NOVA BANKA AD, PODGORICA

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

CONTENT

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This is English translation of the Report originally issued in Montenegrin language (For management purposes only)

INDEPENDENT AUDITORS' REPORT

TO THE OWNERS OF NOVA BANK A.D., PODGORICA

Report on Financial Statements

We have audited the accompanying financial statements of Nova Bank A.D., Podgorica (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2017, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and the regulations of the Central bank of Montenegro governing financial reporting of banks, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing applicable in Montenegro. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and the regulations of the Central bank of Montenegro governing financial reporting of banks.

Report on other legal and regulatory requirements

We have reviewed the annual management report of the Bank. Management is responsible for the preparation of the annual business report in accordance with the legal requirements of Montenegro. Our responsibility is to assess whether the annual management report is consistent with the annual financial statements for the same financial year. Our work regarding the annual management report has been restricted to assessing whether the accounting information presented in the annual business report is consistent with the annual financial statements and did not include reviewing other information contained in the annual management report originating from non-audited financial or other records. In our opinion, the accounting information presented in the annual management report is consistent, in all material respects, with the financial statements of the Bank for the year ended 31 December 2017.

Podgorica, 11 May 2018

DRUŠTVO ZA REVIZIJU
ERNST & YOUNG MONTENEGRO DOO
PODGORICA

Olivera Andrijašević, Partner

for Ernst & Young Montenegro d.o.o., Podgorica

Danijela Jović

Authorized Auditor

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

In thousand EUR	Note	2017	2016
Interest income and similar income	3.1, 5a)	458	28
Interest expenses and similar expenses	3.1, 5b)	(50)	(1)
Net interest income		**408**	**27**
Impairment losses	3.7, 6	(38)	-
Fee and commission income	3.1, 7a)	73	4
Fee and commission expenses	3.1, 7b)	(106)	(104)
Net fee and commission income		**(33)**	**(100)**
Foreign exchange gains, net		-	-
Personnel expenses	8	(919)	(571)
General and administrative expenses	9	(761)	(464)
Depreciation and amortization	10	(221)	(102)
Operating profit		**(1,564)**	**(1,210)**
Income Taxes	3.4, 11a)	(1)	(17)
Net (loss)/profit for the year		**(1,565)**	**(1,227)**

Notes on the following pages are an integral part of these financial statements

Podgorica, 30 March 2018

Approved by and signed on behalf of Nova banka AD, Podgorica:

Kamran Mammadov
Chief Executive Officer

AKCIONARSKO DRUŠTVO NOVA BANKA PODGORICA 1

Enesa Bektěši
Head of Accounting and Financial Controlling

STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

(In thousand EUR)	Note	2017	2016
Net loss		(1,565)	(1,227)
Total other comprehensive income			
Unrealized net gain on financial investments available for sale, before taxation		-	
Actuarial gain/(loss) from long-term employee benefits		-	
Income tax on other comprehensive income		-	
Total other comrehensive income in current year		(1,565)	(1,227)
TOTAL LOSS		(1,565)	(1,227)

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Podgorica, 30 March 2018

Approved by and signed on behalf of Nova banka AD, Podgorica:

NOVA BANKA AKCIONARSKO DRUŠTVO PODGORICA 1

Kamran Mammadov
Chief Executive Officer

Enesa Bekteši
Head of Accounting and Financial Controlling

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

In thousand EUR	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash balances with central banks	3.5, 12	7,024	5,488
Loans and receivables from banks	3.5, 13	1,793	462
Loans and receivables from customers	3.6, 14	10,789	2,254
Financial investments – held to maturity	3.6, 15	2,011	2,411
Property, plant and equipment	3.8, 3.9, 16	458	560
Intangible assets	3.8, 3.9, 17	436	449
Other operating assets	18	96	62
TOTAL ASSETS		22,607	11,686
LIABLITIES			
Deposits from customers	19	13,127	668
Borrowings from other clients	20	81	-
Reserves	21	14	-
Deferred tax liabilities	11b)	18	17
Other liabilities	22	179	248
TOTAL LIABLITIES		13,419	933
EQUITY			
Share capital	23	11,980	11,980
Accumulated losses		(1,227)	-
Current year (losses)/gains		(1,565)	(1,227)
TOTAL EQUITY		9,188	10,753
TOTAL EQUITY AND LIABLITIES		22,607	11,686
OFF-BALANCE SHEET ITEMS	25	15,557	2,204

Notes on the following pages are an integral part of these financial statements

Podgorica, 30 March 2018

Approved by and signed on behalf of Nova banka AD, Podgorica:

Kamran Mammadov
Chief Executive Officer

Enesa Bekteši
Head of Accounting and Financial Controlling

NOVA BANKA AKCIONARSKO DRUŠTVO PODGORICA 1

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of EUR	Share capital	Accumulated loss	TOTAL
Balance as at 13 April 2016	-	-	-
Issue of share capital	11,980	-	11,980
Profit/(loss)for the year	-	(1,227)	(1,227)
Balance as at 31 December 2016	**11,980**	**(1,227)**	**10,753**
Profit/(loss)for the year	-	(1,565)	(1,565)
Balance as at 31 December 2017	**11,980**	**(2,792)**	**9,188**

Notes on the following pages are an integral part of these financial statements

Podgorica, 30 March 2018

Approved by and signed on behalf of Nova banka AD, Podgorica:

Kamran Mammadov
Chief Executive Officer

NOVA BANKA AKCIONARSKO DRUŠTVO PODGORICA 1

Enesa Bekteši
Head of Accounting and Financial Controlling

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of EUR	2017	2016
Cash flows from operating activities		
Interest and similar receipts	422	9
Interest and similar outflows	(32)	-
Fee and commission receipts	116	4
Fees and commissions paid	(106)	(104)
Payments to employees and to suppliers	(1,777)	(945)
Outflows for loans disbursed and other assets	(8,562)	(2,256)
Inflows from deposits and other liabilities	12,459	668
Net cash outflow from operating activities	**2,520**	**(2,624)**
Cash flows from investing activities		
Purchase of property and equipment	(29)	(546)
Purchase of intangible assets	(103)	(462)
Purchase/sale of financial investments	398	(2,398)
Cash outflows from investing activities	**266**	**(3,406)**
Cash flows from financing activities		
Inflow from issue of share capital	-	11,980
Inflow from borrowings	81	
Net cash inflow from financing activities	**81**	**11,980**
Net increase in cash and cash equivalents	2,867	5,950
Cash and cash equivalents at the beginning of the year	5,950	-
Cash and cash equivalents at the end of the year (Notes 12 and 13)	**8,817**	**5,950**

Notes on the following pages are an integral part of these financial statements

Podgorica, 30 March 2018

Approved by and signed on behalf of Nova banka AD, Podgorica:

Kamran Mammadov
Chief Executive Officer

AKCIONARSKO DRUŠTVO NOVA BANKA PODGORICA 1

Enesa Bekteši
Head of Accounting and Financial Controlling

1. BANK'S FOUNDATION AND BUSINESS ACTIVITY

Nova banka A.D., Podogrica (hereinafter: the "Bank") has been founded in 2016 by issuing the license form the Central bank of Montenegro. In accordance to article 44, paragraph 2, point 7 on Law on Central Bank (Official Gazette of Montenegro 40/10, 46/10 and 6/13) and article 23, paragraph 2 Law on Banks (Official Gazette of Montenegro 17/08, 44/10 and 40/11) Council of the Central Bank of Montenegro, on the meeting held on 26th of February 2016, issued a decision to issue the banking license to the Bank.

Bank is registred in Central Registry of Business Entities in Podgorica, under registration number 4-0009471 on 13th of April 2016 as Azmont Banka AD Podgorica. Under the registration number 4-0009471/003 on 9th of September 2016, Bank is registred to the Commercial Court in Podgorica as Nova Banka AD, Podgorica.

The Bank was founded by Azmont Investments doo, which operates in Montenegro since 2012, with an aim of building of luxury tourist complex „Portonovi" in Kumbor, municipality Herceg Novi.

Activity of the Bank includes loan, deposit and guarantee activities, as well as foreign-exchange transactions, depot operations, treasury services, issuance, processing and recording of payment instruments.

The Bank is headquartered in Podgorica, Marka Miljanova street, no. 46.

As at 31 December 2017, the Bank is consisted of headquarter in Podgorica and one branch office on the same location.

As at 31 December 2017, the Bank has 27 employees (31 December 2017: 25 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

The Bank is obligated to maintain its accounting records and prepares its statutory financial statements in accordance with the Law on Accounting of Montenegro ("Official Gazette of Montenegro" no. 52/2016) which entails implementation of the International Financial Reporting Standards and Decisions of the Central Bank of Montenegro governing financial reporting of banks.

The Bank's financial statements have been prepared in accordance with the Decision On The Content, Deadlines and Manner of Compiling and Submitting Financial Statements of Banks (Official Gazette of Montenegro no. 15/2012 and 18/2013).

During preparation of these financial statements, the Bank implemented policies in accordance with the regulations of the Central Bank of Montenegro, which differ from the requirements of IFRS and IAS effective as of 31 December 2017.

Due to the potential effects of the above described matters on the accuracy and fair presentation of the financial statements, these financial statements cannot be treated as having been prepared in accordance with International Financial Reporting Standards.

In the preparation of the accompanying financial statements, the Bank has adhered to the accounting policies described in Note 3, which are in accordance with the accounting, banking and tax regulations prevailing in Montenegro.

The official currency in Montenegro and the Bank's functional and reporting currency is Euro (EUR).

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

2.2. Use of Estimates

Presentation of the financial statements requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the reported amounts of assets and liabilities, as well as disclosures of contingent assets and liabilities as at the financial statements preparation date, and income and expenses arising during the accounting period. These estimations and assumptions are based on information available to us as at the financial statements preparation date. However, actual results may differ from estimated values. The most significant estimates and assumptions were made for the following items of statement of financial position:

- Provisions for loans and receivables;
- Provisions for loans and receivables from banks;
- Provisions for off-balance sheet items;
- Useful lives of intangible assets, property and equipment.

Actual results may differ from these estimates.

2.3. Going concern

Financial statements as at 31st of December 2017 and for year ended on 31st of December 2017, are prepared in accordance to going concern principle.

Income statement of the Bank is showing loss in amount of EUR 1,565 thousand, for the year ended on 31st of December 2017, while accumulated losses on that date amounts EUR 2,792 thousand, which is in accordance to business plan of the Bank in the start-up phase of the bank's operation. Capital adequacy ratio was 81,92%, while prescribed mínimum is 10% (notes 4.7 and 24).

Despite actual losses, the Bank's management believes that the Bank will continue its operations in the foreseeable future, in accordance with the Operational Plan for the years 2018, 2019 and 2020. The goal of the shareholders is not an aggressive entry into the market (in terms of interest rates and the level of fees), but the realization of long-term growth. This long-term view is dominant in the strategy and operational plans of the Bank.

In addition to the aforementioned, the founder of the Bank Azmont Investments d.o.o., Herceg Novi issued a Letter of Support in which he expressed his willingness to continue providing financial support to the Bank in the normal course of business for a period of at least one year from the date of these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest, Fee and Commission Income and Expense Recognition

Interest income and expenses

Interest income and interest expense are recognized in the income statement for all instruments that bears interest, at amortized cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or financial liability and allocating interest income or interest expense over the relevant period. 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 instrument (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.

Fee and commission income and expenses

Income and expenses from fees and commissions arising for the banking services that are provided or obtained are recognized at the moment of occurrence, i.e. at the moment the transaction took place.

Fee and commission income and expenses that are a part of effective interest rate on financial assets and liabilities are accrued and recognized as a part of effective interest rate.

Fee and commission income and expenses also contain fees on guarantees and letters of credit by the Bank, domestic and international payments and transactions in foreign currencies, intermediary and other Bank's services.

3.2. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into EUR at the official exchange rates prevailing at the Interbank Foreign Exchange Market, at each transaction date.

Assets and liabilities denominated in foreign currencies are translated into EUR by applying the official middle exchange rates prevailing at the statement of financial position date.

Net foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the Income statement, as gains or losses on the basis of changes in foreign exchange rates.

Contingent liabilities denominated in foreign currencies are translated into EUR by applying the official exchange rates prevailing on the Interbank Foreign Exchange Market, at that date.

3.3. Lease

Leases where the lessor retains significant risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognized in the income statement on a straight-line basis over the period of the lease. When an operating lease ends before the expiry of the lease period, all payments required by the lessor as penalty are recognized as an expense in the period in which the termination of the lease occurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Taxes and Contributions

Income tax

Current Income Tax

Income taxes are calculated and paid in accordance with the Montenegrin Corporate Income Tax Law ("Official Gazette of Montenegro" no. 80/2004, 40/2008, 86/2009, 14/2012, 61/2013 and no. 55/2016).

Taxable income is determined by adjusting the profit stated in the Bank's statutory income for the amounts of income and expenses, in a way which is defined by the tax legislation. The income tax expense is calculated by applying a proportional tax rate of 9% to the taxable income.

Capital losses may be offset against capital gains earned in the same year. In case there are outstanding capital losses even after the offsetting of capital losses against capital gains earned in the same year, these outstanding losses are available for carrying forward during the ensuing five years.

Tax regulations in Montenegro do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carry back period. However, any current year losses reported in the annual corporate income tax returns may be carried forward and used to reduce or eliminate taxes to be paid in future accounting periods, but only for duration of no longer than five 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 carrying values in the financial statements. The currently enacted tax rates 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.

Deferred taxes related with to the re-estimation of the fair value of investments available-for-sale are calculated and accounted for directly against or in favour of capital and at the same time are recorded in the income statement along with delimited profits or losses.

Taxes, contributions and other duties that do not depend on the results of operations

Taxes, contributions and other duties that do not depend on the results of operations contain property taxes and other taxes and contributions paid pursuant to republic and municipal regulations.

3.5. Cash and Cash Equivalents

Cash and Cash Equivalents relate to cash on hand (in EUR and foreign currencies), deposits with Central bank of Montenegro and other banks.

Cash equivalents are short-term, highly liquid placements which can quickly transfer into cash and do not underlay under a significant risk of changes in values. Cash equivalents relate with the term deposits with commercial banks with maturity up to three months.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Financial assets

3.6.1. Classification

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, financial assets held to maturity and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling in the near term or if there is evidence of an actual pattern of short-term profit-taking or if it is decided by the Management.

Derivatives are always categorized as held for trading unless they are designated as hedging instruments.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides cash or services directly to customers without trading purpose. Loans and receivables comprise loans and advances to banks and customers.

c) Held to maturity financial assets

Held to maturity financial assets are non-derivative financial instruments with fixed or determinable payments that the Bank has the positive intention and the ability to hold them to maturity.

d) Available-for-sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as one of the remaining three categories of financial assets – held to maturity financial assets, financial assets at fair value through profit and loss, or loans. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These financial instruments include equity investments and debt securities.

3.6.2. Measurement and Recognition

Financial assets are initially recognized at fair value plus transaction costs, except in the case of financial assets that are carried at fair value and whose effects of changes in fair value recognized in the income statement.

Financial assets carried at fair value whose effects of changes in fair value recognized in profit or loss are initially recognized at fair value and transaction costs are charged to operating expenses in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Financial assets (continued)

3.6.2. Measurement and Recognition (continued)

Financial assets available for sale and financial assets at fair value whose effects of changes in fair value recognized in profit or loss are subsequently carried at fair value.

Gains or losses arising from changes in fair value of financial assets available for sale are reported in equity in the revaluation reserves, until the financial asset is to be derecognized or impaired, when the cumulative gain or loss previously recognized in equity are recognized in the income statement.

Loans and receivables are initially recognized at fair value increased by transaction costs. They are subsequently valued at amortized cost, obtained by applying the effective interest method, less impairment. Amortized value is calculated by taking into account all issuance costs and any discount or premium on settlement. The losses arising from impairment are recognized in the income statement.

Financial assets available for sale are measured at fair value. Unrealized gains and losses are recognized directly in equity as revaluation reserve. If the investment is ceded, the cumulative gain or loss previously recognized in equity is recognized in the income statement. Interest that is earned while holding financial assets available for sale is recognized as interest income using the effective interest method. Dividends earned while holding financial assets available for sale, are recognized in the income statement when the right to payment is established. Losses arising from the impairment of the value of such investments are recognized in the income statement and cease to be recognized as revaluation reserves.

Financial assets held to maturity are non-derivative financial assets quoted in an active market with fixed or determinable payments and fixed maturities, which the Bank intends and has the ability to hold to maturity. After the initial measurement, financial assets held to maturity are subsequently valued at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Depreciation and amortization is included in interest income. Losses arising from the impairment of the values of such investments are recognized in the income statement.

3.6.3. Derecognition

Derecognition of the financial asset is considered with the expiry of the rights to receive the cash flows from the financial asset, or when the Bank transfers substantially all risks and rewards of ownership of the asset.

Derecognition of a financial liability is considered when the obligation is fulfilled ie. when the debt was paid, canceled or expired. Derecognition of the carrying amount of financial liabilities by swap of debt into equity is recognized by issue of share capital in the amount equivalent to the market value of the Bank's shares on the Montenegro Stock Exchange.

If the conditions for derecognition of this receivable are met, Bank is obliged to write it off in the amount of the exposure and to keep the internal records of the same up to the completion of payment process.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Provisions and Impairment Allowance of non-recoverable Receivables

Calculation of impairment of financial assets and provision for off-balance items

The Decision of the Central Bank of Montenegro on the Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro" no. 22/12, 55/12, 57/13 and 44/17) defines elements of credit risk management, minimum criteria and manner of classification of assets and off-balance sheet items in respect of which the Bank is exposed to credit risk and the manner of determining reserves for potential losses arising from the Bank's credit risk exposure. Within the meaning of the aforesaid Decision, the Bank's risk-weighted assets comprise loans, interest, fees and commissions, lease receivables, deposits held with other banks and advances as well as all other asset items where the Bank is exposed to default risk, and, on the other hand, guarantees issued, other sureties, opened letters of credit, approved and unused loans and other off-balance-sheet items representing the Bank's contingent liabilities.

In accordance to the Decision, Bank is obliged, at least once a month to classify balance sheet and off balance sheet items on the bases of which it is exposed to credit risk and to calculate regulatory provisions for credit losses.

In accordance same Decision, the Bank is obligated to assess balance sheet assets and off-balance sheet items for impairment at least on a quarterly basis, i.e. to access the probability of loss (for off-balance sheet items), as well as to classify these items into corresponding classification group. In addition, the Bank is under obligation to determine a methodology for assessment of impairment of balance sheet assets and probable losses per off-balance sheet items in accordance with IAS 39.

For the purposes of calculating the allowance for impairment of loans receivables and losses on off-balance sheet items, the Bank has addopted a Credit Risk Provisioning Policy.

Credit Risk Provisioning Policy is prescribing the criterias for identification of the receivables for which the assessment of the impairment and potential losses on off-balance items is performed individually; criterias for grouping the financial assets in the groups with similar credit risk characteristics for the collective impairment purpose; methods and techniques which are applied by the Bank for the individual and collective impairment calculation.

The Bank is assessing the quality level of financial assets on a monthly bases, looking for objective evidence of the impairment, or potential loss of the off-balance sheet items and calculating the amount of the impairment. The information which could indicate existance of losses are: irregular payments, local market and economic conditions which could lead to the overdue in payments etc.

The Bank is performing individual assessment of the impairment losses for the balance sheet and off-balance sheet items if:

- the receivable is individually significant, with gross exposure over 50,000 EUR.
- the receivable is from the bank or other financial institution, central government or central bank.

In the calculation of impairment losses, Bank is taking in consideration cash flows from primary sources, as well as cash flows from collateral realization. The methodology and assumptions on which are defined amounts and expected inflow periods are subject of regular checks in order to minimize the differences between estimated and actual losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Provisions and Impairment Allowance of non-recoverable Receivables (continued)

Calculation of impairment of financial assets and provision for off-balance items (continued)

The amounts of expected inflows per loan are estimated on the basis of evidence of the planned cash flows of the debtor (primary sources). The Bank estimates impairment for each individually significant placement, taking into account the financial position of the borrower, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues. The amounts of expected cash flows from collateral realization are based on an up-to-date valuation of collateral, not taking into account whether the loan will be collected from collateral.

Collective impairment is done for receivables:

- for which individual impairment assessment showed that there is no objective evidence for impairment, or possible loss, or in other word if individual assessment showed no need for impairment loss for balance sheet or off-balance sheet item;
- which are not indiviually significant.

Based on predefined criteria, Bank is categorizing loans and receivables in credit rating groups according to similar characteristics in terms of credit risk, on the basis of which it carries out an assessment of collective impairment.

The assessment of probable losses arising from off-balance sheet items is a procedure which includes the assessment of recoverability of future cash outflows for each contingent liability and estimation of expected loss for each off-balance sheet item.

Calculated amount of impairment losses, Bank is recording by debiting the expenses and crediting allowances for those balance sheet items. Calculated amount of posible losses on off-balance sheet items is recorded by debiting expenses and crediting provisions for losses on those off-balance sheet items.

IFRS 9: Financial Instruments (IASB Effective Date: 1 January 2018)

IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses three main areas of accounting for financial instruments: classification and measurement, impairment and hedge accounting.

Classification categories for financial assets under IAS 39 are replaced in IFRS 9 in the following categories:

- financial assets that are measured at amortized cost,
- financial assets that are measured at fair value through other comprehensive income (FVOCIs) and
- financial assets carried at fair value through profit and loss(FVTPL).

IFRS 9 introduces a new classification of financial assets and a new approach to their valuation, based on the business model for managing financial assets and contractual cash flow characteristics (SPPI test).

Financial assets are measured at amortized cost only if the following two criteria are met: the asset is held within a business model with aim of holding assets in order to collect defined cash flows and contractual cash flows represent repayment of principal and interest.

Measurement of fair value through other comprehensive income is applicable to financial assets that satisfy the condition that contractual cash flows exclusively represent repayment of principal and interest, but the business model applied to them is also directed at holding an assets, including the collection of the contractual cash flows and sale of property. All other financial assets are measured at fair value with the value changes presented through profit and loss account.

Bank defined its business model as "hold to collect", which means, holding of financial assets for the collection of contracted cash flows. The entire portfolio of the Bank is reviewed as a whole, given the size of it, and Bank's business model is the same for the entire portfolio. Reclassification of financial assets under IFRS 9 is required only when the entity changes its business model for the management of NASTAVAK financial assets and is not allowed for financial liabilities; therefore, reclassification is expected to be very rare. In the area of classification and measurement, the Bank did not identify a significant risk that a portion of its loan portfolio would have to be measured at fair value through the profit and loss account, given the contractual cash flow characteristics of financial instruments in portfolio of the Bank (SPPI).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Provisions and Impairment Allowance of non-recoverable Receivables (continued)

Calculation of impairment of financial assets and provision for off-balance items (continued)

IFRS 9 differes to IAS 39 in the sence that IAS 39 had different approaches to different financial instruments, while IFRS9 provides a unique valuation model that applies to both financial assets and off-balance-sheet credit risk exposure (loan commitments and financial guarantees). Also, IFRS 9 replaces the "incurred loss" model of IAS 39 with the "expected credit losses" model (ECL). The new model will require reliable estimates of how changes in macroeconomic indicators affect the ECL, which will be determined based on estimates and weighted probabilities.

In the initial recognition of financial instruments, 12 months expected loss is recognized for credit risk. The total expected loss will be recognized for all instruments with increased credit risk after initial recognition. Therefore, in addition to introducing the concept of expected credit losses, IFRS 9 also introduces phase measurements, ie initial or phase 1 (stage 1) where expected loss is calculated for one year and a subsequent or second phase (stages 2 and 3) where the calculation is performed, ie the measurement of the expected credit loss throughout the lifetime of the asset, whereby it should show changes in credit risk in each reporting period and present them if there has been significant deterioration. This type of credit risk assessment implies also that much more data and information will be needed to continuously monitor, calculate and measure credit risk exposure. Such information, according to the standard and according to the Regulation of the European Union 2016/2067, must be obtained without too much effort and at reasonable costs, and must necessarily include historical, current and expected information.

Also, the standard introduces new rules for the presentation of losses arising from changes in the contractual terms of financial assets.

At the quarterly level, the Bank calculates impairment losses in accordance with the Methodology for the Calculation of the impairment losses and with IFRS 9 in the amount equal to the expected credit losses over the lifetime of the asset, if the credit risk for that financial instrument has significantly increased since initial recognition or there is identified objective evidence for impairment (financial assets at stages 2 and 3), and at the amount equal to the expected twelve-month credit losses for all financial instruments in which credit risk did not significantly increase from initial recognition (financial assets at stage 1).

For the purpose of the analysis, the Bank identified a set of criteria that it uses for the purpose of the assessment and for the comparison with the situation at the moment of the initial recognition of a financial instrument in accordance with IFRS 9 and this Methodology. Identification of one or more listed criteria, may indicate that there has been a significant increase in credit risk:

- Internal rating movements - Classification of the client into the next, worse classification category in accordance with the Central Bank of Montenegro Decision.
- Closing the obligations - Material significant delay of 30 days or more
- Restructuring due to financial difficulties, if the borrower is in delay of 30 to 60 days.
- Blocked account by the Bank or other creditors for more than 30 days
- Debtor's behavior, and other - Intervention by issued guarantee or other off-balance sheet exposures, non-delivery of contractual security instruments within the deadlines in accordance with the contracts.

The Bank also identified a list of indicators aimed at identifying non-performing assets:

- Classification of clients in C, D and E classification categories
- Material significant delay of 90 days and more
- Blocking of accounts by the Bank or other creditors for more than 90 days in continuity if the debtor is in delay for 30 days or more;
- Restructuring due to financial difficulties, if the borrower is in delay for more than 60 days;
- Unilateral termination of the contract by the Bank
- Deleting the client from Commercial court register,
- The designation in bankruptcy or liquidation from Commercial court
- Death of a client

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Provisions and Impairment Allowance of non-recoverable Receivables (continued)

Calculation of impairment of financial assets and provision for off-balance items (continued)

This concept is in line with the Central Bank of Montenegro Guidelines in relation to the use of the expected credit loss model.

In accordance with IFRS 9, the Bank has aligned its Methodology for the calculation of impairment losses with the Central Bank of Montenegro Guidelines in relation to the use of the expected credit loss model. Since the Bank does not have the appropriate time series of its data (at least five years) in accordance with the Central Bank of Montenegro Guidelines it may use external data or a combination of its own and external data. The starting point in the Methodology are historical migration matrices at the level of the entire banking sector of Montenegro (published by Central Bank of Montenegro). Matrices refer to the entire portfolio, and probabilities of default are calculated considering the annual migration of clients from the rating categories A, B1 and B2 to the default category (by number) for the period from 31 January 2009 to 31 December 2016.

In accordance with the amended regulations that entered into force on 1 January 2018, the Bank calculated the impairment losses on financial assets in line with IFRS 9 and the adopted Methodology. The total negative effect of applying IFRS 9 to the equity of the bank is EUR 71 thousand, out of which EUR 57 thousand is related to negative effect resulting form loans and receivables to the clients, EUR 7 thousand on cash deposits in other banks and EUR 7 thousand reletes to securities held to maturity. Therefore, the effect of increased impairment losses has a negative effect on the Bank's own funds as well as on the solvency ratio. However, the solvency ratio is significantly above the statutory minimum, so the Bank has recorded the negative effect of applying IFRS 9 in total and did not benefit from the benefits defined in the Decision on Amendments to the Decision on the Capital Adequacy of Banks (Official Gazette No. 82/17).

Also, the Bank expects that the structure of the financial statements (main components and notes) will have to be adjusted, especially in the light of new reporting and disclosure requirements in accordance with IFRS 7, which is affected by the implementation of IFRS 9. The adjustments will be made in accordance with the requirements of the Central Banks of Montenegro.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Provisions and Impairment Allowance of non-recoverable Receivables (continued)

Calculation of provision for potential losses

In accordance with Decision on Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro" no. 22/12, 55/12, 57/13 and 44/17), loans and other risk exposed assets are classified in the following categories:

- category A (good assets) – where items are estimated to be fully collected in accordance with the terms of the agreement
- category B (assets with special note) – with subgroups B1 and B2, for items for which there is a low probability of loss, but which require special attention, as the potential risk, if not adequately monitored, could lead to worsening collectability
- category C (substandard assets) – with subgroups C1 and C2 for which there is high probability of loss, due to the clearly identified weaknesses that affect collectability
- category D (dubious assets) – in which items are classified for which the collection as a whole, taking into account the creditworthiness of the borrower, value and quality of collaterals, is highly unlikely
- category E (loss) – in which items are classified which are fully irrecoverable, or will be collectible in an insignificant amount

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

	31 December 2017		31 December 2016	
Risk category	% Provisions	Days of delay	% Provisions	Days of delay
A	-	<30	-	<30
B1	2	31-60	2	31-60
B2	7	61-90	7	61-90
C1	20	91-150	20	91-150
C2	40	151-270	40	151-270
D	70	271-365	70	271-365
E	100	>365	100	>365

The Bank is required to determine the difference between the amount of provision for potential losses, calculated in accordance with the above table and the sum of allowance for losses on assets and provisions for off-balance sheet items calculated in accordance with the provisions of the Decision which specifies the manner of evaluation of financial assets by applying IAS 39.

The positive difference between the calculated provisions for impairment losses and the sum of allowances for assets and provisions for off-balance sheet items represents the required reserve for estimated losses.

When adopting the annual accounts the Bank is required to transfer, to the account of reserves for estimated losses on regulatory requirement the amount corresponding to the required reserves for estimated losses, from the profit realized in the current year or the undistributed profits from previous years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Property, Plant and Equipment and Intangible assets

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Cost includes expenditure directly attributable to acquired assets.

Cost represents the invoiced value, related costs of acquisition and cost of bringing the asset into use.

Depreciation is evenly calculated on the purchase cost, in order to fully write off the assets over their estimated useful life. The calculation of depreciation begins when the assets are put into use.

	Rate %
Property	3.3
Computer equipment	20.0
Furniture and other equipment	15.0
Air-conditioning	10.0
Vehicles	15.0

Depreciation period starts from the beginning of the month following the month when the asset is put in use. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the income statement under 'Other income /(expenses)'.

Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment. Intangible assets relate with software. Amortization is recognized in the income statement by using a straight line method over the estimated useful life.

	Rate %
Intangible assets	20.0-30.0

3.9. Impairment of tangible and intangible assets

On the balance sheet date, the Bank's management review the carrying amounts of tangible and intangible assets. If there is an indication that an asset is impaired, the recoverable amount of the asset is estimated in order to determine the amount of impairment loss. If the recoverable amount of an asset is estimated to be less than the value at which the asset is stated, existing value of the asset is reduced to its recoverable amount.

Loss on impairment of asset is recognized as an expense in the current period and is recorded under other operating expenses. If you subsequently come to a situation where the loss due to impairment recognized in previous years does not exist or has decreased, the value of the asset is increased to the revised estimate of its recoverable amount, but so that the increased value at which the asset is stated does not exceed the carrying value prior to identification of loss due to the impairment of assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events when it is likely that the Bank will be required to settle the obligation and when the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the outflows required to settle the obligations.

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

3.11. 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 for social security of employees. 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 to General Collectictive Agreement ("Off. Gazette of Montenegro" no. 14/14), the Bank is under obligation to pay retirement benefits in the minimum amount of 3 net salaries.
The right to claim those benefits is usually conditioned with the remaining working age until retirement and/or completion of the minimal working years. Expected costs of these benefits are recognized at the start of the employment.

In the financial statements on 31 December 2017, The Bank makes provisions based on the estimated present value of assets to be used for retirement benefits payable to employees upon fulfilment of the retirement criteria.

3.12. Financial liabilities

Financial liabilities are recognized initially at fair value less the transaction costs. Financial liabilities are subsequently recorded at amortized cost applying method of effective interest rate. The difference between the proceeds (less the transaction costs) and the redemption value is recognized in the income statement in the period of the borrowings re used by applying the effective interest rate method.

3.13. Financial guarantees

In the normal course of business, the Bank gives financial guarantees, consisting of guarantees, performance guarantees and promissory notes. Financial guarantees are initially recognized in the financial statements at fair value, with the proceeds received. Subsequent measurement of the bank's liabilities, for each guarantee is made by the greater amount comparing the amortized premium and the best estimate of the cost required to settle the obligation that may arise as a result of guaranties.

Any increase in liabilities arising from financial guarantees is transferred to the income statement. The received fee is recognized in the income statement on a straight-line method, throughout the life of the guarantee.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14. Fair value

Fair value of financial instruments

Determining the fair value of financial assets and liabilities for which there is no observable market price requires the use of various valuation techniques. For financial instruments which are not traded often and which have low price transparency, fair value is less objective and requires a certain degree of variation in assessing which depends on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

According to the Banks management assessment, carrying amount of financial assets and financial liabilities disclosed in the financial statements approximates fair value on the date of financial statements, since all of financial assets and financial liabilities arisen in 2016 after the Bank has started its operations.

4. FINANCIAL INSTRUMENTS

4.1. Risk Management

The Bank is exposed to various risks in its operations, of which the most significant are the following:

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

The risk management procedures are designed to identify and analyse 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. In addition, monitoring of the Bank's exposures to certain risks is the responsibility of Credit Risk Management Committee and Asset and Liability Management Committee.

4.2. Credit Risk

Credit risk is of possible negative effects on financial result and capital of the Bank due to unsettled liabilities of the Bank's debtors. The primary exposure to credit risk arises trough loans and investments. Bank approves loans in accordance to it's business policies, aligning the maturities of loans approved and interest rate policy with the purpose of the loan and credit ability of the debtor.

Bank is providing for credit losses based on impairment test, and those losses are losses incured on the date of statement of financial position. Significant changes in the economy, or in certain industries which are involved in Bank's loan portfolio, could result in losses that are different from losses provided for in the statement of financial position. Management therefore carefully manages exposure to credit risk.

Exposure to credit risk is risk of financial loss resulting from the inability of the debtor to fulfill its obligations towards the Bank. Bank is managing credit risk by setting up the limits for big exposures, individual exposures and related parties. Those risks are monitored continiously and are reviewed regulary.

In accordance to the limits prescribed by the Central Bank of Montenegro, , sector concentration is constantly monitored.

4. FINANCIAL INSTRUMENTS (continued)

4.2. Credit Risk (continued)

4.2.1. Credit Risk Management

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

Commitments and Contingent Liabilities

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.

4.2.2. Impairment Losses in Accordance with Requirements of IAS 39

As of the statement of financial position date the Bank assesses whether there is any impartial evidence that a financial asset or a group of financial assets has suffered impairment in accordance with IAS 39.

Exposure is reclassified from healthy to bad loans / exposures, if the Bank estimates that the event adversely affects the expected cash flows. The bank shall at least quarterly estimate the asset quality, and determine whether there is an evidence of impairment of balance sheet assets, or probable loss in off-balance sheet items.

It is considered that an impartial evidence of impairment exists if:

- debtor's financial condition indicates significant problems in his business operations (downgrade of a debtor),

failure to fulfil contractual obligations for period longer than 90 days, the frequent delays in payment of interest / principal and other contractual provisions (evidence of failure or delay in payment),

- benefits that the Bank provides to the debtor due to economic or legal reasons (evidence of the approved postponed repayment, restructuring receivables and other concessions approved due to financial difficulties in the operations of the debtor)
- substantial difficulties in the business of the debtor (evidence of bankruptcy, liquidation, financial reorganization of the debtor, the damage that the debtor has suffered due to force majeure, loss of license, change of management, etc.),
- internal and external factors that may affect the collectability of receivables (evidence of adverse changes in business conditions in some industries that reflect on the debtor's solvency, as well as the industry branches, evidence of macroeconomic trends: falling demand, falling prices, budget deficit, doing business in times of crisis or recession, etc.)
- Local economic factors causing problems during payments.

If there is an evidence of impairment on exposure, testing has to be performed, and, if necessary, accounting recognition of impairment losses of balance sheet assets i.e. probable losses on off-balance sheet items. It has to be done in order to financials assets in the Bank's balance sheet be recognized at fair value and to disclose the expected loss due to partial or complete lack of collection of receivables. Impairment or a loss due to bad debt exposure, when established, it is not possible to collect the receivables in full.

4. FINANCIAL INSTRUMENTS (continued)

4.2. Credit Risk (continued)

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

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

	In thousands of EUR 31 December 2017	31 December 2016
Balance sheet items		
Loans and receivables from banks	1,793	462
Loans and receivables from clients	10,798	2,254
Securities - Held to maturity	2,011	2,411
	14,602	**5,127**
Off balance sheet items		
Performance guaranties	126	1
Other guaranties	33	-
Undrawn credit lines	990	4
	1,149	**5**
Maximum credit risk exposure	**15,751**	**5,132**

Managing of credit risk is performed by Risk management Department in accordance to the adopted Risk Management Strategy, Credit riks management Policy, Credit policy, Credit risk provisioning Policy and other documents regulating credit risk. Credit risk is managed through clearly defined procedures of identification, measurement, control and mitigation and monitoring credit risk. For measuring the credit risk, solvency analysis, developed internal scoring Bank, classification complied with regulatory requirements, and value adjustments in accordance with IAS and IFRS are used. Risk Management Department provides an opinion on credit proposals, verifies the classification of exposure, calculates the impairments, and provides opinion on the quality of the proposed collateral.

Exposure to credit risk is partly overseen by obtaining the collaterals and guarantees from legal entities and individuals.

Types of collaterals are as follows:

- deposits;
- mortgages assigned over property and fiduciary transfer of ownership;
- pledge liens instituted over industrial machinery, securities, inventories and vehicles;
- bills of exchange;
- collection authorizations;
- garnishments and injunctions;
- guarantors, and
- insurance policies.

4. FINANCIAL INSTRUMENTS (continued)

4.2. Credit Risk (continued)

4.2.4. Quality of financial investments

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

In thousands of EUR

	Neither Past due nor Impaired	Past Due but not Impaired	Colectively Impaired	Total, gross	Impairment Allowance	Total, Net
Housing loans	1,687	-	26	1,713	(2)	1,711
Cash loans	883	-	41	924	(7)	917
Consumer loans	54	-	-	54	-	54
Overdrafts	4	-	-	4	-	4
Loans to medium and small enterprises	4,607	64	-	4,671	-	4,671
Loans to state companies	1,391	-	-	1,391	-	1,391
Loans to other private companies	2,041	-	-	2,041	-	2,041
Loans and receivables from banks	1,793	-	-	1,793	-	1,793
Off-balance sheet assets	1,149	-	-	1,149	-	1,149
31 December 2017	**13,609**	**64**	**67**	**13,740**	**(9)**	**13,731**
Housing loans	904	-	-	904	-	904
Cash loans	366			366		366
Consumer loans	17	-	-	17	-	17
Overdrafts	2	-	-	2	-	2
Loans to medium and small enterprises	384	581	-	965	-	965
Loans and receivables from banks	462	-	-	462	-	462
Off-balance sheet assets	5	-	-	5	-	5
31 December 2016	**2,140**	**581**	**-**	**2,721**	**-**	**2,721**

As at 31 December 2017, neither past-due nor impaired financial assets include exposures with no delay in payment.

4. FINANCIAL INSTRUMENTS (continued)

4.2. Credit Risk (continued)

4.2.4. Quality of financial investments (continued)

a) Loans and investments past-due but not impaired

In thousands of EUR

	Up to 30 days past-due	From 31 to 60 days past-due	From 61 to 90 days past-due	From 91 to 180 days past-due	From 181 to 365 days past-due	From 1 to 5 years past-due	Over 5 years past-due	Total
Loans to medium and small enterprises	9	-	55	-	-	-	-	64
31 December 2017	**9**	**-**	**55**	**-**	**-**	**-**	**-**	**64**
31 December 2016	**581**	**-**	**-**	**-**	**-**	**-**	**-**	**581**

b) Fair Value of Collaterals

	In thousands of EUR	
	31 December 2017	**31 December 2016**
Cash collateral	1,071	-
Mortgage	12,958	2,115
Pledge	157	-
Insurance	222	84
Total	**14,408**	**2,199**

Properties used as collateral are residential premises, houses and apartment buildings, commercial buildings and business premises, as well as land depending on its location and future use.

c) Restructured Loans

The Bank can restructure a loan due to the deterioration in the borrower's credit ability if it has:

a. extended the principal or interest maturity,
b. decreased the interest rate on the loan approved,
c. decreased the debt amount, principal or interest, or
d. Made other concessions to facilitate the borrower's financial position.

Upon restructuring of the loan, the Bank performs financial analysis of the borrower and assesses its capacities to realize cash flows necessary for the repayment of the loan principal, as well as the corresponding interest once the loan is restructured.

On 31st of December 2017 the Bank had no restructured loans.

4. FINANCIAL INSTRUMENTS (continued)

4.2. Credit Risk (continued)

4.2.4. Quality of financial investments (continued)

d) Concentration per Geographic Regions

Concentration per geographic regions of the Bank's credit risk exposure is presented in the following table:

In thousands of EUR

	Monte-negro	Russia	Bosnia & Herzeg.	Azerbe-jan	Serbia	Mace-donia	European Union	Total
Loans and receivables from banks	4	1,327	462	-	-	-	-	1,793
Loans and receivables from clients	10,761	-	-	13	12	3	-	10,789
Off-balance sheet assets	1,149	-	-	-	-	-	-	1,149
31 December 2017	**11,914**	**1,327**	**462**	**13**	**12**	**3**	**-**	**13,731**
Loans and receivables from banks	-	-	-	-	-	-	462	462
Loans and receivables from clients	2,254	-	-	-	-	-	-	2,254
Off-balance sheet assets	5	-	-	-	-	-	-	5
31 December 2016	**2,259**	-	**-**	**-**	**-**	**-**	**462**	**2,721**

4. FINANCIAL INSTRUMENTS (continued)

4.2. Credit Risk (continued)

4.2.4. Quality of financial investments (continued)

e) Concentration per Industry

Concentration per industry of the Bank's credit risk exposure is presented in the following table:

In thousands of EUR	Finance	Production	Water industry	Construction	Trade	Traffic	Hotel industry	Administration	Inform. and communic.	Other	Individuals	Total
Loans and receivables from banks	1,793	-	-	-	-	-	-	-	-	-	-	1,793
Loans and receivables from clients	-	1,003	500	2,438	3,008	369	587	181	-	17	2,686	10,789
Off-balance sheet assets	6	3	-	46	127	-	-	-	950	17	-	1,149
31 December 2017	**1,799**	**1,006**	**500**	**2,484**	**3,135**	**369**	**587**	**181**	**950**	**34**	**2,686**	**13,731**
Loans and receivables from banks	462	-	-	-	-	-	-	-	-	-	-	462
Loans and receivables from clients	-	-	-	-	730	-	-	235	-	-	1,289	2,254
Off-balance sheet assets	-	-	-	-	-	-	-	-	-	-	5	5
31 December 2016	**462**	**-**	**-**	**-**	**730**	**-**	**-**	**235**	**-**	**-**	**1,294**	**2,721**

4. FINANCIAL INSTRUMENTS (continued)

4.2. Credit Risk (continued)

4.2.5. Off-Balance Sheet records

Maturities of off-balance sheet items exposing the Bank to credit risk were as follows:

In thousands of EUR

	Undrawn credit lines	Guarantees	Total
Up to one year	990	59	1,049
From 1 to 2 years		100	100
31 December 2017	**990**	**159**	**1,149**
Up to one year	4	1	5
31 December 2016	**4**	**1**	**5**

4.3. Market Risk

The Bank is exposed to market risks. Market risks arise from open positions due to changes in interest rates and foreign currency exchange rates.

4.3.1. Currency Risk

Currency risk management is defined with Risk Management Strategy and Interest rate management Policy from banking book and market risks. Those documents define the way in which the bank identifies, measures, controls, mitigates and monitors the currency risk. Measuring the currency risk is performed applying GAP analysis for currency risk, while the control system established by limiting long, short and net positions individually by currencies and aggregately. On a daily basis Treasury Department reports to the risk management the amount and character of currency update. Risk Management Department reports on a monthly basis to Asset and Liability Committee on all important aspects of the management of foreign exchange risk.

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

The Bank's exposure to foreign currency risk is presented in the following table:

In thousands of EUR	**USD**	**CHF**	**Other**	**Total**
Assets in foreign currencies	84	2	1	87
Liabilities in foreign currencies	(70)	-	-	(70)
Net open position:				
- 31 December 2017	**14**	**2**	**1**	**17**
- 31 December 2016	**3**	**2**	**-**	**5**
% of the core capital:				
- 31 December 2017	**0.16%**	**0.02%**	**0.01%**	
- 31 December 2016	**0.03%**	**0.02%**	**-**	
Aggregate open position:				
- 31 December 2017	17			
- 31 December 2016	5			

4. FINANCIAL INSTRUMENTS (continued)

4.3. Market Risk (continued)

4.3.1. Currency Risk (continued)

Management of currency risk exposure, apart from analysis of Bank's assets and liabilities denominated in foreign currencies, includes a sensitivity analysis on the exchange rate change. The scenario of the fluctuation in exchange rate in the range of + 10% to -10% compared to the EUR is presented in the following table:

In thousands of EUR

	Total	Amount in foreign currency	Change in exchange rates 10%	Change in exchange rates -10%
ASSETS				
Cash balances and deposits with central banks	7,024	22	2	(2)
Loans and receivables to banks	1,793	65	7	(7)
Total assets	**8,817**	**87**	**9**	**(9)**
LIABILITIES				
Deposits of the clients	13,127	70	7	(7)
Total liabilities	**13,127**	**70**	**7**	**(7)**
Net currency risk exposure:				
- 31 December 2017			**2**	**(2)**
- 31 December 2016				

As of 31 December 2017, assuming that all other parameters remain the same, the change in the exchange rate of EUR against other currencies by + 10% or -10%, the Bank's profit would increase or decrease in the amount of EUR 2 thousands (31 December 2016: EUR 0.5 thousand). The cause of the small exposure of the Bank to change in foreign exchange rate is the fact that most of the assets and liabilities are denominated in EUR.

4.3.2. Interest Rate Risk

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

4. FINANCIAL INSTRUMENTS (continued)

4.3. Market Risk (continued)

4.3.2. Interest Rate Risk (continued)

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

In thousands of EUR

	Interest Bearing	Non-Interest Bearing	Total
ASSETS			
Cash balances and deposits with central banks	5,949	1,075	7,024
Loans and receivables from banks	1,327	466	1,793
Loans and receivables from clients	10,819	(30)	10,789
Investment securities	2,000	11	2,011
Total assets	**20,095**	**1,522**	**21,617**
LIABILITIES			
Deposits due to clients and banks	10,956	2,171	13,127
Borrowings from other clients	81	-	81
Total liabilities	**11,037**	**2,171**	**13,208**
Interest rate GAP:			
- 31 December 2017	**9,058**	**(649)**	**8,409**
- 31 December 2016	**4,001**	**5,946**	**9,947**

Interest rate GAP as of 31 December 2017 is presented in the following table:

In thousands of EUR

Interest 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
Interest bearing deposits	7,276	-	-	-	-	7,276
Interest bearing securities	-	-	-	-	2,000	2,000
Loans and receivables from clients	132	1,080	1,049	2,253	6,305	10,819
Total	**7,408**	**1,080**	**1,049**	**2,253**	**8,305**	**20,095**
% total interest bearing assets	36.86%	5.37%	5.22%	11.21%	41.33%	100%
Interest sensitive liabilities						
Interest-bearing deposit	3,156	175	186	5,568	1,871	10,956
Interest-bearing liabilities	3	5	5	10	58	81
Total	**3,159**	**180**	**191**	**5,578**	**1,929**	**11,037**
% interest bearing liabilities	28.62%	1.63%	1.73%	50.54%	17.48%	100%
Interest rate GAP:						
- 31 December 2017	**4,249**	**900**	**858**	**(3,325)**	**6,376**	**9,058**
- 31 December 2016	**196**	**222**	**169**	**(65)**	**3,464**	**3,986**
Cumulative GAP:						
- 31 December 2017	**4,249**	**5,149**	**6,007**	**2,682**	**9,058**	
- 31 December 2016	**196**	**418**	**587**	**522**	**3,986**	

4. FINANCIAL INSTRUMENTS (continued)

4.4. Liquidity risk

Liquidity risk includes the risk of the Bank being unable to provide cash to settle liabilities upon maturity, or 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 completed 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 an important factor 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 contingent liabilities are on the low level at the end of 2017 EUR 1,149 thousands.

As of 31 December 2017, the Bank has managed the liquidity risk in accordance with the adopted Strategy for risk management. To measure liquidity risk, the Bank uses the GAP analysis. Beside liquidity risk monitoring on a daily basis it is monitored for a 10-days and monthly period through a set of reportds prepared for Central Bank of Monetenegro as well for Asset and Liability Committee generated by Treasury Department.

The remaining contractual maturity matching of financial assets and liabilities as of 31 December 2017 is as follows:

In thousands of EUR

	Up to a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Financial assets							
Cash balances and deposits with central banks	1,536	-	-	-	-	-	1,536
Loans and receivables to banks	7,281	-	-	-	-	-	7,281
Loans and receivables to customers	132	1,080	1,049	2,253	4,862	1,443	10,819
Investment securities - HTM	-	-	-	11	2,000	-	2,011
Total	**8,949**	**1,080**	**1,049**	**2,264**	**6,862**	**1,443**	**21,647**
Financial liabilities							
Deposits due to clients	5,307	179	188	5,577	1,866	10	13,127
Borrowings from other clients	2	5	5	10	58	-	80
Other financial liabilities	151	-	-	-	18	-	169
Total	**5,460**	**184**	**193**	**5,587**	**1,942**	**10**	**13,376**
Maturity GAP							
- 31 December 2017	**3,489**	**896**	**856**	**(3,323)**	**4,920**	**1,433**	**8,271**
- 31 December 2016	**6,001**	**144**	**169**	**(54)**	**2,562**	**885**	**9,707**
Cumulative GAP:							
- 31 December 2017	**3,458**	**4,354**	**5,210**	**1,887**	**6,807**	**8,240**	
- 31 December 2016	**6,001**	**6,145**	**6,314**	**6,260**	**8,822**	**9,707**	
% of total funds:							
- 31 December 2017	**25.9%**	**32.5%**	**38.9%**	**14.1%**	**50.9%**	**61.6%**	
- 31 December 2016	**661.7%**	**677.6%**	**696.3%**	**690.3%**	**972.8%**	**1,070.3%**	

Liquidity of the Bank, as it's ability to to settle matured liabilities on time, depends on balance sheet structure and on maturity of inflows and outflows.

4. FINANCIAL INSTRUMENTS (continued)

4.5. Operational risk

Operational risk is the risk of possible negative effects on the financial result and the Bank's equity due to omissions (intentional and unintentional) in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, and the occurrence of unpredicted external events. Operational risk includes legal risk, but excludes strategic and reputational risk. Legal risk is the risk when the Bank may incur losses that may arise due to non-compliance and violation of laws and other regulations, conduct of unlawful actions, actions that are not in accordance with the agreed terms, non-implementation of recommendations and good banking practice, as well as ethical standards.

The Bank has adopted a set of operational risk management documents: Operational Risk Management Policy, Operational Risk Data Collection Procedure, Procedure for allocating operating loss provisions, Risk Assessment and Control Self-Assessment Process, Scenario Analysis Process, and Continuous Supervision Procedures

4.6 Fair Value of Financial Assets and Liabilities

As of 31 December 2017, the Bank has no financial assets initially classified at fair value. Fair value of financial assets and liabilities as of 31 December 2017 is as follows:

In thousands of EUR

	Carrying Value		Fair Value	
	2017	**2016**	**2017**	**2016**
Financial assets				
Cash and other deposits to CBM	7,024	5,488	7,024	5,488
Loans and receivables to banks	1,793	462	1,793	462
Loans and receivables to clients	10,789	2,254	10,789	2,254
Held to Maturity securities	2,011	2,411	2,011	2,411
Financial liabilities				
Deposits due to clients	13,127	668	13,127	668
Borrowing from other clients	81	-	81	-

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

a) *Loans and Receivables from Banks*

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

The fair values of floating rate investments and overnight deposits approximate their carrying amounts at the statement of financial position date.

b) *Loans and Receivables from Clients*

In order to determine the fair value of loans and receivables from clients with fixed interest rate. measured at amortized cost, the Bank compared the its interest rates on loans and advances to clients to the available information on the current market interest rates in the banking sector of Montenegro, i.e. weighted average market rates by business activities.

As the Bank’s management states, the Bank's interest rates do not differ significantly from prevailing market interest rates in the banking sector of Montenegro, which means that the fair value of loans to clients calculated as the present value of future cash flows, discounted using the current market rates, i.e. the average weighted interest rates of the banking sector, does not deviate significantly from the carrying value of the loan as at the statement of financial position preparation date.

4. FINANCIAL INSTRUMENTS (continued)

4.6 Fair Value of Financial Assets and Liabilities (continued)

d) *Deposits*

For demand deposits and deposits with a remaining maturity of less than one year, it is assumed that the estimated fair value does not significantly differ from their carrying amounts.

The estimated fair values of interest bearing deposits at fixed interest rates with remaining contractual maturities of over a year, without quoted market prices, are based on discounted cash flows using interest rates for new debts with similar remaining maturities. According to the Bank's management, the Bank's interest rates are harmonized with the current market rates and the amounts stated in the financial statements represent the fair value which accurately reflects the fair value of these financial instruments, under the current circumstances.

4.7. Capital Risk 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 ("Official Gazette of Montenegro", no. 60/08, 41/09 and 55/12). In accordance with the regulations, the Bank submits quarterly reports on the balance and structure of capital to the Central Bank of Montenegro.

The Bank's own funds are comprised of:

- tier 1 capital (paid-in share capital, retained earnings from prior years, decreased for accumulated losses);
- decreased for intangible assets and
- missing reserves for credit losses.

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

a) minimum financial portion of initial capital amounting to EUR 5 million, as required by Law on Banks,
b) total amount of required capital for all risks.

Risk-weighted assets are comprised of items of assets and loan equivalents of off-balance sheet items exposed to risk. The loan equivalents of off-balance sheet assets are computed by multiplying the carrying value of off-balance sheet items with the prescribed conversion factors. Total risk-weighted assets are comprised of assets and loan equivalents of off-balance sheet items exposed to risk (the Bank's risk-weighted assets) classified in certain categories and multiplied by adequate prescribed risk weights.

In accordance with the requirements of the Central Bank of Montenegro, the Bank is under obligation to maintain a minimum capital adequacy ratio of 10%. The Bank is required to adjust the extent of its business with the prescribed parameters i.e. to maintain the volume and structure of its risk assets in compliance with the Law on Banks and regulations of the Central Bank of Montenegro. As of 31 December 2017, the capital adequacy ratio calculated by the Bank for statutory financial statements equalled 81.92%.

5. INTEREST INCOME, INTEREST EXPENSES AND SIMILAR INCOME

a) Interest Income

In thousands of EUR	2017	2016
Loans to:		
- privately-owned companies	144	3
- interest income on impaired financial assets (note 6)	29	-
- state-owned companies	42	-
- entrepreneurs	9	1
- NGOs	3	-
- retail clients	141	12
	368	**16**
Interest on financial investments in securities:		
Held to maturity	90	12
	90	**12**
	458	**28**

b) Interest Expenses

In thousands of EUR	2017	2016
Assets on the account of:		
- International banks	6	-
- Central Bank of Montenegro	8	-
	14	**-**
Deposits:		
- Gowerment of Montenegro	12	-
- privately-owned companies	10	-
- state-owned companies	1	-
- retail clients	13	1
	36	**1**
	50	**1**

6. IMPAIRMENT LOSSES

a) Impairment losses

In thousands of EUR	2017	2016
Net increase in the provision based on:		
- loans	38	-
	38	-

7. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and Commission Income

In thousands of EUR	**2017**	**2016**
Loan origination fees	26	1
Domestic payments	23	3
Payment transactions abroad	17	-
E-banking	2	-
Aprroved guarantiees	4	-
Other	1	-
	73	**4**

b) Fee and Commission Expenses

In thousands of EUR	**2017**	**2016**
Fees and commissions payable to the Central Bank	18	16
Fees and commissions for international payment transactions	42	35
Deposit protection premium fees	12	50
Fees and commissions for card business	18	-
Fees and commissions for e-banking	16	3
	106	**104**

8. PERSONNEL EXPENSES

In thousands of EUR	**2017**	**2016**
Net salaries	519	311
Taxes and contributions on salaries	364	220
Other employee benefits. net	-	1
Service contract, gross	9	9
Business travel costs and per diems	8	4
Provision for unused vacations	4	24
Provisions for severance pay (note 21)	14	-
Employee training costs	1	2
	919	**571**

9. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of EUR	2017	2016
Rental costs (Note 28)	108	68
Security services	34	22
Electricity, utilities and fuel costs	15	8
Cleaning services	16	8
License costs and software maintenance	239	106
Objects, equipment, IT equipment,ATM maintenance costs	3	-
Legal fees	43	29
Insurance costs	13	5
External control expenses	109	98
Consultant fees	63	22
Phone charges	12	6
Communication network costs	17	10
Office supplies	7	10
Representation costs	5	4
Advertising and marketing	37	47
Membership fees	16	8
Subscription costs	12	4
Vehicle maintenance and registration costs	1	-
Miscellaneous expenses	11	9
	761	**464**

10. DEPRECIATION AND AMORTIZATION

In thousands of EUR	2017	2016
Property and equipment (Note 16)	131	63
Intangible assets (Note 17)	90	39
	221	**102**

11. INCOME TAXES

a) Components of Income Tax

In thousands of EUR	2017	2016
Deferred income taxes	1	17
	1	**17**

In thousands of EUR	2017	2016
Profit before tax	(1,564)	(1,210)
Income tax at Law rate of 9%	(141)	(109)
Unrecognized tax asset on tax losses	141	109
Effects of different treatment on fixed assets for tax purposes	(1)	(17)
Income tax in income statement	**(1)**	**(17)**
Effective tax rate	**0.64%**	**1.41%**

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

11. INCOME TAXES (continued)

a) Components of Income Tax (continued)

b) Diferred Tax

In thousands of EUR	Tax asset	Tax liability	Net asset/ (liability)
Balance as of 31 December 2016	**-**	**(17)**	**(17)**
Increase in deferred tax liability based on temporary differences between accounting and tax values of property, equipment and intangible assets	-	(1)	(1)
Balance as of 31 December 2017	**-**	**(18)**	**(18)**

Deferred tax assets amounting to EUR 141 thousand after tax loss carryforward from 2017 has not been recognized (from 2016, EUR 109 thousands). In accordance with the Law on Corporate Income Tax of Montenegro, tax losses can be used to up to the end of 2022 (for 2016 up to 2021).

12. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

In thousand EUR	**31 December 2017**	**31 December 2016**
Cash on hand:		
- in EUR	563	259
- in foreign currencies	23	4
Gyro account:		
- in EUR	5,488	5,180
Obligatory reserves held with the Central Bank of Montenegro	919	45
Other	31	-
	7,024	**5,488**

On the overnight deposits on transaction account with the Central Bank of Montenegro, ECB Deposit facility interest rate is applied and reduced by 10 basis points, on an annual basis, by applying a rate of not higher than zero to the balance at the beginning of the next business day in RTGS system.

As of December 31, 2017 the Bank's obligatory reserves were set aside in accordance with the Decision of the Central Bank of Montenegro on Obligatory Reserves of Banks to be held with the Central Bank of Montenegro (Official Gazette of Montenegro no. 73/15 and 33/16), stipulating that 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 term deposits with maturity over one year if there is no clause on early withdrawal option,
- 6.5% to the base comprised of deposits with maturities of over a year i.e. 365 days, containing clause on the impossibility of cancellation of the contract before the set deadline.

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.

The obligatory reserve is to be calculated by applying the aforesaid rates to the average amount of deposits during the previous week two days before the expiry of the maintenance period.

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. Pursuant to the Decision, 50% of the obligatory reserve is interest bearing asset Central Bank pays the fee calculated at an annual rate equal to EONIA (Euro Overnight Index Average) minus 10 basis points, but this rate cannot be less than zero, up to the eighth day of the month for the preceding month. The obligatory reserve is held in EUR.

13. LOANS AND RECEIVABLES FROM BANKS

In thousand EUR	31 December 2017	31 December 2016
Correspondent accounts with foreign banks	1,793	462
	1,793	**462**

As of December 31, 2017, the Bank has an open account with the following foreign banks: VTB Moscow, SberBank Bosnia and Herzegovina and AIK Bank Serbia.
Deposits placed in banks abroad as at 31 December 2017 fully represent avista deposits with calculated negative interest in case if the account balance exceeds the amount of EUR 500 thousand.

14. LOANS AND RECEIVABLES FROM CUSTOMERS

In thousand EUR	31. decembar 2017	31. decembar 2016
Matured loans:		
- privately-owned companies	64	580
- retail customers	67	
Short-term loans:		
-privately-owned companies	2,027	89
-state-owned companies	200	-
-retail costumers	25	21
Long-term loans:		
-privately-owned companies	4,450	60
-state-owned companies	1,196	
- non-governmental organizations	36	70
- entrepreneurs	145	165
- retail customers	2,609	1,272
	10,819	**2,257**
Interest receivables:		
- loans	2	2
Accruals and prepayments:		
- interest on loans	43	6
- loan origination fees	(66)	(11)
	(21)	**(3)**
	10,798	**2,254**
Minus:		
Impairment losses on loans (note 6):	**(9)**	**-**
Total:	**10,789**	**2,254**

Short-term loans to corporate entities are mostly approved for current assets. Long-term loans are granted for a period of 18 to 120 months mostly for the legal entities performing trading and construction activity. Short-term and long-term loans to corporate entities are mostly approved at a nominal interest rate of 4.5% to 10.50% per annum.

Short-term retail loans are granted for a period of one month to 12 months with annual interest rate ranging from 5.95% to 9.95%. Long-term loans to retail customers include cash loans, housing loans, adaptation loans, consumer loans and other types of loans, maturing within 12 to 300 months with an interest rate ranging from 4.50% to 9.95% per annum.

14. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Movements on the impairment balances are shown below:

Balance on 13 April 2016	-
Impairments	--
Write-offs	
Receipts	-
Interest accrued on impaired receivables	-
Balance on 31 december 2016	**-**
Impairments (note 6)	38
Write-offs	-
Receipts	-
Interest accrued on impaired receivables (note 7)	(29)
Balance on 31 december 2017	**9**

The geographical concentration of loans to customers in the Bank's loan portfolio relates to clients domiciled in the territory of Montenegro.

The concentration of loans and receivables from customers per industry was as follows:

In thousand EUR	31 December 2017	31 December 2016
Trade activities	3,006	730
Construciton	2,437	-
Manufacturing	1,003	-
Accommodation and nutriton services	587	-
Water supply	500	-
Traffic and storage	369	-
Administrative and auxiliary service activities	181	235
Other service activities	10	-
Proffesional, scientific and tehnical activities	9	-
Retail	2,687	1,289
	10,789	**2,254**

15. INVESTMENT SECURITIES

As at 31 December 2017 the portfolio of the securities held to maturity amounts EUR 2,011 thousand. This consists of the following:

- Government bonds of EUR 2,000 thousand purchased on 15 November 2016, with yearly interest rate of 4%, and maturity on 15 November 2020,

- Accrued interest on government bonds in amount of EUR 11 thousand.

16. PROPERTY, PLANT AND EQUIPMENT

Movements on property and equipment and other assets during 2017 are presented in the following table:

In thousand EUR

	Buildings	Equipment and other assets	Total
Cost			
Balance as at 13 April 2016	-	-	-
Additions	95	528	623
Balance as at 31 December 2016	**95**	**528**	**623**
Additions	2	27	29
Balance as at 31 December 2017	**97**	**555**	**652**
Accumulated depreciation			
Balance as at 13 April 2016	-	-	-
Depreciation (Note 10)	17	46	63
Balance as at 31 December 2016	**17**	**46**	**63**
Depreciation (Note 10)	34	97	131
Balance as at 31 December 2017	**51**	**143**	**194**
Current Value:			
- 31 December 2017	**46**	**412**	**458**
- 31 December 2016	**78**	**482**	**560**

As at 31 December 2017 the Bank does not own properties under collateral agreements for insuring the repayment of loans and other liabilities.

Buildings as at 31 December 2017 amounting to EUR 46 thousand fully relate to investments in adaptation of rented facilities - that are not owned by the Bank.

17. INTANGIBLE ASSETS

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

In thousand EUR	2017	2016
Cost		
Balance as at 1 January (13 April 2016)	488	-
Additions during the period	77	488
	565	**488**
Accumulated Amortization		
Balance as at 1 January (13 April 2016)	39	-
Amortization (Note 10)	90	39
	129	**39**
Net Book Value as at 31 December	**436**	**449**

Intangible assets in the amount of EUR 436 consist of: computer programs (software) in the amount of EUR 304 thousands and other intangible assets in the amount of EUR 132. Other intangible assets mainly consist of Visa International license in the amount (present value) of EUR of 125 thousands.

18. OTHER FINANCIAL RECEIVABLES AND OTHER OPERATING RECEIVABLES

In thousand EUR	2017	2016
Prepaid expenses	55	54
Receivables of the Tax Administration	8	6
Inventories of plastic cards	18	-
Receivables from funds (maternity leave)	7	
Receivables from employees	1	2
Payment trasaciton fees receivables	1	-
Other receivables	6	-
	96	**62**

19. DEPOSITS BY CUSTOMERS

In thousand EUR	31 December 2017	31 Decembar 2016
Demand deposits:		
- privately-owned companies	3,400	226
- state-owned companies	5	-
- Government of Montenegro	1,509	-
- entrepreneurs	10	3
- insurance companies	10	-
- non–profit organizations	-	11
- retail costumers	373	134
	5,307	**374**
Short-term deposits:		
- privately-owned company	134	-
- insurance companies	100	-
- retail companies	162	125
	396	**125**
Long-term deposits:		
- privately-owned companies	1,304	-
- state-owned companies	3,100	-
- Government of Montenegro	2,000	-
- retail costumers	1,000	168
	7,404	**168**
	13,107	**667**
Interest and other liabilities		
Accrued interest	20	1
	20	**1**
	13,127	**668**

On demand deposits for retail clients no interest rate is applied, while interest rates on sight deposit for private costumers have ranged from 0.15% to 0.2%. Short-term and long-term deposits for retail customers in EUR have been deposited with interest rates ranging from 1.4% to 3.2% per annum, while for corporate clients ranging from 0.2% to 2.2%.

20. BORROWED FUNDS FROM OTHER CLIENTS

Liabilities for borrowed funds from other clients represent liabilities towards domestic creditors and relate to borrowed funds from the Investment Development Fund approved to the Bank for financing projects by the Fund, whereby the Bank charges its margin for the takeover of credit risk. These liabilities as at December 31, 2017 consist of one credit debt towards the Fund amount of EUR 81 thousands.

In thousand EUR

Approved ammount	Approval date	Maturity date	Interest rate	Balance as at 31 December,2017
84	19.09.2017	30.09.2021	1.50%	81

21. PROVISIONS

Total amount of provisions relates to provisions for employees unused vacations for 2017 in amount of EUR 14 thousands as at 31 December 2017, and represent the present value of the expected future payments to employees on the basis of severance pay.

22. OTHER LIABILITIES

In thousand EUR	31 December 2017	31 December 2016
Liabilities to domestic suppliers	128	150
Liabilities to foreign suppliers	3	17
Accrued liabilities for unused holidays	27	24
Accrued liabilities	21	55
Other liabilities	-	2
	179	**248**

23. CAPITAL

As of 31 December 2017, the Bank's share capital was comprised of 299,511,761 ordinary shares, with nominal value per share of EUR 0.04.

The ownership structure of the Bank as at 31 December 2017 is as follows:

	31 December 2017		
Name of the person/company	**No of shares**	**In EUR**	**% ownership**
Azmont Investments d.o.o. Herceg Novi	299,511,761	11,980,470.44	100.00%
	299,511,761	**11,980,470.44**	**100.00%**

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

In accordance with the regulations of the Central Bank of Montenegro, the Bank is required to maintain a minimum capital adequacy ratio of 10%. The Bank is required to comply its operations within the prescribed parameters, ie to comply the volume and structure of risky assets with the Law on Banks ("Official Gazette of Montenegro" no. 17/08, 44/10, 40/11, 73/17) and the regulations of the Central Bank of Montenegro.

The Bank's solvency ratio as at 31 December 2017 amounted to 81.92% (31 December 2016: 325.94%).

As of 31 December 2017, the own funds of the Bank are above prescribed minimum of EUR 5,000 thousand and amount EUR 8,689 thousand. (31 December 2016: EUR 10,304 thousands).

Law on banks ("Off. Gazette of Montenegro" no. 17/2008, 44/2010, 40/2011 and 073/2017) defines the minimum amount of banks capital in the amount of EUR 5 million.

On 31 December 2017 the Bank's capital is above the regulatory minimum.

25. OFF-BALANCE SHEET ITEMS

In thousand EUR	31 December 2017	31 December 2016
Off-balance assets that bears credit risk		
Irrevocable commitments to grant loans	990	4
Issued guarantees	159	1
	1,149	**5**
Other off-balance items		
Collaterals on receivables	14,408	2,199
	15,557	**2,204**

In accordance with the Decision of Central Bank of Montenegro on Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro", no. 22/12, 55/12 and 57/2013) the receivables from bank balance sheets are transferred to the internal records if the bank estimates in the process of collecting the receivables that the value of receivables measured at amortized cost will not be compensated and that the conditions are met for derecognition of financial assets, which includes the following cases:

1) for unsecured receivables:
   - when the debtor subject to bankruptcy proceedings lasting longer than one year, or
   - if the debtor is late with payments for more than two years
2) for secured receivables, when the debtor is late with payments for more than four years, or if the bank during this period did not receive any payment from the realization of collateral.

In accordance with current regulations, as at 31 December 2017, no receivables were written off from the Bank's balance sheet records.

26. RELATED PARTY TRANSACTIONS

The related parties include the parent bank and the Bank's shareholders, representatives of the management and the Bank's staff.

In thousand EUR

	31 December 2017	31 December 2016
Loans:		
-ADC d.o.o.	1,600	-
-retail loans - employees	256	168
Total receivables:	**1,856**	**168**
Liabilities		
Demand deposits:		
- Azmont investments	261	-
- ADC	2	-
-retail deposits – employees	137	112
Term deposits:		
- Azmont investments	800	
-retail deposits – employees	104	28
Liabilities for accrued interest on deposits	1	-
Liabilities to suppliers – Azmont investment	98	83
Total liabilities	**1,403**	**223**
Liabilities, net	**453**	**(55)**

26. RELATED PARTY TRANSACTIONS (continued)

Loans to employees are related to short-term and long-term loans with interest rates in the range of 4.50% to 9.95% per annum.

On 31 December 2017 there are no off-balance sheet items that refers to related party.

Income and expenses arising from transactions with related parties during 2017 and 2016 are as follows:

In thousand EUR

	31. decembar 2017	31. decembar 2016
Interest income:		
- ADC d.o.o.	70	-
- retail loans – employees	13	2
Fees income:		
- Azmont investments – payment transaction	2	-
- ADC – for loans approval	2	-
Total income:	**87**	**2**
Interest expenses:		
- Azmont investments	1	-
- employees	1	-
Total expenses:	**2**	**-**
Income, net	**85**	**2**

Compensation to senior management based on gross salaries and benefits in 2017 is EUR 215 thousands (2016, EUR 160 thousand).

27. LITIGATIONS

As at 31 December 2017 there were no litigations against the Bank by legal entities and individuals.

The Bank has no legal proceedings as at 31 December 2017 against any legal or physical entity.

28. OPERATING LEASE

Agreements on operating lease, with determined lease period refer to the lease of business and residential premises. The Bank has no option to purchases the rented business premises at the end of the lease period.

During 2017, the lease expense amounted to EUR 108 thousand. (Note 8)

The lease of business premises represents the liabilities for a period of 1 to 3 years.

Liabilities in respect of agreements of operating lease on business premises that are not reflected in the financial statements to the balance sheet date are as follows:

In thousands EUR	31 December 2017	31 December 2016
Up to 1 year	102	92
Between 1 and 5 years	22	106
	124	**198**

29. EARNINGS PER SHARE

Earnings per share are calculated by dividing the annual net profit belonging to shareholders by the weighted average number of ordinary shares that were outstanding during the period.

	2017	2016
(Loss)/gain for the year in thousand EUR	(1,564)	(1,227)
The weighted average number of shares	299,511,761	299,511,761
Earnings (loss) per share in EUR	**(0.005)**	**(0.004)**

30. 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 31 December 2017 and 2016 were as follows:

	31 December 2017	31 December 2016
USD	0.8338	0.9487
CHF	0.8546	0.9312
GBP	1.1271	1.1680

31. EVENTS AFTER THE REPORTING PERIOD

After the reporting date there was no events that could affect the financial position and business results presented in the financial statements for the year ended 31 December 2017.

32. GENERAL INFORMATION ON THE BANK

In accordance with the Decision on the Content, Deadlines and Manner of Preparation and Submission of Financial Statements of Banks ("Official Gazette of Montenegro" no. 15/2012 and 18/2013) general information on the Bank is presented below:

Bank's registered name: Nova banka AD, Podgorica;
Registered address: Marka Miljanova br.46, 81000 Podgorica;
Bank's ID number: 03087158
Telephone/Fax: + 382 (0)20 680 951
Web page: http://www.novabanka.me
Email address: office@novabanka.me

The Bank has a head office and one branch on 31 December 2017.

Number of employees as at 31 December 2017 was 27 (31 December 2016: 25 employees).

Gyro account: 907-58001-38

On 30 November 2015 the request for issuing the banking licence to Nova banke AD Podgorica, was submitted to Central Bank of Montenegro.

Nova banka AD is registered with the Central Registry of Business Entities under the number 4-0009471.

Central Bank of Montenegro on 26 February 2016 issued a permit for the operation of the Bank.

Nova banka AD Podgorica commenced operations as at 8 June 2016.

Information on the president and members of the Board of Directors is presented below:

32. GENERAL INFORMATION ON THE BANK (continued)

	Name and surname	Date of birth	Information on Residence	Address (street name and number)
1. President	Ahmet Erentok	21.9.1962	Turkey	Beykoz Konaklar Villa, A24 194, Istanbul
2. member	Rashad Aliyev	25.1.1982	Azerbaijan	N.Narimanov District, Baku
3. member	Rashad Rasullu	11.4.1980	Azerbaijan	Bahruz Nuriyev 79, Baku
4. member	Gorhmaz Aghayev	1.5.1980	Azerbaijan	Neapol 5, Baku
5. member	Ana Ivanović	12.8.1981	Montenegro	II crnogorskog bataljona br 2E, Podgorica

Bank is 100% in ownership of company Azmont Investments doo Herceg Novi.

The auditing company that audited the 2017 financial statements: Ernst&Young d.o.o Montenegro. Podgorica, Serdara Jola Piletića 2A 81000 Podgorica, Montenegro.

Book value of the shares on 31 December 2017 was EUR 0.04 per share.

There was no payments of dividends in 2017.