
December 31, 2017				
Up to 1 year	20,536	59,458	51	**80,045**
From 1 to 5 years	2,046	19,338	-	**21,384**
Over 5 years	221	1,435	-	**1,656**
	22,803	**80,231**	**51**	**103,085**

6.3. Market risk

The Bank is exposed to market risks. Market risks arise from open positions due to changes in interest rates, foreign currency exchange rates and prices of securities which change according to the market volatility. Market risk exposure limits are prescribed internally and aligned with the limits prescribed by the Central Bank of Montenegro.

6.3.1. Foreign exchange Currency Risk

The Bank's financial position and cash flows are exposed to the effects of the changes in foreign currency exchange rates. Foreign exchange currency risk exposure is continuously monitored and reconciled with the limits prescribed by the Central Bank of Montenegro.

6. RISK MANAGEMENT (CONTINIUED)

6.3. Market risk (continued)

6.3.1. Foreign exchange Currency Risk (continued)

Exposure to currency risk is shown in the following table:

In thousand EUR	USD	GBP	CHF	Other	Total
Foreign currency assets	21,092	1,667	520	441	23,720
Liabilities in foreign currencies	22,700	1,656	497	407	25,260
Net open position					
- December 31, 2018	**(1,608)**	**11**	**23**	**34**	**(1,540)**
- December 31, 2017	**439**	**(1)**	**58**	**23**	**519**
% core capital:					
- December 31, 2018	**(5%)**	**0%**	**0%**	**0%**	
- December 31, 2017	**2%**	**0%**	**0%**	**0%**	

Aggregate open position	
- December 31, 2018	**(1,540)**
- December 31, 2017	**519**
% core capital:	
- December 31, 2018	**(5,16%)**
- December 31, 2017	**2,10%**

6. RISK MANAGEMENT (CONTINIUED)

6.3. Market risk (continued)

6.3.1. Foreign exchange Currency Risk (continued)

The following table shows the exchange rate scenario in the range of + 10% to -10% in relation to the EUR.

In thousand EUR

	Total	Amount in foreign currency	Change of course 10%	-10%
Assets				
Cash and deposit accounts with central banks	129,048	957	96	(96)
Financial assets at amortized value				
Loans and receivables from banks	25,110	12,705	1,271	(1,271)
Loans and receivables from clients	230,313	-	-	-
Other financial assets	1,849	1,745	175	(175)
Financial assets at amortized value through other result				
Securities	114,467	9,923	992	(992)
Other operating receivables	2,188	135	14	(14)
Total assets	**502,975**	**25,465**	**2,548**	**(2,548)**
Liabilities				
Financial liabilities at amortized value				
Deposits from banks	1,410	-	-	-
Deposits from clients	410,316	23,394	2,339	(2,339)
Provisions	1,831	-	-	-
Other liabilities- balance	7,970	1,866	187	(187)
Other liabilities (guarantees and credentials) – off balance	89,438	1,567	157	(157)
Total liabilities	**510,965**	**26,827**	**2,683**	**(2,683)**
Net exposure to foreign exchange currency risk				
December 31, 2018			**(135)**	**135**
December 31, 2017			**52**	**(52)**

As at December 31, 2018, assuming that all other parameters remained unchanged by the change in the EUR exchange rate against other currencies by + 10% and -10%, the Bank's profit would have increased or decreased by EUR 136 thousand (December 31, 2017: profit would increase or decrease by EUR 52 thousand). The cause of the Bank's low exposure to the exchange rate change is the fact that the majority of the Bank's receivables and liabilities are expressed in EUR.

6. RISK MANAGEMENT (CONTINIUED)

6.3. Market risk (continued)

6.3.2. Interest rate risk

The following table presents the Bank's interest bearing and non-interest-bearing assets and liabilities as of December 31, 2018:

In thousand EUR

	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash and deposit accounts with central banks	14,651	114,397	129,048
Financial assets at amortized value			
Loans and receivables from banks	-	25,110	25,110
Loans and receivables from clients and other financial assets	230,313	-	230,313
Other financial assets	1,745	104	1,849
Financial assets at amortized value through other result			
Securities	105,262	9,205	114,467
Other operating receivables	-	2,188	2,188
Total assets	**351,971**	**151,004**	**502,975**
LIABILITIES			
Financial liabilities at amortized value			
Deposits from banks	925	485	1,410
Deposits from clients	361,218	49,098	410,316
Borrowed funds from other clients	25,230	-	25,230
Subordinated debt	14,039	-	14,039
Total liabilities	**401,412**	**49,583**	**450,995**
Exposure to interest rate risk:			
December 31, 2018	**(49,441)**	**101,421**	**51,980**
December 31, 2017	**(80,244)**	**130,908**	**50,664**

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6. RISK MANAGEMENT (CONTINIUED)

6.3. Market risk (continued)

6.3.2. Interest rate risk

The following tables show the annual active and passive interest rates of monetary financial instruments:

Type of loan	Interest rate
Corporate	
- short-term loans from the Bank's assets	1.5% p.a.-12%p.a.
- short-term loans from other sources	-
- short-term loans to banks and other financial institutions	-
- arranging loans	-
- long-term loans from the Bank's assets	1.5% p.a.-12%p.a.
- long-term loans from other sources	4%p.a.-5%p.a.
- loans to small and medium enterprises up to 24 months	approved at rates from the bank's assets
- loans to small and medium enterprises over 24 months	approved at rates from the bank's assets
- loans for entrepreneurs up to 24 months	9.25%p.a.
- loans for entrepreneurs over 24 months	7%p.a.-8.5%p.a.

The active interest rates applied to approved loans to individuals during 2018 are as follows:

Type of loan	Interest rate
Retail	
- cash loans	0.67%p.m.-12%p.a.
- consumer loans	0% - 1.0%p.m.
- vehicle loans	3.5%p.a.-4.99%p.a.
- loans for adaptation and financing up to 60 months	-
- loans for adaptation and financing over 60 months	-
- Housing loans	-

6. RISK MANAGEMENT (CONTINIUED)

6.3. Market risk (continued)

6.3.2. Interest rate risk

The passive interest rates applied to the receivables of legal entities in 2018 are as follows:

Type of deposits	Interest rate
Deposits at demand	-
Short-term deposits	0-1.5%p.a.
Long-term deposits	0-2%p.a.

The passive interest rates applied to the received deposits of individuals during 2018 are as follows:

Type of deposits	Interest rate
Deposits at demand	
Savings demand deposits:	
- EUR	0.01%p.a.
- other currencies	-
Term deposits in EUR placed:	
- for a month	0.01%p.a.-0.1%p.a.
- for 3 months	0.01%p.a.-2.1%p.a.
- for 6 months	0.1%p.a.-1.75%p.a.
- for 12 months	0%p.a.-2.5%p.a.
- for 24 months	0.9%p.a.-3.7%p.a.
- for 36 months	1.5%p.a.-3%p.a.
Term deposits in foreign currencies (USD):	
- for 3 months	-
- for 6 months	-
- for 12 months	0.3%p.a-1%p.a.

6. RISK MANAGEMENT (CONTINIUED)

6.3. Market risk (continued)

6.3.2. Interest rate risk (continued)

Exposure to interest rate risk as at December 31, 2018 is presented in the following table:

In thousand EUR

Sensitive assets	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year	Total
Cash and deposits accounts with central banks	14,651	-	-	-	-	14,651
Financial assets at amortized value						
Loans and receivables from clients	13,808	17,987	22,776	72,984	102,758	230,313
Other financial assets	1,745	-	-	-	-	1,745
Financial asset at fair value through other result						
Securities	5,000	23,650	35,878	5,766	34,968	105,262
Total	**35,204**	**41,637**	**58,654**	**78,750**	**137,726**	**351,971**
% from total interest-bearing assets	10%	12%	17%	22%	39%	100%
Sensitive equity and liabilities						
Financial liabilities at amortized value						
Interest bearing deposits from banks	925	-	-	-	-	925
Interest bearing deposits from clients	50,180	45,555	56,159	103,085	106,239	361,218
Interest bearing clients borrowings	121	11	13	60	25,025	25,230
Subordinated debt	-	-	-	-	14,039	14,039
Total	**51,226**	**45,566**	**56,172**	**103,145**	**145,303**	**401,412**
% interest bearing liabilities	13%	11%	14%	26%	36%	100%
Interest rate risk exposure:						
- December 31,2018	**(16,022)**	**(3,929)**	**2,482**	**(24,395)**	**(7,577)**	**(49,441)**
- December 31,2017	**(105,777)**	**(3,496)**	**(8,130)**	**5,117**	**32,042**	**(80,244)**
Cumulative GAP:						
- December 31,2018	**(16,022)**	**(19,951)**	**(17,469)**	**(41,864)**	**(49,441)**	
- December 31,2017	**(105,777)**	**(109,273)**	**(117,403)**	**(112,286)**	**(80,244)**	

6. RISK MANAGEMENT (CONTINIUED)

6.3. Market risk (continued)

6.3.2. Interest rate risk (continued)

The following table shows the effect of changes in variable interest rates for claims and liabilities denominated in EUR in the range of + 0.4% pp. to -0.4% p.p.

	2018.	+0.4 b.p. EUR KS +0.3 b.p. FX KS	+0.4 b.p. EUR KS +0.3 b.p. FX KS
Assets			
Cash and deposits accounts with central banks	**14,651**	-	-
With a fixed interest rate	-	-	-
With a variable interest rate	14,651	59	(59)
Financial assets at amortized value			-
Loans and receivables from banks	-	-	-
Loans and receivables from clients	**230,313**	-	-
With a fixed interest rate	230,313	-	-
With a variable interest rate	-	-	-
Financial assets at fair value through other result			
Securities	**105,262**	-	-
With a fixed interest rate	105,262	-	-
With a variable interest rate	-	-	-
	350,226	**59**	**(59)**
Liabilities			
Financial liabilities at amortized value			
Deposits from banks	**925**	-	-
Deposits from clients	**361,218**	-	-
Borrowings from other clients	**25,230**	-	-
With a fixed interest rate	25,230	-	-
With a variable interest rate	-	-	-
Subordinated debt	**14,039**	--	-
	401,412	-	-
Interest rate risk net exposure:			
- December 31,2018	**(51,186)**	**59**	**(59)**

Assuming that all other parameters are unchanged by increasing or decreasing the variable interest rate for receivables and liabilities in EUR by 0.4 pp. i.e. for foreign currency receivables and liabilities by 0.3 percentage points, the Bank's profit would have increased or decreased by EUR 59 thousand.

The cause of the Bank's small exposure to variable interest rates is the fact that most of the Bank's receivables and liabilities are contracted at a fixed interest rate.

6. RISK MANAGEMENT (CONTINIUED)

6.3. Market risk (continued)

6.3.2. Interest rate risk (continued)

In thousand EUR

Securities – fixed rate	Amount	Change in interest rate	Average weighted bp	Change in EUR	Sign
Short-term	70.294	50 b.p.	33	351	+/-
Medium-term	21.391	100 b.p.	20	214	+/-
Long-term	13.577	200 b.p.	26	272	+/-
Total	**105.262**		**79**	**837**	**+/-**

In thousand EUR

Securities – variable rate	Amount	Change in interest rate	Average weighted bp	Change in EUR	Sign
Short-term	-	50 b.p.	-	-	+/-
Medium-term	-	100 b.p.	-	-	+/-
Long-term	-	200 b.p.	-	-	+/-
Total	**-**		**-**	**-**	**+/-**

6.4. Liquidity risk

Liquidity risk includes both the risk of the Bank being unable to provide cash to settle liabilities upon maturity and the risk that the Bank will have to obtain funds at reasonable prices and in a timely manner to be able to settle its matured liabilities.

The matching and controlled mismatching between the maturities and interest rates of assets and of liabilities are fundamental to the management of the Bank. It is uncommon for banks to have complete matching since business transactions are often made for indefinite term and are of different types. A mismatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability of the Bank to obtain sources of funding upon maturity of liabilities at an acceptable cost are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and foreign exchange rates.

Liquidity requirements to support calls on guarantees and standby letters of credit are considerably less than the amount of the commitments because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments for approved loans with extended maturities does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

6. RISK MANAGEMENT (CONTINIUED)

6.4. Liquidity risk (continued)

The maturity compliance of financial assets and financial liabilities with the expected maturity date as of December 31, 2018 is shown in the review which follows:

In thousand EUR

	Up to one month	From 1 to 2 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Financial assets							
Cash and deposits accounts with central banks	114,397	-	-	-	-	14,651	129,048
Financial assets at amortized value							
Loans and receivables from banks	19,708	1	401	5,000	-	-	25,110
Loans and receivables from clients	10,427	17,830	22,576	57,589	81,283	40,608	230,313
Other financial assets	1,745					104	1,849
Securities	114,467						114,467
Other business receivables	2,188						2,188
Total	**262,932**	**17,831**	**22,977**	**62,589**	**81,283**	**55,363**	**502,975**
Financial liabilities							
Financial liabilities at amortized value							
Deposits from banks	1,410	-	-	-	-	-	1,410
Deposits from clients	52,432	35,197	43,847	84,259	171,869	22,712	410,316
Borrowed fund from other clients	121	11	13	60	10,793	14,232	25,230
Subordinated debt	(116)	-	-	-	-	14,155	14,039
Total	**53,847**	**35,208**	**43,860**	**84,319**	**182,662**	**51,099**	**450,995**
Maturity incompatibility							
- December 31, 2018	**209,085**	**(17,377)**	**(20,883)**	**(21,730)**	**(101,379)**	**4,264**	**51,980**
- December 31, 2017	**25,131**	**(3,496)**	**(8,130)**	**5,117**	**18,375**	**13,667**	**50,664**
Cumulative GAP:							
- December 31, 2018	**209,085**	**191,708**	**170,825**	**149,095**	**47,716**	**51,980**	
- December 31, 2017	**25,131**	**21,635**	**13,505**	**18,622**	**36,997**	**50,664**	
% from total source of assets							
- December 31, 2018	**41,57%**	**(3,45)%**	**(4,15%)**	**(4,32%)**	**(20,16%)**	**0,85%**	
- December 31, 2017	**5,14%**	**(0,71%)**	**(1,66%)**	**1,05%**	**3,76%**	**2,79%**	

6. RISK MANAGEMENT (CONTINIUED)

6.4. Liquidity risk (continued)

The structure of assets and liabilities as of December 31, 2018 indicates the existence of maturity mismatch of the remaining maturity of assets and liabilities for 1-3 months, 3-6 months, 6-12 months and 1-5 years.

The Bank's liquidity, which is its ability to settle its liabilities as due, depends on one hand on the balance sheet structure, and on the other hand, on the matching between cash inflows and outflows. In the cumulative gap there is no maturity mismatching in maturity of assets and liabilities. As at December 31, 2018 demand deposits in the table above are presented by the expected maturity using the model based on the Bank's historical data.
The Bank applies this approach to liquidity management as of December 31, 2012.

The maturity compliance of financial assets and financial liabilities with the remaining contractual maturity date as of December 31, 2018 is shown in the review that follows:

In thousand EUR

	At demand	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
- December 31, 2018							
LIABILITIES							
Liabilities to banks	1,410	-	-	-	-	-	**1,410**
Liabilities to clients	276,568	11,879	22,482	55,913	37,715	5,759	**410,316**
Borrowed funds from other clients	121	11	13	60	10,793	14,232	**25,230**
Subordinated debt	(116)	-	-	-	-	14,155	**14,039**
	277,983	**11,890**	**22,495**	**55,973**	**48,508**	**34,146**	**450,995**

In thousand EUR

	At demand	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
- December 31, 2017							
LIABILITIES							
Liabilities to banks	3,020	39	-	-	-	-	**3,059**
Liabilities to clients	244,793	9,144	14,058	77,596	44,482	1,584	**391,657**
Borrowed funds from other clients	-	1,154	134	1,992	14,100	12,556	**29,936**
Subordinated debt	-	12	-	-	10,000	4,000	**14,012**
	247,813	**10,349**	**14,192**	**79,588**	**68,582**	**18,140**	**438,664**

6. RISK MANAGEMENT (CONTINIUED)

6.5. Fair value of financial assets and liabilities

In thousand EUR

	Carrying value		Fair value	
	2018	2017	2018	2017
Financial assets				
Cash and deposits accounts with central banks	129,048	131,166	129,048	131,166
Financial assets at amortized value				
Loans and receivables from banks	25,110	50,152	25,110	50,152
Loans and receivables from clients	230,313	215,438	230,313	215,438
Other financial assets	1,849	131	1,849	131
Financial asset at fair value through other result				
Securities	114,467	92,572	114,467	92,572
Investments in associates and joint ventures by capital method	5	8	5	8
Other assets	2,188	1,935	2,188	1,935
	502,980	**491,402**	**502,980**	**491,402**
Financial liabilities				
Financial liabilities at amortized value				
Deposits from banks and central bank	1,410	3,059	1,410	3,059
Deposits from clients	410,316	391,657	410,316	391,657
Borrowed funds from other clients	25,230	29,936	25,230	29,936
Subordinated debt	14,039	14,012	14,039	14,012
	450,995	**438,664**	**450,995**	**438,664**

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

In thousand EUR

December 31, 2018	Level 1	Level 2	Level 3	Total
Financial assets				
-at fair value through other result	100,158	5,427	8,882	114,467
-at fair value through income statement	-	-	-	-
Total	**100,158**	**5,427**	**8,882**	**114,467**

December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets				
-available for sale	76,045	8,056	8,471	92,572
-at fair value trough income statement held for sale	-	-	-	-
Total	**76,045**	**8,056**	**8,471**	**92,572**

6. RISK MANAGEMENT (CONTINIUED)

6.6. Capital management

The Bank's capital management objectives are:

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

The Bank's management controls capital adequacy by applying the methodology and limits prescribed by the Central Bank of Montenegro (based on Decision on capital adequacy of banks Gazette of Montenegro, 38/11, 55/12 and 82/17). The Bank submits quarterly reports on the balance and structure of capital to the Central Bank of Montenegro.

The Bank's own assets consist of: paid share capital at nominal value, premium premium paid, increased by the amount of unallocated profits from previous years, the amount of which mitigates the negative effects on the Bank's own funds due to the transfer of asset items valuation using IFRS 9, with paragraphs 5 and 6 of Article 4 of the Decision on Capital Adequacy of Banks, the amount of intangible assets and unrealized loss on available-for-sale financial assets at fair value, as well as the positive difference between the amount of provisions for contingent losses and the amount of value adjustments for items of balance sheet assets and provisions for off-balance sheet items.

The amount of own funds must always be equal to or greater than:

a) the minimum cash part of the principal amount of EUR 5 million, as prescribed by the Law on banks,
b) the total amount of capital required for all risks.

In accordance with the regulations of the Central Bank of Montenegro, the Bank is obliged to maintain a minimum degree of capital adequacy, expressed as a solvency ratio of 10%. The Bank is obliged to align its business with the prescribed indicators, i.e. to align the scope and structure of its risk placements with the Law on banks and the regulations of the Central Bank of Montenegro. As of December 31, 2018, the solvency ratio calculated by the Bank in financial statements is 12.50%

7. INTEREST INCOME AND EXPENSES AND SIMILAR INCOME AND EXPENSES

Interest income

In thousand EUR	2018	2017
Deposits:		
- Foreign banks	26	55
- Central bank	28	11
	54	**66**
Loans:		
- Banks	79	-
- State institutions	164	272
- Government of Montenegro	338	350
- Legal entities	6,671	7,438
- Individuals	7,161	6,490
Fee income recognized in interest income:	1,477	955
	15,890	**15,505**
Securities:	2,815	3,076
	2,815	**3,076**
Purchase operations:	7	-
	7	**-**
Other interest income	**2**	**3**
	2	**3**
Total interest income	**18,768**	**18,650**

Interest expense

In thousand EUR	2018	2017
Deposits:		
- Banks	56	176
- Financial institutions	38	63
- State institutions	117	289
- Legal entities	324	343
- Individuals	1,609	2,196
	2,144	**3,067**
Loans and other borrowings	**672**	**896**
Subordinated debt:	**863**	**722**
	3,679	**4,685**

8. NET INCOME/EXPENSE BASED ON IMPAIRMENT OF FINANCIAL INSTRUMENTS NOT VALUED AT FAIR VALUE THROUGH INCOME STATEMENT

In thousand EUR	2018	2017
Net provisions/ (reversal of provisions) based on:		
- loans	2,810	3,512
- deposits at banks	38	-
- securities	331	-
- off balance items	442	195
- other	18	61
	3,563	**3,378**

8.1. Changes at impairment accounts

	December 31,2017	January 1, 2018	New placements-increase of impairment	Existing - reduction of impairment	Existing placements - increase of impairment	Closed placements – reversal of impairment	December 31,2018
Retail	1,821	2,133	1,000	(401)	792	(661)	2,863
Corporate	7,347	8,658	2,676	(679)	975	(1,761)	9,869
Total	**9,168**	**10,791**	**3,676**	**(1,080)**	**1,767**	**(2,422)**	**12,732**
Receivables	**-**	**48**	**-**	**(38)**	**1**	**(1)**	**9**

8.2. Changes on provisions

In thousand EUR	Loans and leases	Interest	Acquired assets	Reserves for operational risk, country risk and court disputes	Other receivables	Provisions for off balance sheet records	Securities	Deposits	Total
Balance at the beginning of the year	**8,925**	**208**	**1,651**	**330**	**667**	**1,293**	**2,200**	**33**	**15,307**
Effects of applying IFRS 9 without affecting income statement	1,640	14	-	-	3	-305	785	48	**2,185**
Impairment over the year, net	2,810	-7	11	62	14	442	331	-38	3,625
Reversal/ impairment that did not affect income statement	(890)	(5)	(145)	-	26	(3)	(2,200)	(33)	(3,250)
Transfer on off balance sheet									-
Balance at the end of year	**12,485**	**210**	**1,517**	**392**	**710**	**1,427**	**1,116**	**10**	**17,867**

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9. FEE INCOME AND EXPENSES

Fee income
In thousand EUR

	2018	2017
Loan fees	463	216
Fees from off-balance-sheet operations	1,077	1,007
Fees from payment transactions and e-banking	2,386	2,835
Fees for foreign payments	1,971	1,182
Fees on credit card operations	7,376	6,010
Other fees and commissions	1,216	767
	14,489	**12,017**

Fee expenses
In thousand EUR

	2018	2017
Fees payable to the Central Bank	591	345
Fees for foreign payment transactions	335	294
Deposit insurance premium fees	1,919	1,711
Fees paid for borrowings and guarantees	52	38
Visa and Master card fees	3,949	3,150
Other fees and commissions	482	342
	7,328	**5,880**

10. PERSONAL EXPENSES

In thousand EUR	**2018**	**2017**
Net salaries	2,580	2,369
Taxes and contributions on salaries	1,866	1,777
Other employee benefits, net	65	165
Retirement benefits	12	18
Remunerations to members of the Board of Directors	124	124
Remunerations to members of the Development committee	72	66
Remunerations to members of the Credit risk committee	35	27
Remunerations to members of the Investment Committee	2	-
Employee transportation allowance, net	35	34
Business travel costs and per diems	307	298
Employee training costs	22	44
Net provisions for severance pay and jubilee awards (Note 25)	(2)	(154)
Aid to employees	14	6
Other costs	41	33
	5,173	**4,807**

11. GENERAL AND ADMINISTRATIVE EXPENSES

In thousand EUR	2018	2017
Rental costs	1,140	1,093
Security services	565	560
Electricity and fuel bills	107	102
Cleaning services	110	110
Computer and other equipment maintenance	202	211
Premises-related taxes	8	16
Vehicle maintenance	52	51
Insurance costs	492	481
Audit expense	305	288
Court expenses	1	1
Other professional fees	53	44
Lawyer fees	13	30
Consultant services	350	562
Intellectual services	92	78
Telecommunication costs	105	106
Communication network costs	122	118
Postage	22	23
Office supplies	182	190
Utilities	19	18
Representation expenses	368	355
Advertising and marketing	487	408
Subscriptions and donations	191	186
Software maintenance	391	331
Equipment rentals	494	444
Data processing services	405	373
Payment card operations	1,934	1,536
Other expenses	551	509
	8,761	**8,224**

12. DEPRECIATION COST

In thousand EUR	2018	2017
Property plant and equipment (Note 19)	633	574
Intangible assets (Note 20)	322	262
	955	**836**

13. OTHER INCOME

In thousand EUR	2018	2017
Dividend income	59	72
Other operating income	45	109
Collected receivables previously written off	48	94
Other income	126	139
	278	**414**

14. OTHER EXPENSES

In thousand EUR	2018	2017
Direct write off of receivables	117	2
Other charges	19	21
Extraordinary expenses	38	11
Other expenses	-	1
	174	**35**

15. INCOME TAXES

a) a) Components of Income Taxes

In thousand EUR	2018	2017
Calculated current income tax	403	412
Calculated deferred income tax	8	(4)
	411	**408**

b) Reconciliation between tax expense and the product of accounting results multiplied by the applicable tax rate

In thousand EUR	2018	2017
Profit before taxes	4,721	4,351
Income tax at statutory rate of 9%	396	392
Tax effects of expenses not recognized for tax purposes	7	20
Other	8	(4)
Current Income tax	**411**	**408**

The tax rate used in 2018 and 2017 equals 9% and is applied to the taxable profit of legal entities in Montenegro as in accordance with the Corporate Income Tax Law.

15. INCOME TAXES (CONTINUED)

c) Deferred tax liabilities

In thousand EUR	December 31, 2018	December 31, 2017
Deferred tax based on unrealized gains on AFS securities	(43)	(311)
Differed tax based on temporary differences between book and tax value for property plant and equipment	30	38
	(13)	(273)

16. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

In thousand EUR	December 31, 2018	December 31, 2017
Cash on hand:	13,081	16,586
- in EUR	12,124	14,731
- in foreign currencies	957	1,855
Gyro account	85,138	86,031
Obligatory reserves held with the Central Bank of Montenegro	29,302	27,008
Other	1,527	1,541
	129,048	131,166

As at December 31, 2018 the Bank's obligatory reserves were set aside in accordance with the Regulation of the Central Bank of Montenegro on Bank which refers on Reserve Requirement to Be Held with the Central Bank of Montenegro (Official Gazette of Montenegro no. 88/17). In accordance with the above, banks calculate the reserve requirement on demand deposits and term deposits.

Banks calculate the obligatory reserve applying the following rates:
- 7.5% to the base comprised of demand deposits and deposits maturing within a year. i.e. 365 days; and
- 6.5% to the base comprised of deposits with maturities of over a year. i.e. 365 days.

The rate of 7,5% is also applied to deposits with contractually defined maturities of over a year. i.e. 365 days, with contractual clause on early withdrawal option (within less than 365 days).

The obligatory reserve is to be calculated by applying the aforesaid rates to the appropriate part of the base during the previous week, two days before the expiry of the maintenance period. The maintenance period is a monthly period, from the third Wednesday of the month and lasts until the day preceding the third Wednesday of the following month.

The Bank sets aside the calculated reserves to the obligatory reserve accounts held with the Central Bank of Montenegro in the country and/or abroad and cannot be separated and held in a different form. Required reserves are allocated in EUR. Funds allocated to the accounts of the Central Bank abroad cannot be transferred to other accounts abroad, instead they can be transferred exclusively to the Bank's transaction account in the RTGS system.

On 50% of the required reserves allocated in accordance with the Decision, the Central Bank pays to the Bank until the eighth day of the month for the previous month a fee calculated at the rate of EONIA reduced by 10 basis points on an annual basis, but this rate cannot be less than zero.

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

If the Bank is planning to withdraw funds from the account of required reserves of the Central Bank held abroad, in the amount of more than EUR 500,000 is obliged to announce and on written notice to the Central Bank no later than three working days before the withdrawal of the required reserve.

For the maintenance of daily liquidity, the Bank may use up to 50% of the required reserve. On the used amount of required reserves, which has returned on the same day, the bank does not pay a fee. In case the amount of the required reserve does not return on the same day, the Bank is obligated to pay a fee paid monthly at a rate determined by a special regulation of the Central Bank.

When the Central Bank determines that the Bank has incorrectly calculated and / or allocated a mandatory reserve or failed to do so within the prescribed deadline, that is that the Bank does not maintain the required reserve in the prescribed amount, the Bank shall, for a fixed amount of incorrectly calculated or untimely allocated reserve, pay a monthly fee at a rate determined by special regulation of the Central Bank.

17. FINANCIAL ASSETS AT AMORTIZED VALUE

17.1. Loans and receivables from banks

In thousand EUR	Gross, December 31, 2018	Impairment, December 31, 2018	December 31, 2018	December 31, 2017
Correspondent accounts with foreign banks	20,120	-9	20,111	49,056
Deposits held with banks and other depositary institutions, residents	-	-	-	-
Deposits held with banks and other depositary institutions, non-residents	-	-	-	1,096
Loans to banks	4,999	-	4,999	-
	25,119	**-9**	**25,110**	**50,152**

	Balance, December 31,2017	Balance, January 1,2018	Changes during the year	Balance, December 31,2018
Impairment of loans and receivables from banks	-	48	(39)	9

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17. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)

17.2. Loans and receivables from clients

In thousand EUR	December 31, 2018	December 31, 2017
Due loans:		
- Government of Montenegro	-	-
- municipalities (public organizations)	6	2
- legal entities	2,689	1,892
- state owned companies	234	112
- individuals	701	581
- Other	1,797	1,794
Short-term loans:		
- Government of Montenegro	10,000	10,000
- municipalities (public organizations)	365	156
- legal entities	52,309	39,400
- state owned companies	6,973	2,506
- individuals	7,478	7,731
- Other	3,881	354
Long-term loans:		
- Government of Montenegro	-	-
- municipalities (public organizations)	190	177
- legal entities	70,529	76,569
- state owned companies	1,620	2,687
- individuals	82,910	75,237
- Other	788	3,503
	242,470	222,701
Interest receivables:		
- loans	396	1,301
Accruals:		
- interest on loans	1,257	234
- fees	(1,078)	(1,304)
Factoring	-	-
Deposits with other depositary institutions	-	1,674
Activated guarantees	-	-
	575	1,905
	243,045	224,606
Less:		
Impairment allowance of loans, activated guarantees and factoring (Note 8.2)	(12,485)	(8,925)
Impairment allowance of interest receivables (Note 8.2)	(210)	(208)
Impairment of deposits (Note 8.2)	-	(33)
Impairment allowance of accruals (Note 8.2)	(37)	(2)
	(12,732)	(9,168)
	230,313	215,438

17. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)

17.2. Loans and receivables from clients (continued)

The concentration of the Bank's gross loans extended to customers per industry was as follows:

In thousand EUR	December 31,2018	December 31,2017
Agriculture, forestry and fishing	307	708
Mining	3,374	3,898
Processing industry	8,997	8,660
Water supply	572	528
Construction industry	24,110	21,849
Trade	43,697	41,643
Transport and storage	14,472	9,170
Accommodation and catering services	19,720	18,593
Information and communications	735	1,514
Finance and insurance sector	775	1,586
Real estate trade	3,167	3,131
Professional, scientific and technical activities	4,475	5,489
Administrative and support service activities	2,152	1,764
Public administration, defense and compulsory social security	10,291	10,012
Education	8	236
Health and social care	327	427
Art, entertainment and recreational activities	367	273
Other services	1,230	1,111
Non-resident legal entities	3,184	3,093
Retail customers	88,353	81,753
	230,313	**215,438**

	Level 1	Level 2	Level 3	POCI	Total
January 1, 2018	**207,389**	**10,150**	**7,068**	**-**	**224,607**
New receivables	99,698	13,152	84	523	113,457
Transfer to level 1	-	(280)	(6)	-	(286)
Transfer to level 2	(20,788)	-	(147)	-	(20,935)
Transfer to level 3	(1,448)	(3,169)	-	-	(4,617)
Transfer to status POCI	(2,193)	-	-	-	(2,193)
Closed and written off	(69.986)	(5,305)	(657)		(75,948)
Collection (reduction of existing)	(20.004)	(279)	(649)	(964)	(21,896)
Increase of existing	2.804	17	4	-	2,825
Transfers from other levels	285	20,936	4,617	2,193	28,031
December 31, 2018	**195,757**	**35,222**	**10,314**	**1,752**	**243,045**

17. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)

17.2. Loans and receivables from clients (continued)

Concentration by activities of total net loans placed to clients by the Bank is as follows:

	Level 1	Level 2	Level 3	POCI	Total
January 1, 2018	**5,178**	**2,581**	**3,032**	**-**	**10,791**
New receivables	2,157	1,112	273	134	3,676
Transfer to level 1	-	(24)	(3)		(27)
Transfer to level 2	(414)	-	(17)		(431)
Transfer to level 3	(22)	(2,267)	-		(2,289)
Transfer to status POCI	(578)	-	-	-	(578)
Closed and written off	(1.951)	(181)	(290)	(192)	(2,614)
Collection (reduction of existing)	(617)	(102)	(169)	-	(888)
Increase of existing	343	521	902	-	1,766
Transfers from other levels	27	431	2,289	578	3,325
December 31, 2018	**4,123**	**2,071**	**6,017**	**520**	**12,731**

18. FINANCIAL ASSETS AT FAIR VALUE TROUGH OTHER RESULT

18.1. Securities

In thousand EUR	December 31, 2018	December 31, 2017
Debt Securities		
The Government of Montenegro	88,758	63,769
Non-residents	19,082	25,945
	107,840	**89,714**
Equity Securities		
Residents	801	806
Non-residents	5,826	2,052
	6,627	**2,858**
	114,467	**92,572**

Impairment of securities

In thousand EUR	December 31, 2018	January 1, 2018	December 31, 2017
Debt Securities	1,277	785	-
Equity Securities	-	-	2,200*
	1,277	**785**	**2,200**

*refers to shares of Atlas Banka AD (conditioned by transition to IFRS 9)

Securities classified as financial assets at fair value through other result as at 31 December 2018 in the amount of EUR 88,758 thousand relate to government bonds, government Eurobonds and Treasury bills with maturities of 182 days, the Ministry of Finance Government of Montenegro, with a nominal value of EUR 86,032 thousand, Eurobonds whose maturity date is from May 2019 to April 2025, with a coupon interest rate of 5.375% for a series that matures in 2019, 3.875% for a series that is due in 2020. 5,75% for a series that matures in 2021, 3,375% for a series that matures in 2025 with a nominal value of EUR 55,452 thousand.

Debt securities - non-residents classified as financial assets at fair value through other result as at 31 December 2018 in the amount of EUR 19,082 thousand, maturing in the period from April 2019 to May 2025, with an interest rate ranging from 2.60% to 10.375%.

19. PROPERTIES, PLANTS AND EQUIPMENT

Movements on property, equipment and other assets for 2018 and 2017 are presented in the following table:

	Properties	Computer equipment	Other equipment	Investment In progress	Total
Cost					
Balance, January 1, 2017	93	1,184	3,967	6	5,250
Additions	-	51	106	355	512
Transfers	-	3	242	(245)	-
Disposals	-	(32)	(73)	-	(105)
Balance, December 31, 2017	**93**	**1,206**	**4,242**	**116**	**5,657**
Additions	-	295	317	719	1,331
Transfers	-	12	744	(761)	(5)
Disposals	-	(44)	(323)	-	(367)
Balance, December 31, 2018	**93**	**1,469**	**4,980**	**74**	**6,616**
Impairment					
Balance, January 1, 2017	4	1,081	2,664	-	3,749
Depreciation (Note 12)	2	65	507	-	574
Disposals		(33)	(70)	-	(103)
Balance, December 31, 2017	**6**	**1,113**	**3,101**	**-**	**4,220**
Depreciation (Note 12)	2	115	516	-	633
Disposals	-	(44)	(255)	-	(299)
Balance, December 31, 2018	**-**	**1,184**	**3,362**	**-**	**4,554**
Current value					
- December 31, 2018	**85**	**285**	**1,618**	**74**	**2,062**
- December 31, 2017	**87**	**93**	**1,141**	**116**	**1,437**

As at 31 December 2018, the Bank does not have any assets under the pledge in order to provide repayment of loans and other liabilities.
The investments in progress mainly relate to procurement of equipment and investments related to the relocation of the branch office in a new location in Bijelo Polje in the amount of EUR 26 thousand, as well as the purchase and installation of ATMs for two locations in the amount of EUR 29 thousand.

20. INTANGIBLE ASSETS

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

	Other intangible assets	Licences	Software	Intangible assets in progress	Total
Cost					
Balance, January 1, 2017	526	812	1,642	265	3,245
Additions	-	1	166	255	422
Transfers	-	-	227	(227)	-
Disposals	-	-	(4)		(4)
Balance, December 31, 2017	**526**	**813**	**2,031**	**293**	**3,663**
Additions	-	62	110	258	430
Transfers	-	-	386	(386)	-
Disposals	-	-	(10)		(10)
Balance, December 31, 2018	**526**	**875**	**2,517**	**165**	**4,083**
Impairment					
Balance, January 1, 2017	516	277	954	-	1,747
Depreciation (Note 12)	10	26	226	-	262
Disposals	-	-	(4)	-	(4)
Balance, December 31, 2017	**526**	**303**	**1,176**	**-**	**2,005**
Depreciation (Note 12)	-	35	287	-	322
Disposals	-		(10)	-	(10)
Balance, December 31, 2018	**526**	**338**	**1,453**	**-**	**2,317**
Current value					
- December 31, 2018	**-**	**537**	**1,064**	**165**	**1,766**
- December 31, 2017	**-**	**510**	**855**	**293**	**1,658**

Additions in intangible assets during 2018 mainly relate to software increases, i.e. implementation of new applications, within the application software Dabar in the amount of EUR 165 thousand, as well as new services, functionalities and software improvements related to card and electronic banking, (HB Pay-Virtual POS, My wallet-NFC, My Billing Updater ...) in the amount of EUR 307 thousand.

Investments in progress for intangible investments amount to EUR 165 thousand. These investments mostly relate to software projects related to card and ATM operations.
In accordance with IAS 38, the Bank does not depreciate licenses with an unlimited life. The useful life is being reviewed at the end of each reporting period.

21. OTHER ASSETS

In thousand EUR	December 31, 2018	December 31, 2017
Assets acquired through collection of receivables	1,530	1,662
Other operating receivables	965	959
Prepaid costs	658	591
Impairment (Note 8.2)	(1,517)	(1,651)
Receivables from custody	38	25
Advances	230	247
Other receivables from fees and commissions	194	182
Receivables from state funds	64	59
Receivables from costumers	151	153
Credit card receivables	217	117
Receivables from employees	44	77
Other financial receivables	146	6
Impairment	(532)	(492)
	2,188	**1,935**

Assets acquired by collection in the amount of EUR 1,530 thousand as of December 31, 2018 (December 31, 2017: EUR 1,662 thousand) relates to assets acquired on the basis of activation of loan securitization funds, which are owned by the Bank for a period longer than 12 months. Assets acquired through collection of receivables are recorded at the lower of the total value of the receivables and the estimated value.

The correction of the value of other assets relates to the assets acquired in the amount of EUR 1,517 thousand (December 31, 2017: EUR 1,651 thousand) and EUR 532 thousand on the value adjustment from business relations (December 31, 2017: EUR 492 thousand).

22. FINANCIAL LIABILITIES AT AMORTIZED VALUE

22.1. DEPOSITS FROM BANKS

In thousand EUR	December 31, 2018	December 31, 2017
Demand deposits	1,365	3,020
Term deposits	45	39
Funds on escrow accounts (Banks)	-	-
	1,410	**3,059**

Deposits by banks in the amount of EUR 1,410 thousand as at 31 December 2018 (December 31, 2017 EUR 3,059 thousand) relate to term deposits and demand deposits, of which EUR 2 thousand are interest bearing deposits from domestic banks, while EUR 448 thousand refers to non-interest-bearing demand deposits from domestic banks, and EUR 915 thousand relate to non-interest bearing demand deposits for foreign banks.

22. FINANCIAL LIABILITIES AT AMORTIZED VALUE (CONTINUED)

22.2. DEPOSITS FROM CLIENTS

In thousand EUR	December 31, 2018	December 31, 2017
Demand deposits:		
- financial institutions	1,230	1,388
- legal entities	110,042	91,895
- companies with majority state ownership	8,385	17,607
- municipalities (public organizations)	1,870	2,364
- funds	319	1,417
- individuals	123,165	103,021
- non-profit organizations	8,219	9,043
- The Government of Montenegro	7,845	1,920
- others	13,133	15,952
	274,208	**244,607**
Funds on escrow accounts	**388**	**187**
Short - term deposits:		
- financial institutions	701	280
- legal entities	7,616	9,508
- companies with majority state ownership	6,100	18,371
- municipalities (public organizations)	652	655
- funds	-	-
- individuals	51,789	50,461
- non-profit organizations	58	667
- The Government of Montenegro	-	50
- others	1,457	1,544
	68,373	**81,536**
Long - term deposits:		
- financial institutions	503	703
- legal entities	18,908	20,901
- companies with majority state ownership	8,125	1,856
- municipalities (public organizations)	585	584
- funds	-	-
- individuals	34,069	36,328
- non-profit organizations	73	59
- The Government of Montenegro	250	200
- others	2,589	2,589
	65,102	**63,220**
Interest and other liabilities		
Accruals: deposits	**2,245**	**2,107**
	410,316	**391,657**

Demand deposits by individuals in EUR are deposited at an interest rate ranging from 0% to 0.01% per annum.

Short-term and long-term time deposits of individuals in EUR are deposited at an interest rate ranging from 0% to 6.30% per annum, depending on the savings package to be selected and the amount to be charged (up to EUR 50 thousand and over EUR 50 thousand). Short-term and long-term time deposits of individuals in foreign currency are deposited depending on the currency, with an interest rate ranging from 0% to 1.80% annually.
Short-term and long-term time deposits of companies in EUR are deposited at an interest rate ranging from 0% to 5.40% annually, depending on the period of time deposits and the amount due (up to EUR 100 thousand and over EUR 100 thousand). Short-term and long-term time deposits in other currencies have interest rates ranging from 0% to 0.25%.

Interest deposits ranging from 0% to 0.40% annually are applied to sight deposits of legal entities.

22. FINANCIAL LIABILITIES AT AMORTIZED VALUE (CONTINUED)

22.3. LOANS FROM CLIENTS WHICH ARE NOT BANKS

In thousand EUR	Period (years)	Annual interest rate	December 31,2018	December 31,2017
European Investment Bank (2009.)	12	4.032%	857	1,121
European Investment Bank (2009.)	12	3.923%	478	626
European Investment Bank (2010.)	12	3.604%	1,565	1,977
European Investment Bank (2010.)	12	3.168%	881	1,084
European Investment Bank (2010.)	12	3.019%	868	1,069
European Investment Bank (2011.)	12	3.841%	1,542	1,850
European Investment Bank (2011.)	12	3.181%	465	550
European Investment Bank (2012.)	12	2.398%	1,204	1,388
			7,860	**9,665**
European Bank for Reconstruction and Development (2014., 2015.) The European Fund for Southeast (2014., 2015.) Europe („EFSE") Montenegro B.V.				2,240
Investment Development Fund of Montenegro A.D., Podgorica (2005. do 2015.)	2,9 - 12	1% - 7.64%	17,206	17,767
Directorate for Development of Small and Medium Enterprises (2007. and 2010)	6 - 8	0% - 1%	121	196
			17,327	**20,203**
			25,187	**29,868**
Accruals			-	-
Invoiced interest				
Unrealized interest			43	68
Total			**25,230**	**29,936**

As at December 31, 2017, the Bank has liabilities towards European Investment Bank ("EIB") relating to long term loans in the amount EUR 7,860 thousand (as at December 31,2016: EUR 9,665 thousand). Loans were granted with the aim to stimulate and develop small and middle enterprises in Montenegro, with a grace period no longer than two years. The loans are covered with the guarantee of the State of Montenegro.

In 2018, the Bank settled debts to the EBRD.

23. RESERVES

In thousand EUR	December 31,2018	December 31,2017
Provisions for potential losses for:		
- off-balance sheet exposures (note 8.2)	1,427	1,293
- operational risk	325	330
- court disputes	67	-
Provisions for employee retirement benefits and jubilee awards	12	13
	1,831	**1,636**

	Estimate at day	
	December 31,2018	**December 31,2017**
	%	**%**
Discount rate for retirement benefits	3.38%	4.00%
Employee turnover ratio	6.40%	1.78%
Inflation rate	2.60%	2.40%
Expected rate of wage growth	-	1.50%

Movements on the account of provisions for employee retirement benefits were as follows:

In thousand EUR	2018	2017
Balance at the beginning of the year	13	174
Provisions during the year	(1)	(161)
Usage of provisions		
Balance as at December 31, 2018	**12**	**13**

24. OTHER LIABILITIES

In thousand EUR	December 31,2018	December 31,2017
Liabilities from consignment operations	25	81
Advances received	2,827	2,499
Liabilities for other taxes	49	45
Liabilities relating to deductions from salaries	4	4
Trade payables	472	274
Accrued liabilities	252	694
Custody operation liabilities	2,742	2,596
Suspense accounts	881	569
Other liabilities	718	1,930
	7,970	**8,692**

25. EQUITY

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

	December 31,2018			December 31,2017		
Shareholder	**Number of shares**	**In thousand EUR**	**% share**	**Number of shares**	**In thousand EUR**	**% share**
Generali Financial Holdings FCP-FIS - Sub-Fund 2	5,281	2,700	16.87	5,281	2,700	16.87
Cerere s.r.l	4,360	2,229	13.93	4,360	2,229	13.93
Gorgoni Lorenzo	4,063	2,077	12.98	4,063	2,077	12.98
Gorgoni Antonia	3,131	1,601	10.00	3,131	1,601	10.00
Todorović Miljan	2,316	1,184	7.40	2,316	1,184	7.40
Other	12,154	6,215	38.82	12,154	6,215	38.82
Total	**31,305**	**16,006**	**100.00**	**31,305**	**16,006**	**100.00**

26. SUBORDINISANI DUG

On July 24, 2017, the Bank issued 40,000 subordinated bonds with a nominal value of EUR 100, with a maturity of 6 years, that is, until July 24, 2023. Bonds carry a fixed rate of 5.90% per annum with a semi-annual calculation and payment of interest. Bonds have been sold to well-known customers without a public bid procedure.
During 2018, the Bank did not issue a subordinated bond issue.

In thousand EUR	Year of Debt	Period/ year	Annual interest rate	2018.	2017.
Subordinated bonds HB01	2014.	7	6.000%	9.997	9.950
Subordinated bonds HB02	2017.	6	5.900%	4.042	4.062
				14.039	**14.012**

27. COMPLIANCE WITH THE REGULATIONS OF THE CENTRAL BANK OF MONTENEGRO

The Bank is required to maintain certain ratios pertaining to the volume of its activities and structure of risk assets in compliance with the Law on Banks and regulations of the Central Bank of Montenegro.

In accordance with the Decision on Capital Adequacy in Banks ("Official Gazette of Montenegro." no. 38/2011. 55/2012 and 82/17), the Bank's own funds are comprised of the Bank's core capital and additional capital, minus deductible items. The Bank's capital as at December 31, 2018 amounted to EUR 37,034 thousand (December 31, 2017: EUR 34,763 thousand).

The share capital of the Bank, formed in accordance with the Decision on Capital Adequacy in Banks, as at 31 December 2018 amounts to EUR 29,834 thousand (December 31, 2017: EUR 24,763 thousand). The share capital of the Bank as of December 31, 2018 consists of the basic elements of the Bank's own funds: paid share capital at nominal value, premiums collected, increased by the amount of unallotted profit from previous years, the amount that mitigates the negative effects on the Bank's own funds due to transition to the valuation of asset items in accordance with IFRS 9, determined in accordance with paragraphs 5 and 6 of Article 4 of the Decision on Capital Adequacy in banks, the amount of intangible assets and unrealized loss on the basis of the fair value adjustment of financial assets available for sale, as well as the positive difference between the amount of calculated provisions for potential losses and the accumulated amount of allowance for items of balance sheet assets and provisions for off-balance sheet items.
Additional elements of the Bank's capital that are included in the additional capital as at December 31, 2018 amounted to EUR 10,000 thousand relate to subordinated debt for which the requirements of Article 6 of the Decision on Capital Adequacy in Banks are fulfilled, i.e. subordinated bonds issued by the Bank with a face value of EUR 14,000 thousand, whereby, in accordance with Article 4 of the Decision, the Bank shall, in calculating Bank's capital, adhere to the following:

1) the total amount of additional capital may not exceed the amount of Bank's core capital;
2) the total sum of subordinated debt and cumulative preference shares may not exceed 50% of the Bank's core capital.

Pursuant to Decision on Capital Adequacy of Banks effective as at December 31, 2018 the Bank is required to maintain the minimum capital adequacy ratio of 10%. As at December 31, 2018 the Bank's capital adequacy ratio equalled 12.50% (December 31, 2017: 12.38%) and was above the prescribed minimum. As at December 31, 2018 all of the Bank's performance adequacy ratios were in compliance with the prescribed minimum values required by the regulations of the Central Bank of Montenegro.

In thousand EUR	Prescribed limits	The realized indicators of business performance 2018	2017.
Capital	Minimum amount of EUR 5 million	45.582	44.781
The solvency ratio	Minimum 10%	12.50%	12%
The Bank's exposure to a single entity or group of related entities	limit 25% of regulatory capital of the Bank	19%	24%
The sum of large exposures	limit 800% of regulatory capital of the Bank	258%	308%
The total exposure to related parties of the Bank	limit 200% of regulatory capital of the Bank	36%	34%
Total exposure to a shareholder who does not have a qualified participation in the bank	limit 10% of regulatory capital of the Bank	1%	1%
Minimum liquidity ratio	0,9 on daily basis/1 on decade basis	RLS 1.50 / DPL 1.50	RLS 2.04 / DPL 1.80
Foreign exchange risk – net open position to a single currency	15% of Equity	-5%	2%

28. OFF-BALANCE SHEET ITEMS

In thousand EUR	December, 31 2018	December, 31 2017
Undrawn credit lines	14,349	22,803
Irrevocable documentary letters of credit issued for payments abroad	-	51
Other letters of credit for payments abroad	-	-
Guarantees issued		
-Payment guarantees	38,972	35,017
-Performance guarantees	25,603	20,587
-Other types of guarantees	24,863	24,627
	103,787	**103,085**
Collateral based on receivables	427,704	412,556
Other off-balance sheet items	128,342	57,641
Evident interest	1,969	1,299
Total	**558,015**	**471,496**
Total	**661,802**	**574,581**

29. GOTOVINA I GOTOVINSKI EKVIVALENTI

For the purposes of cash flow statement, cash and cash equivalents comprises of all assets with maturities of up to three months as follows: cash and available assets held with the Central Bank of Montenegro, other banks and depositary institutions.

In thousand EUR	2018.	2017.
Cash on hand	12,124	14,731
Cash on hand-foreign currency	957	1,855
Assets in the course of settlement	1,527	1,541
Gyro account	85,138	86,031
Correspondent accounts with foreign banks	20,121	49,056
Deposits placed with the Central Bank of Montenegro	29,302	27,008
Deposits placed with banks and other depositary institutions – Residents	-	35
Deposits placed with banks/central banks and other depositary institutions – non-residents	-	2,739
	149,169	**182,996**

30. RELATED PARTY TRANSACTIONS

	December 31, 2018	December 31, 2017
Assets		
Loans and receivables from banks		
Podravska Banka d.d., Koprivnica	**40**	**150**
Loans and receivables from clients		
Todorović Mijan	-	-
Montinari Dario	448	423
Gorgoni Mario	9	9
Cerere s.p.a.	3,320	3,147
	3,777	**3,579**
Investment securities – available for sale		
Podravska Banka d.d., Koprivnica	2,146	2,288
	2,146	**2,288**
Other financial receivables		
Podravska Banka d.d., Koprivnica	-	-
Sigilfredo Montinari	5	-
	5	**-**
Total assets	**5,968**	**6,017**
Liabilities		
Deposits from banks		
Podravska Banka d.d., Koprivnica	**134**	**1,906**
Deposits from clients		
Miljan Todorović	282	324
Sigilfredo Montinari	5	-
Gorgoni Lorenzo	47	47
Cerere s.p.a.	3	12
Gorgoni Mario	15	210
Gorgoni Paolo	3	2
	355	**595**
Other liabilities		
Cerere s.p.a.	-	9
Gorgoni Paolo	-	2
Podravska Banka d.d., Koprivnica	5	-
	5	**11**
Total liabilities	**494**	**2,512**

Expenses from transactions with related parties during 2018 amounted to EUR 218 thousand (2017: EUR 277 thousand), while income is amounted to EUR 277 thousand (2017: EUR 195 thousand).

31. LITIGATIONS

As at December 31, 2017 there were 18 legal suits filed against the Bank by legal entities and private individuals totalling EUR 970,463. The outcome of the pending legal suits cannot be currently anticipated with any certainty. However, the Bank's management and legal counsel do not expect negative outcome of the legal suits that could have material effects on the Bank's financial statements for the year 2018.

As at December 31, 2017 the legal suits involving the Bank as the prosecutor amounts EUR 11,945,240.

32. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit attributable to shareholders of the Bank divided by the weighted average number of ordinary shares outstanding for the period.

	2018.	2017.
Basic and diluted earnings per share		
Net profit (In 000 EUR)	4,310	3,943
Weighted average number of ordinary shares outstanding	31,305	31,305
Earnings per share / in EUR	137.68	125.95

33. SUBSEQUENT EVENTS

The Management of the Bank considers that there were no other significant events after the reporting date that could have affected the financial position and results reported in financial statements for the year ended December 31, 2018.

34. EXCHANGE RATES

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

	2018.	2017.
USD	1.1454	1.1993
CHF	1.1227	1.1702
GBP	0.90273	0.88723