NOVA BANKA AD, PODGORICA

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENT

Ernst & Young Montenegro d.o.o.
Podgorica, ul. Stanka Dragojevića bb
Zgrada Universal Capital Bank,II sprat
Tel: +382 20 238 477
Fax: +382 20 238 476
ey.com

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 2018, and the income statement, statement of other comprehensive income, 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 2018, 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 2018.

Podgorica, 27 May 2019

Danijela Mirkovic, Partner	Nikola Ribar Authorized Auditor

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

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

In thousand EUR	Note	2018	2017 (adjusted)
Interest income and similar income	3.1, 6a)	822	451
Intersest income on impaired financial assets	3.1, 6a)	5	30
Interest expenses and similar expenses	3.1, 6b)	(126)	(50)
Net interest income		**701**	**431**
Fee and commission income	3.1, 7a)	87	50
Fee and commission expenses	3.1, 7b)	(218)	(106)
Net fee and commission income		**(131)**	**(56)**
Foreign exchange gains, net		5	-
Personnel expenses	8	(1,055)	(919)
General and administrative expenses	9	(765)	(761)
Depreciation and amortization	10	(257)	(221)
Net impairment losses/gains of financial assets which are not valued through profit and loss	3.7, 11	(312)	(38)
Operating profit		**(1,814)**	**(1,564)**
	3.4, 12a)		
Income Taxes		6	(1)
Net (loss)/profit for the year		**(1,808)**	**(1,565)**

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

Podgorica, 29 March 2019

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

This version of the financial statements and the accompanying notes is translation of the original which were published in Montenegrin language. All possible care has been taken to ensure that the translation is accurate representation of the original. However, in all the matters of interpretation of information, views and opinions, the original language version of the documents takes precedence over this translation

STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

(In thousand EUR)	Note	2018	2017
Net loss		(1,808)	(1,565)
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 comprehensive income in current year		(1,808)	(1,565)
TOTAL LOSS		(1,808)	(1,565)

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

Podgorica, 29 March 2019

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

This version of the financial statements and the accompanying notes is translation of the original which were published in Montenegrin language. All possible care has been taken to ensure that the translation is accurate representation of the original. However, in all the matters of interpretation of information, views and opinions, the original language version of the documents takes precedence over this translation

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

In thousand EUR	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash balances with central banks	3.5, 13	7,951	7,024
Financial assets at amortized cost		**17.159**	**14.593**
Loans and receivables from banks	3.5, 14	2,695	1,793
Loans and receivables from customers	3.6, 15	12,450	10,789
Financial investments	3.6, 16	2,004	2,011
Other financial assets		10	-
Property, plant and equipment	3.8, 3.9, 17	332	458
Intangible assets	3.8, 3.9, 18	369	436
Other assets	19	99	96
TOTAL ASSETS		**25,910**	**22,607**
LIABLITIES			
Financial liabilities at amortized cost		**18,330**	**13,208**
Deposits from customers	20	18,272	13,127
Borrowings from other clients	21	58	81
Reserves	22	41	14
Deferred tax liabilities	12b)	12	18
Other liabilities	23	218	179
TOTAL LIABLITIES		**18,601**	**13,419**
EQUITY			
Share capital	23	11,980	11,980
Accumulated losses		(2,863)	(1,227)
Current year (losses)/gains		(1,808)	(1,565)
TOTAL EQUITY		**7,309**	**9,188**
TOTAL EQUITY AND LIABLITIES		**25,910**	**22,607**
OFF-BALANCE SHEET ITEMS	25	**18,235**	**15,557**

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

Podgorica, 29 March 2019

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

AKCIONARSKO DRUŠTVO NOVA BANKA PODGORICA 1

Kamran Mammadov
Chief Executive Officer

Enesa Bekteši
Head of Accounting and Financial Controlling

This version of the financial statements and the accompanying notes is translation of the original which were published in Montenegrin language. All possible care has been taken to ensure that the translation is accurate representation of the original. However, in all the matters of interpretation of information, views and opinions, the original language version of the documents takes precedence over this translation

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

In thousand EUR	Share capital	Accumulated losses	TOTAL
Balance on 31 December 2017	**11,980**	**(1,227)**	**10,753**
Loss in the year	-	(1,565)	(1,565)
Balance on 31 December 2017	**11,980**	**(2,792)**	**9,188**
Effects of first IFRS9 implementation		(71)	(71)
Balance on 31 December 2017, adjusted	**11,980**	**(2,863)**	**9,117**
Loss in the year	-	(1,808)	(1,808)
Balance on 31 December 2018	**11,980**	**(4,671)**	**7,309**

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

Podgorica, 29 March 2019

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

This version of the financial statements and the accompanying notes is translation of the original which were published in Montenegrin language. All possible care has been taken to ensure that the translation is accurate representation of the original. However, in all the matters of interpretation of information, views and opinions, the original language version of the documents takes precedence over this translation

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

In thousands of EUR	2018	2017
Cash flows from operating activities		
Interest and similar receipts	819	422
Interest and similar outflows	(88)	(32)
Fee and commission receipts	81	116
Fees and commissions paid	(218)	(106)
Payments to employees and to suppliers	(1,784)	(1,777)
Outflows for loans disbursed and other assets	(1,991)	(8,562)
Inflows from deposits and other liabilities	5,106	12,459
Net cash outflow from operating activities	**1,925**	**2,520**
Cash flows from investing activities		
Purchase of property and equipment	(13)	(29)
Purchase of intangible assets	(54)	(103)
Purchase/sale of financial investments	-	398
Cash outflows from investing activities	**(67)**	**266**
Cash flows from financing activities		
Inflow from issue of share capital	-	-
Inflow from borrowings	(22)	81
Net cash inflow from financing activities	**(22)**	**81**
FX effects	**5**	**-**
Net increase in cash and cash equivalents	1,841	2,867
Cash and cash equivalents at the beginning of the year	8,817	5,950
Cash and cash equivalents at the end of the year (Notes 12 and 13)	**10,658**	**8,817**

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

Podgorica, 29 March 2019

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

Kamran Mammadov
Chief Executive Officer

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, 6/13 and 70/17) 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 registered 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 registered 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 2018, the Bank is consisted of headquarter in Podgorica and one branch office on the same location.

As at 31 December 2018, the Bank has 33 employees (31 December 2017: 27 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, 18/2013 and 24/2018).

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 2018.

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 2018 and for year ended on 31st of December 2018, are prepared in accordance to going concern principle.

Income statement of the Bank is showing loss in amount of EUR 1,808 thousand, for the year ended on 31st of December 2018, while accumulated losses on that date amounts EUR 4,600 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 45.62%, while prescribed minimum is 10% (notes 4.7 and 25).

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 2019, 2020 and 2021. 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.

IFRS16

IFRS 16 that is effective from 1 January 2019 and replaces IAS 17, sets out the principles for recognition, measurement, presentation and disclosure of a lease for both parties, i.e. the lessee and the lessor. New standard requires the lessee to recognize the majority of the leasing contract through its financial statements, in such a way that the leased asset is capitalized in the lessee records together with the obligation to pay the lease. On the other hand, for the lessor, accounting requirements are mostly retained from the existing standard regulating lease (IAS 17).

For the banking sector of Montenegro, the application of IFRS 16 has been postponed for 1 January 2020, according to the notification by the Central Bank of Montenegro No. 03-105-1 / 2019 of 9 January 2019.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. Lease (continued)

The Bank measured the effects of applying the Standard on 1 January 2019, with the exception of a lease contract terminating for less than 12 months. In accordance with the amended requirements of IFRS 16, only the lease contract for the head office building of the Bank is included in its scope and expected effects are:

- Effect on the balance sheet: increase of assets and liabilities in amount of EUR 144 thousand,
- Effect on the profit and loss account (first year of application): a positive effect of EUR 1 thousand.

The quantitative information in this note is subject to change depending on the circumstances at the time of application.

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 financial instruments as subsequently measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss, on the basis of:

a) the business model of the Bank for Financial Property Management,
b) the characteristics of contracted cash flows.

Financial assets measured at amortized cost

Financial assets should be measured at amortized cost if the following conditions are met:

a) Financial assets are held within a business model with objective to hold a business asset to collect contracted cash flows and
b) the contractual terms provide solely payment of principal and interest.

This business model may include a certain level of financial instrument sales, but they are very rare.

Financial assets measured at fair value through other comprehensive income

Financial assets should be measured at fair value through other comprehensive income if the following conditions are met:

a) Financial assets are held within a business model whose objective is to collect contracted cash flows and by the sale of financial assets and
b) the contractual terms provide solely payment of principal and interest.

For this business model whose purpose is to collect contractual cash flows and sales of financial assets, it is typical to include more sales and sales of higher value than the previous model.

Financial assets measured at fair value through profit or loss

Financial assets should be measured at fair value through profit or loss if not measured at amortized cost or at fair value through other comprehensive income.
This business model includes:

- management of funds with an intention to achieve cash flow from sales;
- portfolio management, whose performance is evaluated on the basis of fair value estimates;
- a portfolio that fulfils the condition of being held for sale.

The Bank reclassifies financial assets when it changes the business model while the reclassification of financial liabilities is not performed.

3.6.2. Measurement and Recognition

The Bank recognizes a financial asset in its financial statements when it becomes one of the counterparties in the instrument itself.

At initial recognition, the Bank allocates a financial asset at fair value, increased or decreased, for transaction costs that can be directly attributed to the acquisition or issuance of a financial asset.

The transaction price is usually the best evidence of the fair value for the financial instrument at initial recognition. However, there may be cases in which the Bank can determine that the fair value at initial recognition is different from the transaction price.

In that case, the Bank recognizes gain or loss at initial recognition as the difference between fair value at initial recognition and transaction price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Financial assets (continued)

3.6.2. Measurement and Recognition (continued)

Subsequent valuation of financial instruments

Assets classified in assets measured at amortized cost

Amortized cost represents the amount at which the financial asset is measured at initial recognition with the increase or decrease of accumulated amortization using the effective interest rate method for all differences between the initial amount and the amount at maturity, less any payments and impairments based on the calculated expected credit losses.

The initial effective interest rate for IFRS 9 is the rate that accurately discounts estimated future cash flows during the expected maturity of a financial asset or financial liability to the gross book value of the financial asset or to the amortized value of the financial liability.

Assets classified in assets measured at fair value through other comprehensive income

For assets measured at fair value through other comprehensive income, interest income, expected loan losses and FX gains or losses are recognized through profit and loss account. Other gains or losses related to re-measurement of the instrument at fair value are recognized in other comprehensive income. At the time of de-recognition, the cumulative gain/loss recognized in the other comprehensive income is reclassified from equity to profit and loss account.

Equity instruments non-held for trading, the Bank may initially irrevocably classify as assets measured at fair value through other comprehensive income. For equity instruments designated at fair value through other comprehensive income, dividends are recognised in profit or loss, with all other gains/losses recognised in other comprehensive income. Upon de-recognition, amounts recognized in other comprehensive income are not reclassified to profit or loss.

Assets classified in assets measured at fair value through profit or loss

If a financial instrument is measured at fair value through profit or loss after initial recognition, the difference between book value and fair value, if any, is immediately recognized through profit or loss..

3.6.3. Derecognition

The recognition of a financial asset expires upon the expiration of the right to cash inflow from the financial asset, i.e. when the Bank transfers all the risks and rewards of ownership over the assets.

Derecognition of a financial liability is considered when the obligation is fulfilled i.e. when the debt was paid, cancelled 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

In accordance with the Decision on Minimum Standards for Credit Risk Management in Banks ("Official Gazette CG", No. 22/12, 55/12, 57/13, 44/17, 82/17 and 86/18), the Bank is obliged to carry out an assessment of the impairment (for balance sheet items), i.e. the estimate of the probable loss (for off-balance sheet items) for balance-sheet and off-balance sheet items based on which it is exposed to credit risk, at least on a quarterly bases. Assets of the Bank based on which it is exposed to credit risk are loans, borrowings, interest, fees, deposits with banks, advance payments and other items of balance sheet assets in which the Bank is exposed to the risk of default of the debtor and off-balance sheet exposures: issued guarantees, letters of credit, as well as other off-balance items that represent the Bank's potential liabilities. Also, the Bank is required to establish an internal methodology for classification, measurement and impairment of assets in accordance with International Financial Reporting Standard 9 (IFRS 9).

For the purpose of estimating the impairment of balance sheet items or estimating probable loss for off-balance sheet items, the Bank has adopted the Methodology for calculating impairment losses in accordance with IFRS 9.

IFRS 9 addresses three main parts of accounting of financial instruments: classification and measurement, impairment and hedge accounting.

Classification categories in accordance with IFRS 9 are as follows:
- Financial assets that are valued at amortized cost,
- Financial assets that are valued at fair value through other comprehensive income (FVOCI) and
- Financial assets that are valued at fair value through profit or loss (FVTPL).

Therefore, IFRS 9 introduces a new classification of financial assets and a new approach to their valuation, which are based on a business model for financial asset management 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 whose purpose is to hold assets to settle the contracted cash flows and the contractual cash flows merely represent repayment of principal and interest.

Measurement of fair value through other comprehensive income is applicable to financial assets that meet the condition that the contractual cash flows are solely the repayment of principal and interest but the business model applied to them is, as well, directed to the holding of assets, i.e. the payment of the contractual cash flows and sale of asset. All other financial assets are measured at fair value through profit and loss.

Bank has defined its business model as "hold to collect", i.e. the holding of financial assets for the collection of contracted cash flows. The entire portfolio of the Bank is viewed as a whole, given its size, with the fact that the Bank's business model is the same for the entire portfolio. Reclassification of financial assets under IFRS 9 is only required when an entity changes its business model for financial management 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 find any significant risk that would lead that part of its loan portfolio would have to be measured at fair value through profit and loss account, given the contractual characteristics of the cash flow of financial instruments in the Bank's portfolio (SPPI test).

IFRS 9 differs to IAS 39 in the sense 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 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.

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)

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, i.e. 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, i.e. 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.

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

On the quarterly level, the Bank calculates impairment losses in accordance with the Methodology for the calculation of the impairment losses and 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 behaviour, 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

Impairment calculation in accordance with the Methodology for stage 3 is performed for:

- all exposures with identified status of default;
- all financial instruments that meet the definition of POCI in accordance with IFRS 9;
- all exposures for which the Bank has defined an individual approach taking into account the specificity of the financial asset.

The Bank assesses the impairment of balance sheet asset and probable loss of off balance sheet items on individual basis for:

- financial instruments at stage 3, which exceed the threshold of EUR 50,000;
- financial instruments at stage 2, which exceed the threshold of EUR 50,000 for physical and legal persons, provided that the Bank has information on expected cash flows to be used to assess expected credit losses more adequately.

The estimate of impairment on an individual bases, for balance sheet assets and probable loss for off balance sheet items, is based on a number of possible repayment scenarios and expected future cash flows based on which the expected credit losses are defined.

When calculating the amount of impairment for balance sheet assets or probable loss on off-balance sheet items, the Bank takes into account cash flows from primary sources as well as cash flows from collateral realization through several scenarios that are applicable for the specific receivable. Scenarios that bank takes into account are the realization of collateral, restructuring and reprogramming, bankruptcy, sale of receivables, settlement and everything else it considers relevant.

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)

For all other exposures at stage 3, collective impairment approach is used depending on the number of days in delay.

For the receivables with a delay of up to 3 years, the expected credit losses are calculated by comparing the aggregate gross book value of all instruments within a certain group with a weighted average realized value resulting from the following scenarios:

- with a probability of 85% scenario of repayment out of all available collaterals discounted by weighted average initial effective interest rate, and taking into account the amount of repayment of outstanding excluding repayment from collateral (1-LGD unsecured)
- with a probability of 10% of settlement scenario in the amount of 5% gross book value
- with a probability of 5% of the sale of receivables in amount of 2% of gross book value.

For the receivables with a delay of more than 3 years, the expected credit losses are calculated by comparing the aggregate gross book value of all instruments within a given group with a weighted average of the realized value resulting from the following scenarios:

- with a probability of 85% scenario of repayment from all available collaterals
- with a probability of 10% of settlement scenario in the amount of 5% gross book value
- with a probability of 5% of the sale of receivables in amount of 2% of gross book value

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 from loans and receivables to the clients, EUR 7 thousand on cash deposits in other banks and EUR 7 thousand relates 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).

Calculated amount of impairments for the balance sheet assets, bank is recording debiting profit and loss account and crediting value adjustment of balance sheet item. Calculated amount of off balance sheet items is also expanded through profit and loss and credited to loss provisions for off-balance sheet items.

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, 44/17, 82/17 and 86/18), Bank is obliged to classify on a monthly bases, balance sheet assets and off-balance sheet items by which it is exposed to credit risk and to calculate provisions for credit losses. The decision defines the criteria for the classification of assets and off-balance sheet items, as well as the method for determining the provision for potential losses.

In accordance with this decision 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 2018		31 December 2017	
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 IFRS 9.

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.

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 2018, 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 since the operational start of the Bank, which is relatively short period.

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 Strategy is a comprehensive general document regulating the Bank's risk management area. The strategy aims to establish a general framework for conservative and continuous risk management that the Bank may face in its business. For the purpose of more efficient risk management at operational level, the Bank has developed specific risk management policies and procedures that 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. According to Law on Banks, Bank is obliged to review adequacy of the adopted policies and procedures for risk management periodically, but at least once a year.

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 its business policies, aligning the maturities of loans approved and interest rate policy with the purpose of the loan and credit ability of the debtor.

The credit risk management policy is based on Bank's statutory obligations according to Law on banks and by-laws, but also on generally accepted international credit risk management principles and positive credit risk assessment practices.

The aim of the policy is to successfully implement the Credit Policy and Risk Management Strategy in a more precise way to identify areas in which credit risk identification, identification methods, methods and time frames for credit risk measurement, limits and procedures for controlling individual and total exposure to credit risk with respect to the size of the Bank and the complexity of the products, the manner and the dynamics of reporting and information to the Board of Directors and the Management Board of the Bank on credit risk management, as well as the methods and timelines for subsequent credit risk management quality assurance.

Credit risk exposure management is performed by regular analysis of the ability of the borrower and potential borrowers to repay their liabilities for interest and principal.

Credit risk management consists of all aspects of risk assessment prior to approval of investment, as well as its monitoring up to final repayment.

4. FINANCIAL INSTRUMENTS (continued)

4.2. Credit Risk (continued)

4.2.1. Credit Risk Management

Credit risk management covers two main aspects of credit activity:

1.) Preliminary risk assessment to be assumed - a prior analysis formalized by the creation of a credit file approved by the competent body;
2.) Regular monitoring of investment or risks taken. After the investment is approved, the Bank is exposed to risks that are constantly evolving depending on the client's condition or other internal or external factors. Therefore, it is necessary to regularly monitor risks with the aim of protecting the Bank's interests.

The Bank has established a system for monitoring investments at individual and portfolio level, as well as an adequate system of provisioning and impairments for credit risk. In this way, potentially problematic clients are identified on time and this enables bank to perform repayment activities on time.

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

In accordance with the Central Bank of Montenegro Decision, the Bank is obliged to carry out impairment assessment (for balance sheet items), i.e. the estimate of the probable loss (for off-balance sheet items) for all balance sheet and off-balance sheet items that are exposed to credit risk, at least on the quarterly bases. For the purpose of estimating the impairment of balance sheet items or estimating probable loss for off-balance sheet items, the Bank has adopted the Methodology for calculating impairment losses in accordance with IFRS 9.
On the quarterly level, the Bank calculates impairment losses in accordance with the Methodology for the calculation of the impairment losses and 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 behaviour, 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

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 2018		31 December 2017	
Balance sheet items				
Loans and receivables from banks	2,706	2,695	1,793	1,793
Loans and receivables from clients	12,797	12,450	10,798	10,789
Securities	2,011	2,004	2,011	2,011
	17,514	**17,149**	**14,602**	**14,593**
Off balance sheet items				
Payment guarantees	226	226	-	-
Performance guaranties	241	223	126	126
Other guaranties	100	95	33	33
Undrawn credit lines	611	610	990	990
	1,178	**1,154**	**1,149**	**1,149**
Maximum credit risk exposure	**18,692**	**18,303**	**15,751**	**15,742**

The objectives, process and methodology of credit risk management are precisely and in detail defined in policies, methodologies and procedures for managing this type of risk, as follows: Credit policy, Credit risk management policy, Methodology for calculating impairments in accordance with IFRS9, Methodology for determining creditworthiness of physical and legal entities, Procedure for approval and realization of cash loans, Procedure for approval and realization of housing and mortgage loans, Procedure for approval and realization of loans of legal entities, Procedure for stress testing of exposure to credit risk.

In accordance with the limits stipulated by the Central Bank of Montenegro, the concentration of loans is subject to continuous monitoring.

The use and collateral management is one of the core components of credit risk management. Along with the view of the borrower's financial position, collaterals are considered a very important component for determining credit risk exposure because the exposure to credit risk is partially controlled by obtaining security instruments and guarantees from legal and physical persons.

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;
- administrative prohibitions;
- garnishments and injunctions;
- guarantors, and
- insurance policies.

4. FINANCIAL INSTRUMENTS (continued)

4.2. Credit Risk (continued)

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

Starting from 1st of January 2018, Bank is applying IFRS9. Data presented in the tables above are related to 2017 and presented are in accordance to IAS 39 applicable in that year, which means that they are not comparable to the data from 2018. Differences resulting from IAS9 application are directly recognized in retained earnings on 1st of January 2018 (Note 3.5.5.). IFRS9 implementation effects on the financial assets are shown in the table below:

		IAS 39 31.12.2017.				IFRS 9 01.01.2018		
	Category	Gross	Net	Reclassified	Impairment losses	Gross	Net	Category
I. Assets		14.602	14.593	-	(71)	14.602	14.522	
Loans and receivables from banks and other financial institutions	L&R	1.793	1.793	-	(7)	1.793	1.786	AC
Loans and receivables from clients	L&R	10.798	10.789	-	(57)	10.798	10.732	AC
Securities	HTM	2.011	2.011	-	(7)	2.011	2.004	AC
II. Off-balance items		1.149	1.149			1.149	1.149	
Payment guarantees	L&R	-	-	-	-	-	-	AC
Performance guarantees	L&R	126	126	-	-	126	126	AC
Other guarantees	L&R	33	33	-	-	33	33	AC
Unused credit lines	L&R	990	990	-	-	990	990	AC
Total (I+II)		15.751	15.742	-	-	15.751	15.671	

L&R – *loans and receivables in accordance to IAS 39 classification*
AC – *amortized cost in accordance to IFRS 9 classification*
HTM – hold to maturity in accordance to IAS 39 classification

4. FINANCIAL INSTRUMENTS (continued)

4.2. Credit Risk (continued)

4.2.3. Quality of financial assets

31.12.2018.	S1	S2	S3	Total	Expected Credit losses S1	Expected Credit losses S2	Expected Credit losses S3	Total Expected Credit Losses	Net
Housing and mortgage loans	1.375	-	24	1.399	(1)	-	(15)	(16)	1.383
Cash loans	958	-	43	1.001	(4)	-	(28)	(32)	969
Consumer loans	47	2	-	49	-	-	-	-	49
Overdrafts	8	-	-	8	-	-	-	-	8
Cards, retail	2	-	-	2	-	-	-	-	2
SME loans	4.529	13	41	4.583	(230)	-	-	(230)	4.353
Loans to state owned companies	519	-	-	519	-	-	-	-	519
Loans to big private corporates	4.336	900	-	5.236	(11)	(58)	-	(69)	5.167
Loans and receivables to clients	11.774	915	108	12.797	(246)	(58)	(43)	(347)	12.450
Loans and receivables from banks	2.706	-	-	2.706	(11)	-	-	(11)	2.695
Securities	2.011	-	-	2.011	(7)	-	-	(7)	2.004
Total	**16.491**	**915**	**108**	**17.514**	**(264)**	**(58)**	**(43)**	**(365)**	**17.149**

4. FINANCIAL INSTRUMENTS (continued)

4.2. Credit Risk (continued)

4.2.3. Quality of financial assets (continued)

01.01.2018.	S1	S2	S3	Total	Expected Credit losses S1	Expected Credit losses S2	Expected Credit losses S3	Total Expected Credit Losses	Net
Housing and mortgage loans	1.687	26	-	1.713	(1)	(11)	-	(12)	1.701
Cash loans	883	36	5	924	(4)	(15)	(3)	(22)	902
Consumer loans	54	-	-	54	-	-	-	-	54
Overdrafts	4	-	-	4	-	-	-	-	4
Cards, retail	-	-	-	-	-	-	-	-	-
SME loans	4.607	64	-	4.671	(6)	(8)	-	(14)	4.657
Loans to state owned companies	1.391	-	-	1.391	(4)	-	-	(4)	1.387
Loans to big private corporates	2.041	-	-	2.041	(14)	-	-	(14)	2.027
Loans and receivables to clients	10.667	126	5	10.798	(29)	(34)	(3)	(66)	10.732
Loans and receivables from banks	1.793	-	-	1.793	(7)	-	-	(7)	1.786
Securities	2.011	-	-	2.011	(7)	-	-	(7)	2.004
Total	**14.471**	**126**	**5**	**14.602**	**(43)**	**(34)**	**(3)**	**(80)**	**14.522**

4. FINANCIAL INSTRUMENTS (continued)

4.2. Credit Risk (continued)

4.2.4. Quality of financial assets (continued)

Movements for the loans and receivables to privately owned companies per stages during 2018 are shown in the table below:

Loans and receivables to privately owned companies	Stage 1	Stage 2	Stage 3	Total
Gross loans and receivables form clients on 1 January 2018	**6.496**	**71**	**-**	**6.567**
New loans	8.918	900		9.818
Decrease/repayment of loans	(6.755)	(14)	(15)	(6.784)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	(13)	13	-	-
Transfers to stage 3		(56)	56	-
Other movements	-	-	-	-
Gross loans and receivables from clients on 31 December 2018	**8.722**	**914**	**41**	**9.601**

Expected Credit Losses movements for loans and receivables to privately owned companies per stages during 2018 are shown in a table below:

Loans and receivables to privately owned companies	Stage 1	Stage 2	Stage 3	Total
Expected Credit Losses, 1 January 2018	**20**	**8**	**-**	**28**
New loans	236	58	-	294
Decrease/repayment of loans	(15)	(6)	-	(21)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Unwinding (recognized as interest income)	-	(2)	-	(2)
Other movements	-	-	-	-
Expected Credit Losses, 31 December 2018	**241**	**58**	**-**	**299**

Movements for loans and receivables to entrepreneurs per stages during 2018 are shown in the table below:

Loans and receivables to entrepreneurs	Stage 1	Stage 2	Stage 3	Total
Gross loans and receivables form clients on 1 January 2018	**145**	**-**	**-**	**145**
New loans	25	-	-	25
Decrease/repayment of loans	(26)	-	-	(26)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Other movements	-	-	-	-
Gross loans and receivables from clients on 31 December 2018	**144**	**-**	**-**	**144**

4. FINANCIAL INSTRUMENTS (continued)

4.2. Credit Risk (continued)

4.2.4. Quality of financial assets (continued)

Expected Credit Losses movements for loans and receivables to entrepreneurs per stages during 2018 are shown in a table below:

Loans and receivables to entrepreneurs	Stage 1	Stage 2	Stage 3	Total
Expected Credit Losses, 1 January 2018	-	-	-	-
New loans	-	-	-	-
Decrease/repayment of loans	-	-	-	-
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Other movements	-	-	-	-
Expected Credit Losses, 31 December 2018	-	-	-	-

Movements for the loans and receivables to state owned companies per stages during 2018 are shown in the table below:

Loans and receivables to state owned companies	Stage 1	Stage 2	Stage 3	Total
Gross loans and receivables form clients on 1 January 2018	1.391	-	-	1.391
New loans	-	-	-	-
Decrease/repayment of loans	(872)	-	-	(872)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Other movements	-	-	-	-
Gross loans and receivables from clients on 31 December 2018	592	-	-	592

Expected Credit Losses movements for loans and receivables to state owned companies per stages during 2018 are shown in a table below:

Loans and receivables to state owned companies	Stage 1	Stage 2	Stage 3	Total
Expected Credit Losses, 1 January 2018	4	-	-	4
New loans	-	-	-	-
Decrease/repayment of loans	(4)	-	-	(4)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Other movements	-	-	-	-
Expected Credit Losses, 31 December 2018	-	-	-	-

4. FINANCIAL INSTRUMENTS (continued)

4.2. Credit Risk (continued)

4.2.4. Quality of financial assets (continued)

Movements for the loans and receivables to retail clients per stages during 2018 are shown in the table below:

Loans and receivables to retail clients	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross loans and receivables form clients on 1 January 2018	**2.628**	**63**	**5**	**2.696**
New loans	618	2		620
Decrease/repayment of loans	(832)	(19)	(5)	(856)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	(24)	(44)	68	-
Other movements	-	-	-	-
Gross loans and receivables from clients on 31 December 2018	**2.390**	**2**	**68**	**2.460**

Expected Credit Losses movements for loans and receivables to retail clients per stages during 2018 are shown in a table below:

Loans and receivables to retail clients	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Expected Credit Losses, 1 January 2018	**5**	**26**	**3**	**34**
New loans	2			2
Decrease/repayment of loans	(2)	(4)	(3)	(9)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3		(22)	43	21
Other movements	-	-	-	-
Expected Credit Losses, 31 December 2018	**5**	**-**	**43**	**48**

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	Collectively Impaired	Total, gross	Impairment Allowance	Total, Net
Housing and mortgage loans	486	15	897	1,399	(16)	1,384
Cash loans	99	-	902	1,001	(32)	969
Consumer loans	2	-	47	49	-	49
Overdrafts	-	-	8	8	-	8
Loans to medium and small enterprises	624	94	3,865	4,583	(230)	4,352
Loans to state companies	-	-	519	519	-	518
Loans to other private companies	498	-	4,739	5,236	(69)	5,168
Cards - retail	-	-	2	2	-	2
Loans and receivables from banks	-	-	2,706	2,706	(11)	2,695
Off-balance sheet assets	188	-	990	1,178	-	1,178
31 December 2018	**1,897**	**109**	**14,675**	**16,681**	**(358)**	**16,323**
Housing and mortgage 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**

As at 31 December 2018, 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
Housing and mortgage loans	15	-	-	-	-	-	-	15
Loans to medium and small enterprises	53	-	-	5	-	35	-	94
31 December 2018	**69**	**-**	**-**	**5**	**-**	**35**	**-**	**109**
Loans to medium and small enterprises	9	-	55	-	-	-	-	64
31 December 2017	**9**	**-**	**55**	**-**	**-**	**-**	**-**	**64**

b) Fair Value of Collaterals

	In thousands of EUR	
	31 December 2018	**31 December 2017**
Cash collateral	676	1,071
Mortgage	14,830	12,958
Pledge	1,342	157
Insurance	204	222
Total	**17,052**	**14,408**

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 2018 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

	Montenegro	Russia	Bosnia & Herzeg.	Azerbaijan	Serbia	Macedonia	European Union	Total
Loans and receivables from banks	-	1,392	288	-	1,015	-	-	2,695
Loans and receivables from clients	12,425	-	-	8	15	2	-	12,450
Off-balance sheet assets	1,178	-	-	-	-	-	-	1,178
31 December 2018	**13,603**	**1,392**	**288**	**8**	**1,030**	**2**	**-**	**16,323**
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**

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	Produ-ction	Electri-city	Water industry	Constru-ction	Trade	Traffic	Hotel industry	Admini-stration	Inform. and commun.	Real estate	Other	Individu-als	Total
Loans and receivables from banks	2,695	-	-	-	-	-	-	-	-	-	-	-	-	2,695
Loans and receivables from clients	-	941	-	455	2,289	2,265	290	2,444	143	-	498	714	2,411	12,450
Off-balance sheet assets	20	-	220	-	80	627	-	25	80	-	-	118	8	1.178
31 December 2018	**2,715**	**941**	**220**	**455**	**2,369**	**2,892**	**290**	**2,469**	**223**	**-**	**498**	**832**	**2,419**	**16,323**
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**

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	585	387	972
From 1 to 2 years	9	160	169
Over 2 years	17	20	37
31 December 2018	**611**	**567**	**1,178**
Up to one year	990	59	1,049
From 1 to 2 years	-	100	100
31 December 2017	**990**	**159**	**1,149**

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**	**GBP**	**Other**	**Total**
Assets in foreign currencies	1,058	3	2	-	1,063
Liabilities in foreign currencies	1,049	-	-	-	1,049
Net open position:					
- 31 December 2018	**9**	**3**	**2**	-	**14**
- 31 December 2017	**14**	**2**	**1**	**-**	**17**
% of the core capital:					
- 31 December 2018	**0,13%**	**0,04%**	**0,03%**	-	
- 31 December 2017	**0,16%**	**0,02%**	**0,01%**	**-**	
Aggregate open position:					
- 31 December 2018	14				
- 31 December 2017	17				

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	7,951	92	9	-9
Loans and receivables to banks	2,706	971	97	-97
Total assets	**10,658**	**1,063**	**106**	**-106**
LIABILITIES				
Deposits of the clients	18,272	1,049	105	-105
Total liabilities	**18,272**	**1,049**	**105**	**-105**
Net currency risk exposure:				
- 31 December 2018			**1**	**(1)**
- 31 December 2017			**2**	**(2)**

As of 31 December 2018, 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 1 thousands (31 December 2017: EUR 2 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 and that Bank intends to keep on the same level asset and liability side in foreign currency.

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 2018:

In thousands of EUR

	Interest Bearing	Non-Interest Bearing	Total
ASSETS			
Cash balances and deposits with central banks	5,892	2,059	7,951
Loans and receivables from banks	2,706	-	2,706
Loans and receivables from clients	12,810	(360)	12,450
Investment securities	2,000	4	2,004
Total assets	**23,408**	**1,703**	**25,111**
LIABILITIES			
Deposits due to clients and banks	14,277	3,995	18,272
Borrowings from other clients	58	-	58
Total liabilities	**14,355**	**3,995**	**18,330**
Interest rate GAP:			
- 31 December 2018	**9,073**	**(2,292)**	**6,781**
- 31 December 2017	**9,058**	**(649)**	**8,409**

Interest rate GAP as of 31 December 2018 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	8,598	-	-	-	-	8,598
Interest bearing securities	-	-	-	-	2,000	2,000
Loans and receivables from clients	352	857	2,166	5,203	4,232	12,810
Total	**8,950**	**857**	**2,166**	**5,203**	**6,232**	**23,408**
% total interest bearing assets	38,23%	3,66%	9,25%	22,23%	26,62%	100%
Interest sensitive liabilities						
Interest-bearing deposit	6,955	388	658	5,428	848	14,277
Interest-bearing liabilities		5	5	11	37	58
Total	**6,955**	**393**	**663**	**5,439**	**885**	**14,335**
% interest bearing liabilities	48,52%	2,74%	4,63%	37,94%	6,17%	100%
Interest rate GAP:						
- 31 December 2018	**1,995**	**464**	**1,503**	**(236)**	**5,347**	**9,073**
- 31 December 2017	**4,249**	**900**	**858**	**(3,325)**	**6,376**	**9,058**
Cumulative GAP:						
- 31 December 2018	**1,995**	**2,459**	**3,962**	**3,726**	**9,073**	
- 31 December 2017	**4,249**	**5,149**	**6,007**	**2,682**	**9,058**	

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 2018 EUR 1,178 thousands.

As of 31 December 2018, 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 reports prepared for Central Bank of Montenegro 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 2018 is as follows:

4. FINANCIAL INSTRUMENTS (continued)

4.4. Liquidity risk (continued)

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
Cash and cash equivalents:							
Cash and cash equivalents	6,483	-	-	-	-	-	6,483
Mandatory reserve	734	-	-	-	735	-	1,469
Financial assets at amortized cost:							
Receivables from banks	2,706	-	-	-	-	-	2,706
Receivables from clients	353	861	2,171	5,212	3,067	1,146	12,810
Securities held to maturity	-	-	-	-	2,000	-	2,000
Other financial assets	10	-	-	-	-	-	10
Interest receivables, prepayments and accruals and impairments*	32	-	-	10	-410	-	-368
Total	**10,286**	**861**	**2,171**	**5,212**	**5,802**	**1,146**	**25,478**
Financial liabilities at amortized cost:							
Deposits of clients	10,891	388	658	5,428	808	40	18,213
Borrowings from other clients	-	5	5	11	37	-	58
Interest liabilities, prepayments, accruals *	12	7	9	17	12	1	58
Other liabilities:	79	101	-	-	12	-	192
Total	**10,970**	**494**	**663**	**5,439**	**857**	**40**	**18,463**
Maturity GAP:							
- 31 December 2018	**(684)**	**367**	**1,508**	**(227)**	**4,945**	**1,106**	**7,015**
- 31 December 2017	**3,489**	**896**	**856**	**(3,323)**	**4,920**	**1,433**	**8,271**
Cumulative GAP:							
- 31 December 2018	**(684)**	**(317)**	**1,191**	**964**	**5,909**	**7,015**	
- 31 December 2017	**3,489**	**4,385**	**5,241**	**1,918**	**6,838**	**8,271**	
% of total funds:							
- 31 December 2018	**-3,70%**	**-1,72%**	**6,45%**	**5,22%**	**32,00%**	**37,99%**	
- 31 December 2017	**25,90%**	**32,80%**	**39,18%**	**14,34%**	**51,12%**	**61,83%**	

* When calculating maturity and cumulative gaps, interest receivables, interest payable, prepayments and accruals are not taken into account. Bearing in mind that the table shows cash inflows and cash outflows, impairments, prepayments and accruals, could have negative impact on individual maturity periods and that is why this position is excluded.

Liquidity of the Bank, as its ability 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, and Procedure for allocating operating loss provisions, Risk Assessment and Control Self-Assessment Process, Scenario Analysis Process, and Continuous Supervision Procedures.

In accordance with the Capital Adequacy Decision, the Bank uses simplified method to calculate the required capital for operational risk.

The Operational Risk Management Committee reports quarterly to the Board of Directors on the activities undertaken to manage operational risk.

4.6 Fair Value of Financial Assets and Liabilities

As of 31 December 2018, the Bank has no financial assets initially classified at fair value. Fair value of financial assets and liabilities as of 31 December 2018 is as follows:

In thousands of EUR

	Carrying Value		**Fair Value**	
	2018	**2017**	**2018**	**2017**
Financial assets				
Cash and other deposits to CBM	7,951	7,024	7,951	7,024
Loans and receivables to banks	2,706	1,793	2,706	1,793
Loans and receivables to clients	12,450	10,789	12,450	10,789
Held to Maturity securities	2,004	2,011	2,004	2,011
Financial liabilities				
Deposits due to clients	18,272	13,127	18,272	13,127
Borrowing from other clients	58	81	58	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. 38/11, 55/12 and 82/17). 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 and effects of IFRS9 implementation on 1 January 2018);
- 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 2018, the capital adequacy ratio calculated by the Bank for statutory financial statements equalled 45.62%.

5. AJUSTMENT OF INCOME STATEMENT THE YEAR ENDING 31 DECEMBER 2017

Bank made an adjustment on Income statement for the year ending 31st of December 2017. An adjustment was made in accordance to the new reporting requirement of Central Bank of Montenegro which are applicable starting from 1st of January 2018, in order to provide comparable data for two presented years.
An adjustment is related to reclassification of the amount of loan origination fee income from fee income to interest income position. Beside this, interest income on impaired loans is shown on a separate line in profit and loss. Impairment losses are shown on the profit and loss position Net impairment losses/gains of financial assets which are not valued through profit and loss.

In thousands EUR	2017. Before adjustment	Adjustment 2017	2017 Adjusted
Interest income and similar income	458	(7)	451
Interest income on impaired financial assets	-	30	30
Interest expenses and similar expenses	(50)	-	(50)
Net interest income	**408**	**23**	**431**
Fee and commission income	73	(23)	50
Fee and commission expenses	(106)	-	(106)
Net fee and commission income	**(33)**	**(23)**	**(56)**
Foreign exchange gains, net	-	-	-
Personnel expenses	(919)	-	(919)
General and administrative expenses	(761)	-	(761)
Depreciation and amortization	(221)	-	(221)
Net impairment losses/gains of financial assets which are not valued through profit and loss	(38)	-	(38)
Operating profit	**(1,564)**	**-**	**(1,564)**
Income Taxes	(1)	-	(1)
NET LOSS	**(1,565)**	**-**	**(1,565)**

6. INTEREST INCOME, INTEREST EXPENSES AND SIMILAR INCOME

a) Interest Income

In thousands of EUR	2018	2017 adjusted
Loans to:		
- privately-owned companies	432	144
- interest income on impaired financial assets (note 15)	5	30
- state-owned companies	59	41
- entrepreneurs	9	9
- NGOs	1	3
- retail clients	177	141
	683	368
Loan origination fee income	64	23
	747	**391**
Interest on financial investments in securities:		
Held to maturity	80	90
	80	**90**
	827	**481**

6. INTEREST INCOME, INTEREST EXPENSES AND SIMILAR INCOME

a) Interest Expenses

In thousands of EUR	2018	2017
Assets on the account of:		
- International banks	5	6
- Central Bank of Montenegro	0	8
	5	**14**
Deposits:		
- Government of Montenegro	46	12
- state owned companies	10	10
- privately-owned companies	4	1
- insurance companies	2	0
- retail clients	58	13
	120	**36**
Borrowings:		
-from IRF	1	-
	1	**-**
	126	**50**

7. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and Commission Income

In thousands of EUR	2018	2017 adjusted
Domestic payments	40	23
International payments	21	17
E-banking	6	2
Approved guarantees	4	4
Cards	11	-
Other	5	4
	87	**50**

b) Fee and Commission Expenses

In thousands of EUR	2018	2017
Fees and commissions payable to the Central Bank	38	18
Fees and commissions for international payment transactions	44	42
Deposit protection premium fees	63	12
Fees and commissions for card business	59	18
Fees and commissions for e-banking	14	16
	218	**106**

8. PERSONNEL EXPENSES

In thousands of EUR	2018	2017
Net salaries	606	519
Taxes and contributions on salaries	423	364
Other employee benefits. net	1	-
Service contract, gross	0	9
Business travel costs and per diems	11	8
Provision for unused vacations	11	4
Provisions for severance pay (note 22)	2	14
Employee training costs	1	1
	1,055	**919**

9. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of EUR	2018	2017
Rental costs (Note 29)	138	108
Security services	31	34
Electricity, utilities and fuel costs	17	15
Cleaning services	17	16
License costs and software maintenance	238	239
Objects, equipment, IT equipment, ATM maintenance costs	5	3
Legal fees	44	43
Insurance costs	14	13
External control expenses	124	109
Consultant fees	38	63
Phone charges	13	12
Communication network costs	18	17
Office supplies	3	7
Representation costs	5	5
Advertising and marketing	17	37
Membership fees	16	16
Subscription costs	14	12
Vehicle maintenance and registration costs	1	1
Miscellaneous expenses	12	11
	765	**761**

10. DEPRECIATION AND AMORTIZATION

In thousands of EUR	2018	2017
Property and equipment (Note 17)	136	131
Intangible assets (Note 18)	121	90
	257	**221**

11. NETIMPAIRMENT LOSSES/GAINS OF FINANCIAL ASSETS EHICH ARE NOT VALUED THROUGH PROFIT AND LOSS

In thousands EUR	2018	2017
Net increase of provisions impairment losses for:		
- loans	285	38
- deposits to the banks	4	
- approved guarantees	23	-
	312	**38**

12. INCOME TAXES

a) Components of Income Tax

In thousands of EUR	2018	2017
Deferred income taxes	(6)	1
	(6)	**1**

In thousands of EUR	2018	2017
Profit before tax	**(1,808)**	**(1,564)**
Income tax at Law rate of 9%	(163)	(141)
Unrecognized tax asset on tax losses	163	141
Effects of different treatment on fixed assets for tax purposes	6	(1)
Income tax in income statement	**6**	**(1)**
Effective tax rate	**-0.33%**	**0.06%**

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

b) Deferred Tax

In thousands of EUR	Tax asset	Tax liability	Net asset/ (liability)
Balance as of 31 December 2017	**-**	**(18)**	**(18)**
Increase in deferred tax liability based on temporary differences between accounting and tax values of property, equipment and intangible assets	-	6	6
Balance as of 31 December 2018	**-**	**(12)**	**(12)**

Deferred tax assets amounting to EUR 163 thousand after tax loss carry forward from 2018 has not been recognized (from 2017, EUR 141 thousands). In accordance with the Law on Corporate Income Tax of Montenegro, tax losses can be used to up to the end of 2023 (for 2017 up to 2022).

13. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

In thousand EUR	31 December 2018	31 December 2017
Cash on hand:		
- in EUR	1,162	563
- in foreign currencies	92	23
Gyro account:		
- in EUR	5,157	5,488
Obligatory reserves held with the Central Bank of Montenegro	1,469	919
Other	71	31
	7,951	**7,024**

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, 2018 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. 88/17), 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 month, 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.

14. LOANS AND RECEIVABLES FROM BANKS

In thousand EUR	31 December 2018	31 December 2017
Correspondent accounts with foreign banks	2,706	1,793
Impairment loss	(11)	-
	2,695	**1,793**

As of December 31, 2018, 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 2018 fully represent a vista deposits with calculated negative interest in case if the account balance exceeds the amount of EUR 500 thousand, except for the account with AIK Bank Serbia for which negative interest is not charged independently of the balance. In accordance to IFRS9, applicable starting from 1 January 2018, Bank calculated effects of fist implementation of standard on loans and receivables from banks in amount of EUR 7 thousands which was recognized through retained earnings on the same date.

15. LOANS AND RECEIVABLES FROM CUSTOMERS

In thousand EUR	December 31, 2018	December 31, 2017
Matured loans:		
- privately-owned companies	2,089	64
- retail customers	143	67
Short-term loans:		
-privately-owned companies	6,005	2,027
-state-owned companies	-	200
-retail costumers	40	25
Long-term loans:		
-privately-owned companies	1,589	4,450
-state-owned companies	520	1,196
- non-governmental organizations	-	36
- entrepreneurs	144	145
- retail customers	2,278	2,609
- cards retail	2	-
	12,810	**10,819**
Interest receivables:		
- loans	11	2
Accruals and prepayments:		
- interest on loans	32	43
- loan origination fees	(56)	(66)
	(13)	**(21)**
	12,797	**10,798**
Minus:		
Impairment losses on loans:	**(347)**	**(9)**
Total:	**12,450**	**10,789**

Short-term loans to corporate entities are mostly approved for working capital with interest rate between 4% and 7% p.a.. Long-term loans are granted for a period of 18 to 120 months mostly for the legal entities performing trading and manufacturing accommodation industry. Short-term and long-term loans to corporate entities are mostly approved at a nominal interest rate of 4% 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% to 9%. 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 11.45% per annum.

15. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Movements on the impairment balances are shown below:

Balance on 1 January 2017	**-**
Impairments (note 11)	38
Interest accrued on impaired receivables (note 6)	(29)
Balance on 31 December 2017	**9**
IFRS9 implementation effects	57
Balance on 1 January 2018	**66**
Impairments (note 11)	285
Interest accrued on impaired receivables (note 6)	(5)
Balance on 31 December 2018	**347**

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 2018	31 December 2017
Trade activities	2,265	3,006
Construction	2,289	2,437
Manufacturing	941	1,003
Accommodation and nutrition services	2,444	587
Water supply	455	500
Traffic and storage	290	369
Administrative and auxiliary service activities	143	181
Other service activities	714	10
Real estate	498	
Professional, scientific and technical activities	-	9
Retail	2,411	2,687
	12,450	**10,789**

16. INVESTMENT SECURITIES VALUED AT AMORTIZED COST

As at 31 December 2018 the portfolio of the securities valued at amortized cost 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,
- Impairment loss on government bonds in amount of EUR 7 thousands.

In accordance to IFRS 9, Bank calculated impairment losses on securities valued at amortized cost. First time implementation effects of IFRS 9 were EUR 7 thousands and they are recognized in retained earnings on the date of first implementation 1 January 2018.

17. 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 1 January 2017	**95**	**528**	**623**
Additions	2	27	29
Balance as at 31 December 2017	**97**	**555**	**652**
Additions	-	10	10
Balance as at 31 December 2018	**97**	**565**	**662**
Accumulated depreciation			
Balance as at 1 January 2017	17	46	63
Depreciation (Note 10)	34	97	131
Balance as at 31 December 2017	**51**	**143**	**194**
Depreciation (Note 10)	34	102	136
Balance as at 31 December 2018	**85**	**245**	**330**
Current Value:			
- 31 December 2018	**12**	**320**	**332**
- 31 December 2017	**46**	**412**	**458**

As at 31 December 2018 the Bank does not have own property under collateral agreements for insuring the repayment of loans and other liabilities.

Buildings as at 31 December 2018 amounting to EUR 12 thousand fully relate to investments in adaptation of rented facilities - that are not owned by the Bank.

18. 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	2018	2017
Cost		
Balance as at 1 January	565	488
Additions during the period	54	77
	619	**565**
Accumulated Amortization		
Balance as at 1 January	129	39
Amortization (Note 10)	121	90
	250	**129**
Net Book Value as at 31 December	**369**	**436**

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.

19. OTHER ASSETS

In thousand EUR	2018	2017
Prepaid expenses	51	55
Receivables of the Tax Administration	13	8
Inventories of plastic cards	18	18
Receivables from funds (maternity leave)	8	7
Receivables from employees	2	1
Payment transaction fees receivables	7	1
Other receivables	-	6
	99	**96**

20. DEPOSITS BY CUSTOMERS

In thousand EUR	31 December 2018	31 December 2017
Demand deposits:		
- privately-owned companies	7,421	3,400
- state-owned companies	10	5
- Government of Montenegro	1,685	1,509
- entrepreneurs	12	10
- insurance companies	3	10
- non–profit organizations	0	-
- retail costumers	1,050	373
	10,181	**5,307**
Short-term deposits:		
- privately-owned company	282	134
- state-owned companies	2,000	-
- Government of Montenegro	1,000	-
- insurance companies	10	100
- retail companies	488	162
	3,780	**396**
Long-term deposits:		
- privately-owned companies	677	1,304
- state-owned companies	-	3,100
- Government of Montenegro	1,000	2,000
- insurance companies	110	-
- retail costumers	2,466	1,000
	4,253	**7,404**
	18,213	**13,107**
Interest and other liabilities		
Accrued interest	58	20
	58	**20**
	18,272	**13,127**

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 3.1% per annum, while for corporate clients ranging from 0.1% to 3%.

21. 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, 2018 consist of one credit debt towards the Fund in amount of EUR 58 thousands.

In thousand EUR

Approved amount	Approval date	Maturity date	Interest rate	Balance as at 31 December,2018
84	19.09.2017	30.09.2021	1.50%	58

22. PROVISIONS

In thousand EUR	31 December 2018	31 December 2017
Provisions for employee benefits	16	14
Provisions on approved guarantees	24	-
Provisions on approved, unused credit lines	1	-
	41	**14**

23. OTHER LIABILITIES

In thousand EUR	31 December 2018	31 December 2017
Liabilities to domestic suppliers	109	128
Liabilities to foreign suppliers	3	3
Accrued liabilities for unused holidays	38	27
Accrued liabilities	51	21
Other liabilities	17	-
	218	**179**

23. CAPITAL

As of 31 December 2018, 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 2018 is as follows:

	31 December 2018		
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%**

25. 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 2018 amounted to 45.62% (31 December 2017: 81.92%).

As of 31 December 2017, the own funds of the Bank are above prescribed minimum of EUR 5,000 thousand and amount EUR 6,806 thousand. (31 December 2016: EUR 8,689 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 2018 the Bank's capital is above the regulatory minimum.

26. OFF-BALANCE SHEET ITEMS

In thousand EUR	31 December 2018	31 December 2017
Off-balance assets that bears credit risk		
Irrevocable commitments to grant loans	611	990
Issued guarantees	567	159
	1,178	**1,149**
Other off-balance items		
Off-balance sheet interest	5	-
Collaterals on receivables	17,052	14,408
	18,235	**15,557**

27. 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 2018	31 December 2017
Loans:		
-ADC d.o.o.	-	1,600
-retail loans - employees	303	256
Total receivables:	**303**	**1,856**
Liabilities		
Demand deposits:		
- Azmont investments	3,150	261
- ADC	3	2
-retail deposits – employees	66	137
Term deposits:		
- Azmont investments	-	800
-retail deposits – employees	292	104
Liabilities for accrued interest on deposits	3	1
Liabilities to suppliers – Azmont investment	101	98
Total liabilities	**3,615**	**1,403**
Liabilities, net	**-3,312**	**453**

27. 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 6.95% per annum.

On 31 December 2018 there is EUR 4 thousand of off-balance sheet exposure that refers to employees approved and unused limit for credit card.

Income and expenses arising from transactions with related parties during 2018 and 2017 are as follows:

In thousand EUR	**31 December 2018**	**31 December 2017**
Interest income:		
- ADC d.o.o.	49	70
- retail loans – employees	16	13
Fees income:		
- Azmont investments – payment transaction	-	2
- ADC – for loans approval	-	2
Total income:	**65**	**87**
Interest expenses:		
- Azmont investments	(1)	1
- employees	4	1
Total expenses:	**3**	**2**
Income, net	**62**	**85**

Compensation to senior management based on gross salaries and benefits in 2018 is EUR 219 thousands (2017, EUR 215 thousand).

28. LITIGATIONS

As at 31 December 2018 there is one court case against the Bank, initiated by the Central Bank of Montenegro. It is stated that the Bank did not provided adequate information to clients on its website, in accordance with the requirements of the Law on Consumer Loans. According to the estimates of the Bank's legal department, the total value of the dispute against the Bank ranges from EUR 2 to 20 thousand. The outcome cannot be predicted, but the legal department is of the opinion that there is 90% probability that the dispute will be settled in favour of the bank. The Bank did not make any provision for potential losses referring to this court procedure.

In addition, the Bank also conducts more proceedings against legal and physical persons for the collection of receivables in the total amount of EUR 77 thousand.

29. 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 2018, the lease expense amounted to EUR 138 thousand. (Note 9)

The lease of business premises represents the liabilities for a period of 1 to 2 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 2018**	**31 December 2017**
Up to 1 year	102	102
Between 1 and 5 years	65	22
	167	**198**

30. 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.

	2018	2017
(Loss)/gain for the year in thousand EUR	(1,808)	(1,565)
The weighted average number of shares	299,511,761	299,511,761
Earnings (loss) per share in EUR	**-0.006**	**-0.005**

31. 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 2018 and 2017 were as follows:

	31 December 2018	31 December 2017
USD	0,8731	0.8338
CHF	0,8907	0.8546
GBP	1,1078	1.1271

32. 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 2018.

33. 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, 18/2013 and 24/2018) 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 2018.

Number of employees as at 31 December 2018 was 33 (31 December 2017: 27 employees).

Gyro account: 907-58001-38

On 30 November 2015 the request for issuing the banking licence to Nova banka 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:

33. 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 2018 financial statements: Ernst&Young d.o.o Montenegro. Podgorica, ulica Stanka Dragojevića bb, 81000 Podgorica, Montenegro.

Book value of the shares on 31 December 2018 was EUR 0.04 per share.

There was no payments of dividends in 2018.

MANAGEMENT REPORT

NOVABANKA

ON BUSINESS PERFORMANCE OF THE BANK FOR 2018

February, 2019

Contents:

1. STATEMENT ON APPLICATION OF CORPORATE MANAGEMENT CODE

In accordance with the Companies Act ("Official Gazette of Montenegro" No. 17/2007, 80/2008, 36/2011), on the date of registration, Nova Banka acquired the status of a legal entity as a joint-stock company. As a joint-stock company, Nova Banka regulates the mutual relations of all interested parties in accordance with its Founding Act and the Statute.

The bodies of the Bank are the Bank’s Assembly, the Board of Directors and the Executive Director. The roles of the Bank's bodies are defined by the Law on Banks and the Statute of Nova Banka. In the management part, Nova Banka applies the best international corporate governance practices.

In the first place, the Law on Banks (Official Gazette of Montenegro no. 017/08, 044/10, 040/11, 073/17) and the Statute of Nova Banka defines relations between the Assembly, the Board of Directors and the Executive Director.

Corporate governance is established in the following ways:

- that in all segments of corporate governance, Montenegro's legal framework and good business practice are respected;
- In that context, it sets out principles that are flexible and give space to the Board of Directors to manage the Bank in the best way and achieve the set goals;
- To ensure that all mutual relations of stakeholders in the functioning of the Bank are clearly differentiated, that there are no overlaps or gaps in responsibilities and competencies, and that responsibilities and obligations are balanced, as well as rights and competencies;
- that the relations between all interested parties are set up so that the common interest has a priority, ie the interest of the Bank in relation to their individual interests;
- To fully, efficiently and effectively execute all the functions in managing the Bank, and to manage the Bank in a manner that leads to the achievement of the set goals and tasks.

In the application of corporate governance rules, these acts have been implemented, as well as other internal acts of the Bank, and there are no deviations in their application.

2. GENERAL INFORMATION

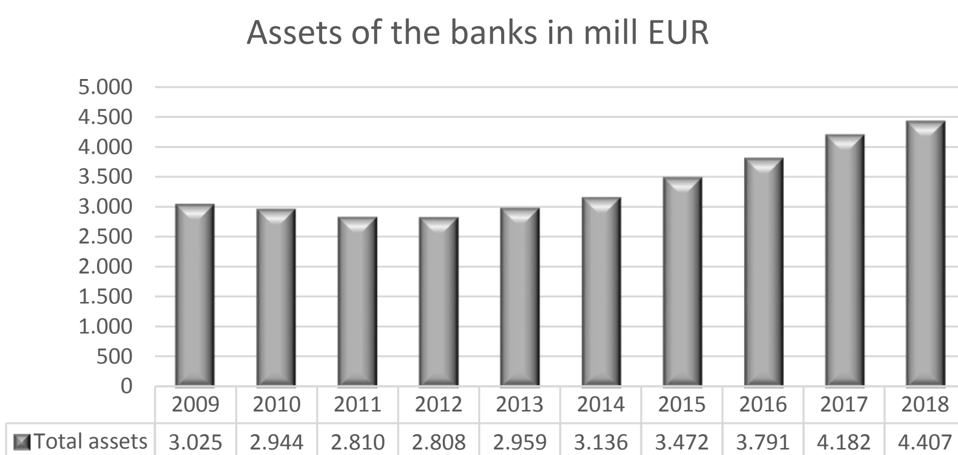
Nova Banka A.D. was formed in 2016 by Azmont Investment DOO, the company that operates in Montenegro since 2012.

The Bank is headquartered in Podgorica, Marka Miljanova Street, No. 46.

Table 1 – Market share of the bank on December 31, 2018

Bank	Assets	Loans	Deposit	Equity
Banking sector (in 000eur)	4,406,813	2,507,777	3,470,648	515,480
Nova Banka AD (in 000eur)	25,910	12,450	18,272	7,309
%of share	0.59%	0.50%	0.53%	1.42%

Graph 1 – Asset of the banking sector for the period 2009-2018



Nova Banka AD Podgorica is the bank with the level of capital that provided the basis for a stable slight growth and safe operations during 2018, with the absorption capacity of potential risks from operations. The level of own funds at 31 December 2018 was EUR 6.806 thousands (31 December 2017: EUR 8.689 thousands)

As at 31 December 2018, the Bank is consisted of headquarter in Podgorica and one branch office on the same location.

2.1. Registraztion and activity of the Bank

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, 6/13 and 70/17) 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.

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.

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.

2.2. Organization and employees

a) Board of directors

Table 2 - Board of directors of the bank

Position	Name	Date of birth	Residence
1. President	Ahmet Erentok	21.9.1962	Turkey
2. member	Rashad Aliyev	25.1.1982	Azerbaijan
3. member	Rashad Rasullu	11.4.1980	Azerbaijan
4. member	Gorhmaz Aghayev	1.5.1980	Azerbaijan
5. member	Ana Ivanović	12.8.1981	Montenegro

b) Executive management of the Bank

Table 3 - Executive directors of the Bank

Name	Position	On the position starting from
Kamran Mammadov	Chief Executive Officer	01.03.2017.
Đorđe Lukić	Executive Director for Commercial Business and Banking Operations	19.10.2017.

c) Members of Asset and Liability Committee (ALCO)

Table 4 - Members of ALCO

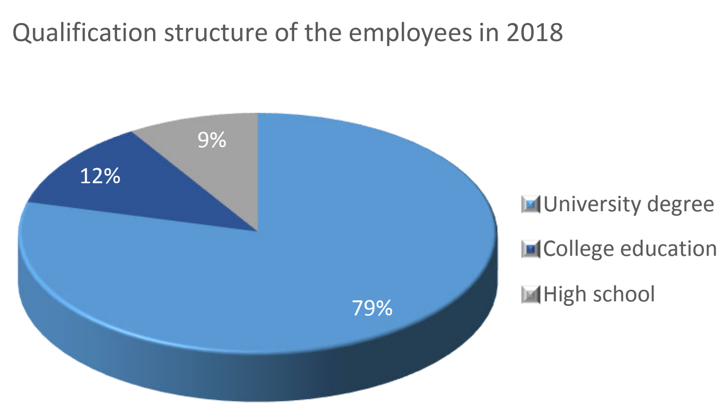
Name	Position
Kamran Mammadov	President
Đorđe Lukić	Member
Ana Rašović	Member
Enesa Bekteši	Member
Maja Barada	Member
Nikola Marinović	Member

2.3. Personnel qualification structure

On 31 December 2017 the Bank had 33 employees, with the following structure:

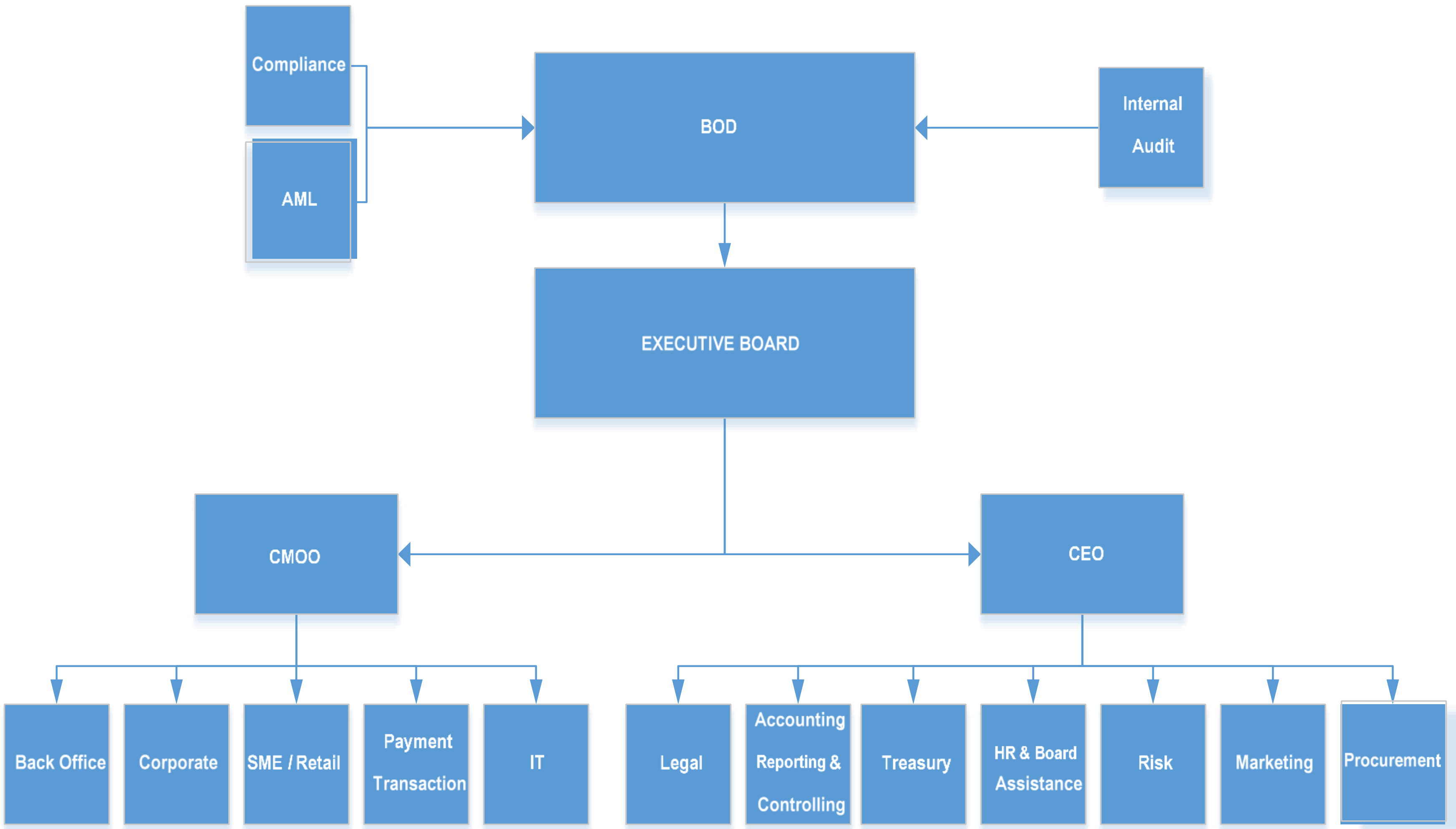
- University degree 26 employees or 79%,
- College education 4 employees or 12%,
- High school 3 employees or 9%.

Graph 2. – Personnel structure



2.4. Organizational structure of the Bank

Graph 3 – Organizational chart



3. PERFORMANCE OF THE BANK IN 2018

Table 5. - Performance indicators in 2018 (in 000 EUR)

DESCRIPTION	2018	2017	Change %
BALANCE SHEET ASSETS	**25.910**	**22.607**	**15%**
GROSS LOANS	12.810	10.798	19%
Retail loans	2.459	2.695	-9%
Corporate loans	10.338	8.102	28%
DEPOSITS	**18.272**	**13.127**	**39%**
Retail deposits	4.053	1.543	163%
Corporate deposits	14.219	11.584	23%
Total equity	**7.309**	**9.188**	**-20%**
LOSS FROM OPERATIONS	-1.808	-1.565	16%
PROFITABILITY RATIOS IN %			
ROA - financial result / balance sheet assets %	**-6,98**	**-6,92**	**1%**
ROE – financial result / total equity %	**-24,74**	**-17,03**	**45%**
NET INTEREST INCOME	701	408	72%
NET FEE AND COMMISSION INCOME	-131	-31	323%
NUMBER OF EMPLOYEES	33	27	22%
Assets per employee in 000 EUR	785	837	-6%
OPERATING EXPENSES	-2.077	-1.900	9%
INDICATORS			
CAPITAL ADEQUACY %	**45,62**	**81,96**	-44%
LIQUIDITY RATIOS %	**3,01**	**4,56**	-34%
CASH IN 000 EUR	**10.658**	**8.817**	21%
Interest income / Interest bearing assets %	5,90	5,46	8%
Interest income / Total assets %	3,56	3,08	16%
Interest expenses / Interest bearing liabilities%	0,86	1,01	-15%
Operating expenses / Total expenses %	76,04	92,14	-17%
Liquid assets / Deposits %	58,27	63,76	-9%
Liquid assets / Total assets %	38,30	36,97	4%
Liquid assets / Short-term liabilities %	56,37	142,29	-60%

4. REGULATORY REQUIREMENTS IN 2018

Table 6. - Regulatory requirements on 31 December 2018

R.Br.	OPIS	LIMIT	31.12.2018
1	Capital Adequacy Ratio	min. 10 %	45,62%
3	Exposure to the related parties to the Bank	maks. 25%	5,45%
4	Sum of big exposures	maks. 800%	80,33%
5	Total equity in 000 EUR	min 5 mil	7.309
6	Own funds in 000 EUR	min 5 mil	6.806
7	Total risk assets and other risks in 000 EUR		
7.1.	Risk weighted assets		13.396
7.2.	Capital need for market risk		0
7.3.	Capital need for operating risk		107
7.4.	Capital need for country risk		160
7.5.	Capital need for other risks		294
7.6.	Open FX position		14

Audit company Ernst&Young d.o.o Montenegro, audited financial statements and regulatory requirements for 2018 and stated that there was no breaching of the same.

5. BALANCE SHEET FOR 2018

5.1. Assets of the bank on 31 December 2018

Table 7. – Assets of the Bank on 31 December 2018 in 000 EUR

ASETS	31 December 2018.	31 December 2017.	Index (2018/2017)
ASSETS			
Cash and cash on the accounts with Central bank	7.951	7.024	1,13
Loans and receivables form banks	2.695	1.793	1,50
Loans and receivables form clients	12.450	10.789	1,15
Investments securities held to maturity	2.004	2.011	1,00
Property, plant and equipment	332	458	0,72
Intangible assets	369	436	0,84
Other financial receivables	109	96	1,13
TOTAL ASSETS	25.910	22.607	1,15

Total assets of the Bank in 2018 amounted EUR 25.910 thousands.

Loans to the clients amounted EUR 12.450 thousands and loan portfolio represents 48% of total Bank's assets. The realized growth in 2018 is 15% (31 December 2017: EUR 10.789 thousands)

As at 31 December 2018 the portfolio of the securities held to maturity and valued at amortized cost amounts EUR 2.004 thousands (9% of total Bank assets). 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,
- Impairment loss booked in amount of EUR 7 thousand.

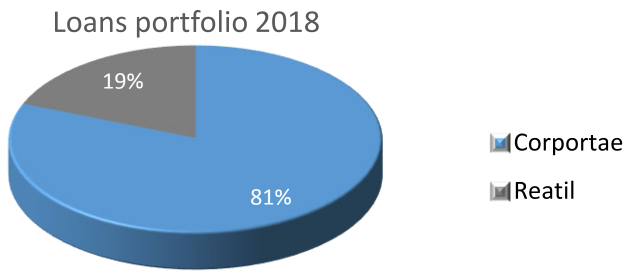
Except loans to the clients, significant part of the assets of the Bank is cash, representing 41%.

5.2. Loans to the clients on 31 December 2018

Table 8. - Net loans to the clients on 31 December 2018 in 000 EUR

NO	DESCRIPTION	31.12.2018	31.12.2017
I	**Loans to the clients**	**12.797**	**10.798**
1	Corporate	10.338	8.103
2	Retail	2.459	2.695
II	Loan impairment	-347	-9
I+II	**Net loans to the clients**	**12.450**	**10.789**

Graph 4. - Loans to the clients - 2018



Total loans to the clients, on 31 December 2018, amounted EUR 12.450 thousands (31 December 2017: EUR 10.789 thousands).
Reatail loans amounted EUR 2.459 thousands, and corporate loans were EUR 10.338 thousands.

Table 9. - Portfolio overview on 31 December 2018 in 000 EUR

Type of loan	2018	% share 2018	2017	% share 2017
Balance sheet item				
Loans and receivables form banks	2.706	15%	1.793	12%
Short term loans to clients	6.045	35%	2.252	15%
Long term loans to clients	4.533	26%	8.436	58%
Overdue loans	2.232	13%	131	1%
Interest receivables and prepayments	-13	0%	-21	0%
HTM securities	2.011	11%	2.011	14%
Total balance sheet exposure to credit risk	17.514	100%	*14.602*	100%
Off-balance sheet items				
Performance guarantees	567	48%	159	14%
Undrawn loans	611	52%	990	86%
Total off-balance sheet exposure to credit risk	1.178	100%	*1.149*	*100%*
Total exposure to credit risk	18.692	100%	15.751	100%

In the Bank placement structure, the most dominant is the participation of short-term loans (35%), primarily corporate short-term loans.

Table 10 - Overview of total portfolio by holders 31 December 2018 in 000 EUR

Type of loan	2018	% share	2017	% share
Banks, non–resident	2.706	15%	1.789	12%
Banks, residents	0	0%	4	0%
State - owned companies	519	3%	1.391	10%
Privately owned companies	9.677	55%	6.531	45%
Entrepreneurs	144	1%	145	1%
NGOs and other non-profit organizations, residents	0	0%	36	0%
Individuals, residents	2.432	14%	2.667	18%
Individual, non-residents	25	0%	28	0%
Government Bonds	2.011	11%	2.011	14%
Total credit risk exposures	17.514	100%	14.602	100%

In 2018 the highest amount of approved loans relates to corporate loans.

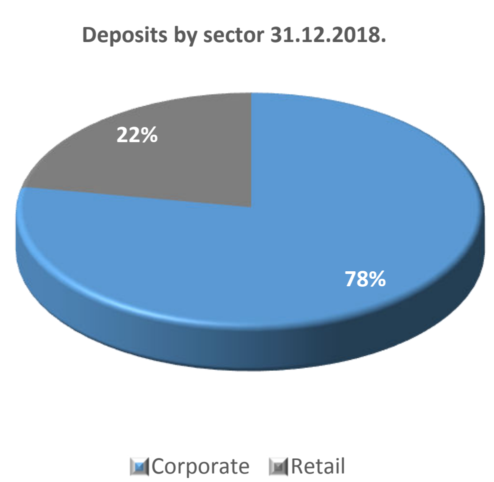
5.3. Equity and liabilities of the bank on 31 December 2018

Table 11. - Equity and liabilities on 31 December 2018 in 000 EUR

EQUITY AND LIABILITIES	31 December 2018.	31 December 2017.	Index (2018/2017)
LIABILITIES			
Deposits of the banks	0	0	0
Deposits of the clients	18.272	13.127	1,39
Borrowings from other clients	58	81	0,72
Other liabilities	271	211	1,28
TOTAL LIABILITIES	18.601	13.419	1,39
EQUITY			
Share capital	11.980	11.980	1,00
Effects of IFRS9 application	-71	0	0,00
Profit / Loss of the current year	-4.600	-2.792	1,65
TOTAL EQUITY	7.309	9.188	0,80
TOTAL EQUITY AND LIABILITIES	**25.910**	**22.607**	1,15
OFF-BALANCE SHEET RECORDS	**18.235**	**15.557**	**1,17**

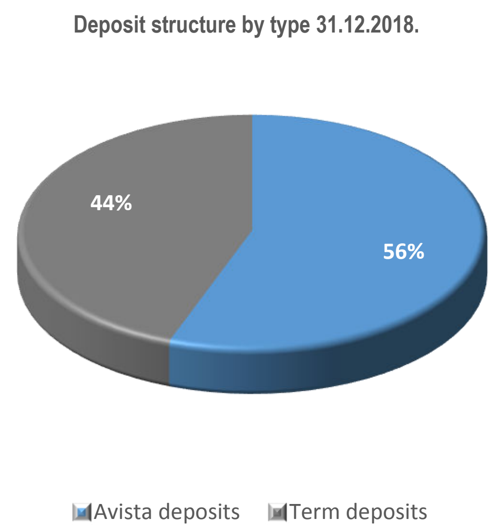
In the equity and liabilities structure total deposits of the clients, with accrued interest on 31 December 2018, represents 71% and amounts EUR 18.272 thousands (2017: EUR 13.127 thousands).

Graph 5. - Deposit structure by sector 31 December 2018



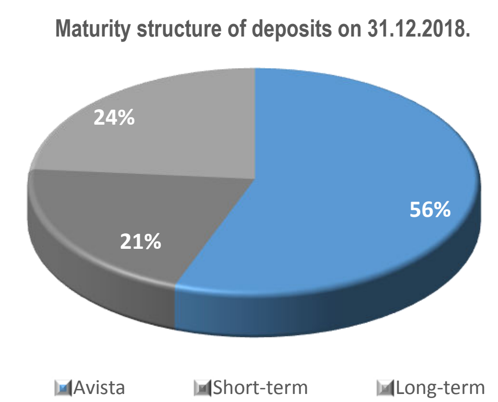
Deposit structure by sector at the end of 2018, shows that retail deposits represents 22% of total deposits, or EUR 4.053 thousands.
Corporate deposits are 78% of total deposits of the Bank, or EUR 14.219 thousands. The higher participation of the corporate deposits is the result due to change of the bank's strategy in the last quarter of 2017. Intensification of deposit collection activities are to provide diversification of funding sources and self-financing model. The attraction of corporate deposits, in this operational phase of the Bank, is much more realistic than retail, but retail deposits also recorded growth of 2,6 times compared to the end of 2017.

Graph 6. - *Deposit structure on 31 December 2018 by type*



Avista deposits at the end of 2018 amounts EUR 10.184 thousands or 56% of total deposits, while term deposits are EUR 8.088 thousands or 44% total Bank's deposits.
Interest rates offered by the Bank on term deposits have been at the level of big international banks on the Montenegrin market, and change in strategy required an increase in interest rates on term deposits. Deposit contraction is still high.

Graph 7. - Maturity structure of deposits on 31 December 2018



Maturity structure of deposits at the end of 2018, shows that long-term deposits represents only 24% of total deposits and they amounts EUR 4.312 thousands.
Short-term and a vista deposits are 76% of total deposit portfolio of the Bank and amounts EUR 13.960 thousands.

5.4. Changes on equity up to 31st of December 2018

As of 31 December 2018, the Bank's share capital was comprised of 299.511.761 ordinary shares, with nominal value per share of EUR 0, 04.

Table 12 - The ownership structure of the Bank as at 31 December 2018

	31 December 2018		
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%**

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, 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 2018 amounted to 45,62%.

As of 31 December 2018, the own funds of the Bank are above prescribed minimum of EUR 5.000 thousand and amount EUR 6.806 thousand.

The Law on Banks ("List of CGs" Nos. 17/2008, 44/2010, 40/2011 and 73/2017) defines the minimum amount of bank capital in the amount of EUR 5 million.

On 31 December 2018 the Bank's capital is above the regulatory minimum.

Table 13. - Changes on equity

Position	Share Capital	Retained earnings	TOTAL
Balance on 1. January 2017	**11.980**	**-1.227**	**-**
Loss of current period		-1.565	
Balance on 31 December 2017	**11.980**	**-2.792**	**-**
Effects of IFRS9 application			-71
Loss of current period		-1.808	
Balance on 31 December 2018	**11.980**	**-4.600**	**-71**

5.5. Bank's off-balance sheet records

Commitments of the Bank as at 31 December 2018 consists of the contingent liabilities of the Bank and the rest off-balance sheet relating to the records of received collateral for loan receivables and contingent liabilities of the bank.

Table 14. - Off-balance records of the Bank

In thousands EUR	31 Dec	31 Dec
	2018.	**2017.**
Contingent liabilities of the Bank	**1.178**	**1.149**
Irrevocable commitments to grant loans	611	990
Guarantees	567	159
- *issued payment guarantees*	*226*	*0*
- *issued performance guarantees*	*241*	*126*
- *other guarantees*	*100*	*33*
Other off-balance items	**17.057**	**14.408**
Collaterals on receivables	17.052	14.408
	5	0
Total	**18.235**	**15.557**

Off-balance sheet exposure of the Bank on December 31, 2018 amounts to EUR 1.178 thousands, of which 611 EUR thousands (86%) of the unused approved loans and approved guarantees of EUR 567 thousands (48%).

6. INCOME STATEMENT FOR 2018

6.1. Adjusted Income statement for 2017

Table 15.- Adjusted Income statement for the year ending on 31st December 2017

U hiljadama EUR	2017.	Adjustment	2017
	before adjustment	2017	adjusted
Interest income	458	+23	481
Interest expenses	-50	-	-50
NET INTEREST INCOME	**408**	**+23**	**431**
Fee and commission income	73	-23	50
Fee and commission expenses	-106	-	-106
NET FEE AND COMMISSION INCOME	**-33**	**-23**	**-56**
Net FX result	-	-	-
Personal expenses	-919	-	-919
Other administrative expenses	-761	-	-761
Depreciation	-221	-	-221
Other costs	-38	-	-38
Impairment losses	**-1.564**	**-**	**-1.564**
	-1	-	-1
OPERATING PROFIT	**-1.565**	**-**	**-1.565**

Table 16.- Income statement

In thousands EUR:	2018.	2017*.	Index (2018/2017)
Interest income	827	481	1,72
Interest expenses	-126	-50	2,52
NET INTEREST INCOME	701	430	1,63
Fee and commission income	87	51	1,71
Fee and commission expenses	-218	-106	2,06
NET FEE AND COMMISSION INCOME	-131	-55	2,34
Net FX result	5	0	0,00
Personal expenses	-1.055	-919	1,15
Other administrative expenses	-764	-756	1,01
Depreciation	-257	-221	1,16
Other costs	-1	-5	0,20
Impairment losses	-312	-38	8,21
OPERATING PROFIT	-1.815	-1.564	1,16
Income tax	6	-1	-6,00
NET PROFIT	-1.808	-1.565	1,16

6.2. Interest income and expenses

Table 17.- Interest income and expenses in 000 EUR

Interest income and expenses	2018	2017 adjusted
Interest income		
Loans:		
-state owned companies	59	42
-privately owned companies	435	173
-entrepreneurs	9	9
-NGOs and other non-profit organizations, residents	1	3
-individuals	179	141
	683	**368**
Loan origination fees	64	23
Interest on HTM securities	80	90
Total interest income	**827**	**481**
Interest expenses		
International banks	5	6
Central bank of Montenegro	0	8
	5	**14**
Deposits:		
-Government of Montenegro	46	11
-state owned companies	10	10
-privately owned companies	4	2
- insurance companies	2	0
-individuals	58	13
	120	**36**
IRF Borrowings	1	0
Total interest expenses	126	50
Net interest income	**701**	**431**

From the interest income details we can see that the highest share in income by holder is related to interest income from privately owned companies and individuals, which is understandable having in mind bank's portfolio structure.

6.3. Fee and commissions income and expenses

Table 18.- Fee and commissions income and expenses in 000 EUR

Fee and commissions income and expenses	2018	2017
Fee and commission income		
Guarantee fees	*4*	*4*
Loan fees	*4*	*4*
Payment transactions - domestic	*40*	*23*
Payment transactions – international	*21*	*17*
E-banking fees	*6*	*2*
Cards	*11*	*0*
Other	*1*	*0*
Total fee and commission income	***87***	***50***
Fee and commissions expenses:		
Central bank fees	*38*	*18*
International payment fees	*44*	*42*
Deposit protection Fund fees	*63*	*12*
E-banking fees	*14*	*16*
Cards processing fees	*24*	*10*
MasterCard fees	*35*	*8*
Total fee and commission expenses	***218***	***106***
Net fee and commission income	**-131**	**-56**

The realized income from fees in 2018 increased significantly compared to 2017. From the table above, can be concluded that significant increase is recorded on cards fees which represents mostly fixed amounts (with actual volumes). This expense also did not affected whole 12 months of 2017 as cards operation was introduced in August 2017. Also, due to higher deposit level, deposit protection premium fees were higher in 2018.

6.3.1. Operating expenses

Table 19.- Operating expenses in 000 EUR

Operating expenses	2018	2017
Personnel expenses		
Net salaries	606	519
Taxes, contributions and surtax on salaries	423	364
Other payments to employees	1	0
Temporary contracts	0	9
Provision for unused annual leave	11	4
Provisions for severance payments	2	14
Travel expenses and per diem	11	8
Training expenses	1	1
Total personnel expenses	**1.055**	**919**
Other administrative expenses		
Rent	138	108
Audit expenses (CBM and external audit)	124	109
Security	31	34
Advertising and marketing	17	37
Legal cost	44	43
Licenses and SW maintenance	238	239
Maintenance of facilities, equipment, IT equipment, ATMs	5	3
Vehicle maintenance and registration	1	1
Consulting fees	38	63
Electricity and fuel	17	15
Office material	3	7
Communication network	18	17
Subscriptions	14	12
Phone charges	13	12
Membership fees for Bank Association	16	16
Insurance	14	13
Representation	5	5
Cleaning	17	16
Other Costs	12	11
Total administrative expenses	**765**	**761**
Depreciation	**257**	**221**
TOTAL OPETAING EXPENSES	**2.077**	**1.901**

Operating and other expenses in 2018 amounted EUR 2.077 thousands out of which EUR 1.055 thousands or 51% are related to staff costs (2017: EUR 919 thousands).

7. MEASURES FOR ENVIRONMENTAL PROTECTION

Nova Banka AD keeps its policy environmentally conscious and committed, in accordance with the Law on Environment (Official Gazette of Montenegro, No. 052/16 of 09.08.2016), Law on Environmental Impact Assessment ("Official Gazette of the Republic of Montenegro Gore ", No. 075/18 of 23.11.2018) and the Law on Environmental Impact Assessment ("Official Gazette of the Republic of Montenegro Gore ", No. 080/05 of 28.12.2005, Official Gazette of Montenegro", No. 040/10 of 22.07.2010, 073/10 of 10.12.2010, 040/11 of 08.08.2011, 027/13 of 11.06 .2013, 052/16 of 09.08.2016).
In accordance with Article 9 of the Law on Environment, the Bank performs the following activities in order to ensure the protection of the environment:

• Sustainable use of natural resources, goods and energy;
• Introduction of energy-efficient technologies and the use of renewable natural resources;
• Use of products, processes, technologies that less jeopardize the environment;
• Take measures to prevent and eliminate the consequences of endangering and harm to the environment;
• Other measures in accordance with the law.

In accordance with the criteria defined by the Law, the Bank is not recognized as a pollutant and, on this basis, does not pay any penalties. In the foreseeable future, it does not plan any project that could have a negative impact on the environment.

In accordance with the Law on Environmental, if a particular project or business activity planned by the Bank can or will have an impact on the environment, the competent authority approval will be provided on the the impact assessment report or the decision that impact assessment on the environment is not required.

8. PLANNED FUTURE DEVELOPMENT

In accordance to adopted budget of the Bank end of November 2018, the following projection of the financial results is made for the period 2018-2021:

Table 20.- Planed profit and loss (2018-2021)

POSITION (in TEUR)	dec.18	dec.19	dec.20	dec.21
Interest Income	801.58	1,004.53	1,502.14	1,986.14
Interest Expense	-125.58	-134.02	-139.39	-193.94
Net interest income	**676.00**	**870.52**	**1,362.75**	**1,792.20**
Fees and commissions income	72.81	146.16	213.39	281.97
Fees and commissions expenses	-211.96	-250.16	-313.87	-356.48
Net fee income	**-139.15**	**-104.00**	**-100.49**	**-74.50**
Net income from financial operations	3.12	0.00	0.00	0.00
Other operating expenses	-1.41	0.00	0.00	0.00
OVERHEAD EXPENSES	**-2,069.75**	**-2,286.24**	**-2,443.87**	**-2,478.48**
Staff expenses	-1,045.03	-1,123.22	-1,169.47	-1,212.74
Other administrative costs	-769.66	-890.54	-933.64	-961.75
Depreciation	-255.06	-272.47	-340.75	-304.00
NET COST OF RISK	**-180.30**	**-224.98**	**-131.95**	**-137.11**
PROFIT BEFORE TAX	-1,711.49	-1,744.70	-1,313.56	-897.89
Corporate tax	0.00	0.00	0.00	0.00
NET PROFIT	**-1,711.49**	**-1,744.70**	**-1,313.56**	**-897.89**

Period considered by this business plan assumes continuous work on increasiung client base. Plan is to realize close business relations with our clients, to understand their business activities and financial needs, in order to be able to support them in their business requests within the shortest possible period – for for liquidity loans, loans for fixed assets, guarantees, letters of credit, etc.

Table 21 – Planned balance sheet for the period 2018 to 2021

Balance Sheet - (in TEUR)	dec.18	dec.19	dec.20	dec.21
Assets:				
Cash	8,350	2,450	5,967	5,849
Obligatory reserve	1,298	1,313	1,828	2,496
Gross Loan receivables	12,711	17,266	23,895	31,539
Minus- LLP	-235	-456	-588	-725
Net loans	12,476	16,810	23,308	30,814
Securities	2,007	1,985	0	0
Premises and other fixed assets	332	411	387	363
Intangible assets	380	284	287	230
Other assets	133	150	165	181
Total Assets	24,975	23,402	31,940	39,934
Liabilities:				
Deposits	17,311	17,504	24,377	33,284
Sight deposits	11,910	11,938	18,931	25,409
Term deposits	5,402	5,566	5,446	7,875
Borrowings	58	37	16	0
Other liabilities	200	200	200	200
Other liabilities	17,570	17,741	24,593	33,484
Share capital	11,980	11,980	14,980	14,980
Subordinated debt	-1,711	-1,745	-1,314	-898
Retained earnings current year	-2,792	-4,504	-6,248	-7,562
Retained earnings previous years	-71	-71	-71	-71
Total equity	7,406	5,661	7,348	6,450
Equity and liabilities	24,975	23,402	31,940	39,934

Table 22 – Other important indicators for the period 2018 to 2021

Balance Sheet - Assets, Liabilities and Capital	dec.18	dec.19	dec.20	dec.21
Interest bearing assets	15,367	19,907	24.809	32,787
Interest bearing liabilities	17,370	17,541	24.393	33,284
Share of interest bearing in total assets	62%	79%	90%	88%
Share of interest bearing in total liabilities	47%	80%	89%	89%
Interest income	802	1,005	1.502	1,986
Interest expense	(126)	(134)	(139)	(194)
Weighted average IR-active	5,35	5,10	6,72	6,90
Weighted average IR-passive	1,10	0,78	0,66	0,67
Margin	4,25	4,31	6,05	6,22

9. RISK MANAGEMENT

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

- credit risk;
- liquidity risk;
- operational risk

The risk management procedures are designed to identify and analyze 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 Asset and Liability Management Committee.

Credit risk

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

Credit Risk policy is based on requirements prescribed in Law on banks and by-laws, but also on other generally accepted international credit risk management principles and positive credit risk assessment practices.

The aim of Credit Risk policy is to successfully implement the Credit Policy and Risk Management Strategy in a more precise way to define areas in which credit risk sources will be identified, identification methods, methods and time frames for credit risk measurement, limits and procedures for controlling individual and total exposure to credit risk with respect to the size of the Bank and the complexity of the products, the manner and the dynamics of reporting and informing of Board of Directors and the Management Board of the Bank on credit risk management, as well as the methods and timelines for subsequent quality assurance of credit risk management.

Credit risk management is covered by two major aspects of credit activity:

1.) Previous risk assessment to be taken - a previous analysis, formalized by creating a credit file, approved by the competent bodies,
2.) Regular monitoring of investment or assumed risk. After the investment is approved, the Bank is exposed to risks that are constantly evolving depending on the client's condition or other internal or external factors. Therefore, it is necessary to regularly monitor risks with the aim of protecting the Bank's interests.

Credit risk management is consisted of all aspects of risk assessment prior to approval of investment, as well as tracking invetment up to final repayments.

Management of exposure to credit risk is performed by regular analysis of the ability of the borrower and potential borrowers to repay their interest and principal liabilities.

The Bank has established a system for monitoring of exposures at individual and portfolio level, as well as a system for adequate provisioning and allocation of impairments. In this way, potentially problematic loans are identified on time and allows timely takeover activities for repayment.In accordance with the limits stipulated by the Central Bank of Montenegro, the concentration of loans as well as the exposure concentration of the largest debtors are subject of continuous monitoring.

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.
Loan portfolio at the end of 2018 amounts EUR 12.797 thousands while off-balance sheet exposure was EUR 1.178 thousands, and all exposures were classified in the table below:

Table 23. – Exposures and impairments on 31 December 2018

No.	DESCRIPTION	31.12.2018		31.12.2017	
	Category	**Exposure**	**Impairments**	**Exposure**	**Impairments**
I	**Balance**	**12.797**	**347**	**10.798**	**9**
1	A	9.652	19	8.945	0
2	B	3.037	285	1.868	6
3	C	11	7	5	3
4	D	0	0	0	0
5	E	97	36	0	0
II	**Off - Balance**	**1.178**	**25**	**1.149**	**0**

In accordance with the revised regulation effective from January 1, 2018, the Bank calculated the impairments of financial assets in accordance to IFRS 9 and the adopted methodology. The total negative effects of IFRS 9 arecorded to the equity of the bank amount to EUR 71, out of which EUR 57 thousand relates to loans and advances to customers, EUR 7 relates to receivables from banks and EUR 7 thousand related to securities. The effect of additional impairments has a negative effect on the Bank's Tier 1 as well as on the solvency ratio. However, the solvency ratio is significantly above the prescribed minimum, therefore the Bank reported total negative effect of IFRS 9 in first reporting period of 2018, and did not use the benefits defined by the Bank's Capital Adequacy Decision (Official Gazette No. 82/17).

On 31 December 2018, impairments are calculated in aaccordance to IFRS9 and for balance sheet exposures it amounts EUR 347 thousand and off-balance exposiures it is EUR 25 thousand.

Market risk

The Bank currently does haveand is not planing to have a trading book and on 31 December 2018, Nova Banka is not exposed to market risk except in the part of the market risk that is limited to foreign exchange risk.

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 monitors and manages foreign currency positions taking care of their amount and characteristics. 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.

Exposure of the Bank to the currency risk on 31 December 2018 was low, with net open position amounted EUR 15 thousands. Long position balance in foreign currency was low on 31 December 2018, amounted to EUR 1.064 thousands and EUR 1.049 thousands of short positions in the euro counter value.

Interest Rate Risk

Bank interest rate risk management is defined by the Risk Management Strategy and Policy on Interest Rate Risk Management from the Banking Book and Market 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.

The following table presents the level of interest bearing and non-interest bearing assets and liabilities of the Bank on 31 December 2018:

Table 24 - Interest bearing and non-interest bearing assets and liabilities of the Bank

Thousands EUR	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash balances and deposits with central banks	5.892	2.059	7.951
	2.706	0	2.706
Loans and receivables from clients	12.810	-360	12.450
Investment securities	2.000	4	2.004
Total assets	**23.408**	**1.703**	**25.111**
LIABILITIES			
Deposits from clients	14.277	3.995	18.272
Borrowings from others	58	0	58
Total liabilities	**14.335**	**3.995**	**18.330**
Exposure to interest rate risk:			
31 December 2018	**9.073**	**-2.292**	**6.781**
31 december 2017	**9.058**	**-649**	**8.409**

Exposure to interest rate risk on 31 December 2018 is shown in the table below:

Table 25 – The risk of interest rate changes

Interest sensitive assets in 000 EUR	**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, other institutions	8.598	-	-	-	-	8.598
Interest bearing securities	-	-	-	-	2.000	2.000
Loans and receivables from clients	352	857	2.166	5.203	4.232	12.810
Total	**8.950**	**857**	**2.166**	**5.203**	**6.232**	**23.408**
% total interest bearing assets	**38,23%**	**3,66%**	**9,25%**	**22,23%**	**26,62%**	**100,00%**
Interest sensitive liabilities						
Interest-bearing deposit	6.955	388	658	5.428	848	14.277
Interest-bearing borrowings	-	5	5	11	37	58
Total	**6.955**	**393**	**663**	**5.439**	**885**	**14.335**
% interest bearing liabilities	**48,52%**	**2,74%**	**4,63%**	**37,94%**	**6,17%**	**100,00%**
Interest rate GAP:						
-31 December 2018	1.995	464	1.503	-236	5.347	**9.073**
-31 December 2017	4.249	900	858	-3.325	6.376	**9.058**
Cumulative GAP:						
-31 December 2018	**1.995**	**2.459**	**3.962**	**3.726**	**9.073**	
-31 December 2017	**4.249**	**5.149**	**6.007**	**2.682**	**9.058**	

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 in 2018 amount EUR 1.178 thousands.

As of 31 December 2018, the Bank has managed the liquidity risk in accordance with the adopted Strategy for risk management, Liquidity risk policy and other internal procedures regulating liquidity 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 reports prepared for supervisor as well for Asset and Liability Committee.

According to the Central Bank of Montenegro methodology liquidity ratio is calculated comparing receivables, liquid assets (cash, bank accounts domestic and foreign banks and mandatory reserve) with due liabilities (loans received, liabilities for fees and interest, liabilities for term deposits and 30% of a vista deposits, 10% of approved unused loans – credit lines, and other due liabilities.

Calculation of daily liquidity ratio on 31 December 2018 is shown in the following table:

Table 26 – Liquidity ratio on 31 December 2018

No.	DESCRIPTION	AMOUNT
I	**Liquid assets/receivables(claims)**	**9.923**
1.	Cash	1.326
2.	Assets on the account in Central Bank of Montenegro	5.157
3.	Other cash claims	0
4.	Assets on the accounts in domestic banks (Avista deposits)	4
5.	Assets in the agents of payment system	0
6.	Assets on the accounts in international banks (A vista deposits)	2.706
7.	Required reserve in the Central Bank of Montenegro (according to the current decision)	734
II	**Matured liabilities for loans and borrowings**	**3.296**
1.	Due liabilities based on loans received (borrowings)	0
2.	Due liabilities based on interest rates and fees	0
3.	Due liabilities based on term deposits	0
4.	30% Avista deposits	3.054
5.	10% Approved but unused, irrevocable credit obligations (credit lines)	61
6.	Other due liabilities	180
	SUFICIT / DEFICIT (I - II)	**6.627**
	Liquidity ratio (I / II)	**3,01**

The Bank is exposed to daily calls on its available cash resources which influence the available cash held on the current accounts or as deposits. The Bank does not maintain cash to meet all of these needs since historical experience demonstrates that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty.

Other liquidity ratios of the Bank on the quarterly bases are presented below:

Table 27 – Liquidity ratios

Description	31.12.2018	30.9.2018	30.6.2018	31.03.2018	31.12.2017
Liquid assets	9.923	12.309	4.694	6.517	8.357
Total assets	25.910	26.371	20.591	21.152	22.607
Short-term liabilities	17.604	13.368	3.646	4.309	5.873
Liquid assets / Total assets	38,30%	46,68%	22,80%	30,71%	36,97%
Liquid assets / Short-term liabilities	56,37%	92,08%	128,74%	151,23%	142,30%
Daily liquidity ratio	3,01	2,92	3,73	4,50	4,53
Loan to Deposit ratio	67,92%	58,65%	103,68%	91,53%	81,69%

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

Table 28 – Maturity gap

In thousand EUR	Up to 1 month	Up to 3 months	Up to 6 months	Up to 12 months	Up to 5 years	Over 5 years	Total
Cash and deposit accounts with central banks:							
Cash and cash equivalents	6.483	-	-	-	-	-	6.483
Obligatory reserve	734	-	-	-	735	-	1.469
Financial assets valued at amortized cost:							
Receivables form banks	2.706	-	-	-	-	-	2.706
Receivables form customers	353	861	2.171	5.212	3.067	1.146	12.810
HTM securities	-	-	-	-	2.000	-	2.000
Other financial assets	10	-	-	-	-	-	10
Interest receivables, accruals, prepayments and imapirments*	32	-	-	10	-410	-	-368
Total	**10.286**	**861**	**2.171**	**5.212**	**5.802**	**1.146**	**25.478**
Financial liabilities valued at amortized cost:							
Deposits of customers	10.891	388	658	5.428	808	40	18.213
Borrowings	-	5	5	11	37	-	58
Interest liabilities, accruals and prepayments*	12	7	9	17	12	1	58
Other liabilities	79	101	-	-	12	-	192
Total	**10.970**	**494**	**663**	**5.439**	**857**	**40**	**18.463**
Maturity GAPs							
- 31 December 2018	**-684**	**367**	**1.508**	**-227**	**4.945**	**1.106**	**7.015**
- 31 December 2017	**3.489**	**896**	**856**	**-3.323**	**4.920**	**1.433**	**8.271**
Cummulative GAP:							
- 31 December 2018	**-684**	**-317**	**1.191**	**964**	**5.909**	**7.015**	
- 31 December 2017	**3.489**	**4.385**	**5.241**	**1.918**	**6.838**	**8.271**	
% of total liability							
- 31 December 2018	**-3,70%**	**-1,72%**	**6,45%**	**5,22%**	**32,00%**	**37,99%**	
- 31 December 2017	**25,08%**	**32,78%**	**39,18%**	**14,34%**	**51,12%**	**61,83%**	

Operating risk

Operational risk management at the Bank is fully regulated by Procedure for the operational risk management and other relevant procedures, which precisely defines method of identification, assessment and monitoring, management, and giving proposals of measures for the elimination of exposure and consequences arising from operational risk exposure.
The measurement or assessment of operational risk is done through quantitative and / or qualitative assessment of identified operational risk. In addition, Bank is performing identification of operational risks, classifying them according to priority by measuring the potential financial impact and frequency of events that can result in losses.

In order to efficiently manage operational risk, organizational units are obliged to submit reports on adverse events occurred and identify operational risks for the reporting period.

In the process of identifying sources of operational risk, Bank takes care to identify risks arising from:

- inadequate information and other systems in the Bank;
- business interruption and fault in the system (for example, faults related to the information technology, telecommunications, interruptions in the work etc.);
- inability of adequate integration or sustainability of information and other systems, in case of status changes of the Bank;
- unproper treatment of employees in the Bank, as well as attempts of fraud, money laundering, unauthorized access to client accounts, misuse of confidential information, giving false or misleading information about the status of the Bank, delays in carrying out tasks, errors in data entry, failure to comply with good business practices, etc. .;
- involvement of people outside the Bank to perform the jobs for the Bank;
- acts or omissions which may cause court and other proceedings against the Bank (legal risk);
- Foreign illegal acts such as theft, unauthorized transfer of funds, unauthorized entry into a database, illegally obtaining documents of the Bank, etc. .;
- events that can not be predicted, such as natural and other disasters, terrorism etc.

Operational risk events records includes the systematic collection and analysis of operational risk in the Bank's operations that led to the losses. According to the Operational Risk Management Policy, trening for employees was performed in order to provide more efficient operational risk management. Also, the Bank has carried out processes of risk self-assessment and control and scenario of analysis.

10. CAPITAL ADEQUACY

Own Funds

The Bank is required to publicly disclose information and data relating to the amount of own funds, including:
1) a summary comprising the main characteristics of all items which are included in the calculation of its own funds and its elements;
2) the amount of capital, with special public disclosure of all items included in the share capital and deductibles;
3) the total amount of additional capital;
4) deductions from Tier I and Tier II capital, and
5) the total own funds, reduced by the deductions

Table 29 – Own Funds for 2018

		in 000 EUR
		31.12.2018
I	***Own Funds***	11.980
	Issued share capital	-71
	Retained earnings – effects of implementation of IFRS9	*11.909*
II	***Deduction in calculation of Tier I capital***	**5.103**
	Losses from the previous years	*2.863*
	Loss for the current year	*1.808*
	Intangible assets	*369*
	Positive difference between the amount of regulatory provisions for potential losses and impairments for balance and off-balance sheet items	*63*
III(I-II)	***Tier I capital***	**6.806**

On 31 December 2018, deductible items on the Bank's own funds are related to:

- Accumulated losses from previous years EUR 2.863 thousands,
- Actual loss from the current year of EUR 1.808 thousands,
- The book value of intangible assets of the Bank at December 31, 2018 in the amount of EUR 369 thousands.
- Positive difference between the amount of regulatory provisions for potential losses and impairments for balance and off-balance sheet items in the amount of EUR 63 thousands.

Risk weighted assets calculated in accordance to the Decision on Capital Adequacy for the banks, on December 31, 2018 amounted EUR 13.396 thousands.

In accordance to Decision on Capital Adequacy for the banks, which is applicable on 31 December 2018, Bank is obliged to keep Capital Adequacy Ratio on a level of at least 10%.

Capital Adequacy Ratio of the Bank on 31 December 2018 was **45,62%** and it is above prescribed limit of 10%.