

**NOVA BANKA AD, PODGORICA**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2019**

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**INDEPENDENT AUDITOR'S REPORT****To the shareholders of Nova banka ad Podgorica****Opinion**

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

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

**Basis for opinion**

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

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

**Key Audit Matters**

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

Key Audit Matter	How our audit addressed the issues
Impairment of loans and receivables and provision for off-balance sheet items	
As of December 31, 2019, the gross value of loans and receivables amounted to EUR 10,377 thousand (December 31, 2018: EUR 12,797 thousand), while the total amount of allowance was EUR 334 thousand as of December 31, 2019 (December 31, 2018: EUR 347 thousand).	Based on our risk assessment and industry knowledge we examined allowance for impairment for loans and receivables and provision for off-balance sheet items and evaluated the methodology applied as well as the used assumptions, according to the description of the key audit matter.

**INDEPENDENT AUDITOR'S REPORT (continued)**
**Key Audit Matters (continued)**

Key Audit Matter	How our audit addressed the issues
<b>Impairment of loans and receivables and provision for off-balance sheet items</b>	
<p>The measurement of impairment charges on loans and receivables and provision for off-balance sheet items is considered to be a key audit matter, since the determination of the amount of an impairment allowance requires a significant assessment by the management, to determine when an impairment loss is recognized and the amount of impairment loss.</p> <p>The most significant considerations relate to:</p> <ul style="list-style-type: none"> <li>• Assumptions used in models of expected credit loss to estimate credit risk associated with an exposure and the expected future cash flows of a client.</li> <li>• Timely identification of exposures with a significant increase in credit risk exposure and credit impairment.</li> <li>• Valuation of collaterals and assumptions of future cash flows on individually estimated credit exposures.</li> </ul> <p>Management disclosed additional information on impairment charges for loans and receivables and provision for off-balance sheet items in Notes 3.8, 4.2, 8, 10, 13 and 18 along with financial statements.</p>	<p>Our audit procedures included following:</p> <ul style="list-style-type: none"> <li>• Evaluation of key controls related to the assumptions used in the models of expected credit loss to estimate credit risk associated with the exposure and expected future cash flows of the client.</li> <li>• Collecting and detailed testing of evidence to support the assumptions used in expected credit loss models used in stage allocation, assumptions applied to obtained twelve-month and lifetime probability of default (PDs) and methods used to obtain the probability of losses due to inability to collect receivables.</li> <li>• Evaluation of key controls over timely identification of exposures with significant increase in credit risk and timely identification of exposure loan impairment.</li> <li>• Collecting and detailed testing of evidence of timely identification of exposure with a significant increase in credit risk and timely identification of exposure based on loan impairment.</li> <li>• Collecting and detailed testing of evidence to support appropriate assumptions of the impairment allowance of loans and receivables, including valuation of collaterals and the assumptions of future cash flows for individually assessed exposures on loan impairment.</li> <li>• Assessment of key developments of high risk portfolio from the previous period against to industry standards and historical data.</li> <li>• Evaluation of applied methodologies using our industry knowledge and experience.</li> <li>• We have engaged our IT professionals and credit risk specialists in areas that required specific expertise.</li> <li>• Assessment of accuracy and completeness of disclosure in the financial statements.</li> </ul>

**INDEPENDENT AUDITOR'S REPORT (continued)*****Other matters***

The financial statements of the Bank as of and for the year ended December 31, 2018 were audited by another auditor, who in his report dated May 27, 2019, expressed a unmodified opinion on these financial statements.

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

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

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

**INDEPENDENT AUDITOR'S REPORT (continued)*****Auditor's Responsibilities for the Audit of the Financial Statements (continued)***

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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



**INDEPENDENT AUDITOR'S REPORT (continued)*****Report on Other Legal and Regulatory Requirements***

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

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

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

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

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

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

In addition, in the light of the Bank's knowledge and understanding of the Bank's audit environment, we are required to report whether material misstatements have been identified in the management's annual report.

We have nothing to report in this regard.

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

Crowe MNE d.o.o. Podgorica



27 April 2020

  
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Đorđe Dimić, Certified Auditor

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

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

**INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2019**

In thousand EUR	Note	2019	2018
Interest income and similar income	3.1, 5.1	896	822
Interest income on impaired financial assets	3.1, 5.1	20	5
Interest expenses and similar expenses	3.1, 5.2	(172)	(126)
<b>Net interest income</b>		<b>744</b>	<b>701</b>
Fee and commission income	3.1, 6.1	201	87
Fee and commission expenses	3.1, 6.2	(282)	(218)
<b>Net fee and commission income</b>		<b>(81)</b>	<b>(131)</b>
Foreign exchange gains, net		3	5
Personnel expenses	7	(1,123)	(1,055)
General and administrative expenses	8	(720)	(764)
Depreciation and amortization	9	(249)	(257)
Other expenses		(3)	(1)
Net impairment losses/gains of financial assets which are not valued through profit and loss	3.8, 10	(33)	(312)
<b>Operating profit</b>	<b>3.4, 11.1</b>	<b>(1,463)</b>	<b>(1,814)</b>
Income Taxes		10	6
<b>Net (loss)/profit for the year</b>		<b>(1,453)</b>	<b>(1,808)</b>

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

Podgorica, 31 March 2020

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



Đorđe Lukić  
Executive Officer




Eresa Bekteš  
Head of Accounting and Financial Controlling



STATEMENT OF OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019

(In thousand EUR)	Note	2019	2018
<b>Net loss</b>		<b>(1,453)</b>	<b>(1,808)</b>
<b>Total other comprehensive income</b>			
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		-	-
<b>Total other comprehensive income in current year</b>		<b>(1,453)</b>	<b>(1,808)</b>
<b>TOTAL LOSS</b>		<b>(1,453)</b>	<b>(1,808)</b>

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Podgorica, 31 March 2020

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



Đorđe Lukić  
Executive Officer




Enesa Bekteši  
Head of Accounting and Financial Controlling

STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2019

<i>In thousand EUR</i>	Note	31 December 2019	31 December 2018
<b>ASSETS</b>			
Cash and cash balances with central banks	3.6, 12	9,533	7,951
Financial assets at amortized cost		<b>15,455</b>	<b>17,159</b>
Loans and receivables from banks	3.6, 13.1	3,401	2,695
Loans and receivables from customers	3.7, 13.2	10,043	12,450
Financial investments	3.7, 13.3	2,001	2,004
Other financial assets		10	10
Property, plant and equipment	3.9, 3.10, 14	217	332
Intangible assets	3.9, 3.10, 15	237	369
Other assets	16	94	99
<b>TOTAL ASSETS</b>		<b>25,536</b>	<b>25,910</b>
<b>LIABILITIES</b>			
<b>Financial liabilities at amortized cost</b>		<b>19,364</b>	<b>18,330</b>
Deposits from customers	17.1	18,885	18,272
Borrowings from other clients	17.2	479	58
Reserves	18	147	79
Deferred tax liabilities	11.2	2	12
Other liabilities	19	167	180
<b>TOTAL LIABILITIES</b>		<b>19,680</b>	<b>18,601</b>
<b>EQUITY</b>			
Share capital	20	11,980	11,980
Accumulated losses		(4,671)	(2,863)
Current year (losses)/gains		(1,453)	(1,808)
<b>TOTAL EQUITY</b>		<b>5,856</b>	<b>7,309</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>25,536</b>	<b>25,910</b>
<b>OFF-BALANCE SHEET ITEMS</b>	22	<b>19,579</b>	<b>18,235</b>


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Podgorica, 31 March 2020

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

  
Đorđe Lukić  
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 2019**

In thousand EUR	Share capital	Accumulated losses	TOTAL
Balance on 31 December 2017	11,980	(2,792)	9,188
Effects of first IFRS9 implementation		(71)	(71)
Loss in the year	-	(1,808)	(1,808)
<b>Balance on 31 December 2018</b>	<b>11,980</b>	<b>(4,671)</b>	<b>7,309</b>
Loss in the year	-	(1,453)	(1,453)
<b>Balance on 31 December 2019</b>	<b>11,980</b>	<b>(6,124)</b>	<b>5,856</b>

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

Podgorica, 31 March 2020

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



Đorđe Lukić  
Executive Officer




Enesa Bektešić  
Head of Accounting and Financial Controlling

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2019**

<i>In thousands of EUR</i>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Interest and similar receipts	873	819
Interest and similar outflows	(145)	(88)
Fee and commission receipts	201	81
Fees and commissions paid	(282)	(218)
Payments to employees and to suppliers	(1, 809)	(1,784)
Inflows / Outflows for loans disbursed and other assets	2,446	(1,991)
Inflows from deposits and other liabilities	586	5,106
<b>Net cash outflow from operating activities</b>	<b>1,870</b>	<b>1,925</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(2)	(13)
Purchase of intangible assets	(1)	(54)
Purchase/sale of financial investments	-	-
<b>Cash outflows from investing activities</b>	<b>(3)</b>	<b>(67)</b>
<b>Cash flows from financing activities</b>		
Inflow from issue of share capital	-	-
Inflow (outflow) from borrowings	421	(22)
<b>Net cash inflow from financing activities</b>	<b>421</b>	<b>(22)</b>
<b>FX effects</b>	<b>3</b>	<b>5</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,291</b>	<b>1,841</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>10,658</b>	<b>8,817</b>
<b>Cash and cash equivalents at the end of the year (Notes 12 and 13.1)</b>	<b>12,949</b>	<b>10,658</b>

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

Podgorica, 31 March 2020

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



Đorđe Lukić  
Executive Officer




Enesa Bekteši  
Head of Accounting and Financial Controlling

## **1. BANK'S FOUNDATION AND BUSINESS ACTIVITY**

Nova banka A.D., Podgorica (hereinafter: the "Bank") has been founded in 2016 by issuing the license from 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 26<sup>th</sup> 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 13<sup>th</sup> of April 2016 as Azmont Banka AD Podgorica. Under the registration number 4-0009471/003 on 9<sup>th</sup> 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 2019, the Bank is consisted of headquarter in Podgorica and one branch office on the same location.

As at 31 December 2019, the Bank has 30 employees (31 December 2018: 33 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 2019.

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). All amounts are in thousand EUR, except if differently stated.

## **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 2019 and for year ended on 31st of December 2019, are prepared in accordance to going concern principle.

Income statement of the Bank is showing loss in amount of EUR 1,453 thousand, for the year ended on 31st of December 2019, while accumulated losses on that date amounts EUR 6,053 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 42.24%, while prescribed minimum is 10% (notes 4.7 and 21).

After the reporting period, on 15 January 2020, change of ownership of Nova Bank was performed and 100% ownership was transferred from the seller Azmont Investment DOO located in Kumbor, Herceg Novi, on the buyer Adriatic Capital LLC located in Wilmington, Delaware, United States. In accordance to bank's business plan presented to Central Bank of Montenegro, new owner is projecting increasing profitability and positive results starting from 2021. According to this business plan additional capitalization is completed in April 2020 in amount of EUR 2,500 thousand.

### **2.4. Reconciliation of assets and liabilities**

In accordance to actual regulation Bank reconciled its receivables and payables on 31<sup>st</sup> of December 2019.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **3.1. Interest, Fee and Commission Income and Expense Recognition**

##### ***Interest income and expenses***

Interest income and expense are recognized in profit or loss using the effective interest rate method. The effective interest rate is the rate that accurately discounts future cash flows over the expected life of the financial instrument to:

- The gross carrying amount of a financial asset or
- Amortized cost of a financial liability.

When calculating the effective interest rate for financial instruments, except for purchased or approved impaired loans, the Bank considers all contractual terms and conditions, but not ECL, in estimating future cash flows. For purchased or approved impaired financial assets, the adjusted effective interest rate is calculated taking into account expected cash flows, including ECL.

When calculating the effective interest rate, transaction costs and any fees charged or paid, which are part of the effective interest rate, are taken into account. Transaction costs are incremental costs that can be directly attributed to the issue or disposal of a financial asset or financial liability.

The amortized cost of a financial asset or financial liability is the amount by which the financial asset or financial liability is valued at the time of initial recognition decreased for repayments and increased or decreased by the cumulative amortization, calculated using the effective interest rate, the difference between the initial amount and the amount at maturity, and for financial assets, adjusted for the expected credit loss.

The gross carrying amount of a financial asset is the amortized cost of the financial asset before deducting the expected credit loss.

The effective interest rate for financial assets and liabilities is calculated at initial recognition of the financial asset or liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (if the asset is not impaired) or the amortized cost of the liability. For floating rate financial instruments, the effective interest rate changes due to periodic cash flow assessments to reflect market movements in interest rates.

For financial assets that are impaired after initial recognition, interest income is calculated using the effective interest method on the amortized cost of the financial asset. If the financial asset is no longer impaired, interest income is recalculated on a gross basis, ie interest is calculated by applying the effective interest rate to the gross carrying amount of the financial asset.

For financial assets that are impaired at the time of initial recognition, interest income is calculated by applying the adjusted interest rate to the amortized cost of the financial asset. Interest income calculation is not based on gross receivable even when credit risk improves.

##### ***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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

The Bank measured the effects of applying the Standard on 1 January 2020, 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 62 thousand,
- Effect on the capital: negative 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **3.4. Taxes and Contributions**

##### **Income tax**

###### *Current Income Tax*

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

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

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

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

###### *Deferred Income Taxes*

Deferred income tax is determined using the balance sheet liability method, for the temporary differences arising between the tax bases of assets and liabilities, and their carrying values in the financial statements. The currently enacted tax rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for the deductible temporary differences, and the tax effects of income tax losses and credits available for carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

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

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

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

#### **3.5. Earnings per share**

The Bank calculates and reports earnings per share in accordance with IAS 33. Basic earnings per share are calculated by dividing the profit attributable to the Bank's shareholders by the weighted average number of ordinary shares outstanding for the period.

The Bank does not have other dilutive potential ordinary shares such as convertible debt and stock options.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **3.6. Cash and Cash Equivalents**

Cash and Cash Equivalents relate to cash in hand (in EUR and foreign currencies), cash in main vault (in EUR and foreign currencies), deposits with Central bank of Montenegro including mandatory reserve and cash on the accounts with other banks domestic and foreign as well as other high liquid assets with the maturity within three months.

Cash and cash equivalents are valued at amortized cost.

##### **3.6.1. Mandatory reserve**

Calculation, allocation and utilization of mandatory reserve requirements with the CBM is prescribed by the Decision on mandatory reserve of banks with the Central Bank of Montenegro (Official Gazette of Montenegro, No. 40/10, 46/10, 06/13, 70/17 and 88 / 17) on the basis of which the reserve requirement is calculated by applying the rate of 7.5% on the sight deposits and deposits contracted with maturity up to one year, or up to 365 days, 6.5% - on the deposits contracted with maturity over one year, ie over 365 days. For deposits with a maturity of more than one year or more than 365 days, which have a termination clause of less than one year or less than 365 days, the rate of 7.5% is applied.

For the calculated mandatory reserve requirement, Bank is transferring funds on account for the mandatory reserve in the country and / or in the accounts of the Central Bank abroad and cannot be allocated and kept in another form. Banks can use up to 50% of the mandatory reserve requirement to maintain daily liquidity.

#### **3.7. Financial assets**

##### **3.7.1. Classification**

IFRS9 IFRS 9 addresses three major parts of accounting for financial instruments: classification and measurement, impairment and hedging.

Classification categories in line with IFRS9 are the following:

- financial assets measured at amortized cost,
- financial assets measured at fair value through other comprehensive income (FVOCI) and
- financial assets measured at fair value through profit or loss (FVTPL).

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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.7. Financial assets (continued)**

**3.7.1. Classification (continued)**

*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:

- a) management of funds with an intention to achieve cash flow from sales;
- b) portfolio management, whose performance is evaluated on the basis of fair value estimates;
- c) 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.

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).

**3.7.2. 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 adjusted for transaction costs that can be directly attributed to the acquisition or issuance of a financial asset.

In accordance with IFRS 9, financial assets are subsequently measured at amortized cost or at fair value. In the case of fair value measurement, gains and losses are fully recognized in the income statement (fair value through profit or loss) or recognized in other comprehensive income (fair value through other comprehensive income).

The transaction price - i.e. the fair value of the compensation given or received for a financial instrument - 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)**

#### **3.7. Financial assets (continued)**

##### **3.7.2. 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. Impairment losses are recognized in the profit and loss account.

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 derecognition, 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 derecognition, 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.

##### **3.7.3. 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.

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

#### 3.8. 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, 86/18 and 42/19), 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. 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 2014 to 31 December 2018.

In the initial recognition of financial instruments, 12 months expected loss is recognized for credit risk (financial instruments in stage 1).

The total expected loss will be recognized for all instruments with increased credit risk after initial recognition. Therefore, impairment is recognized at an amount equal to the expected credit loss over the life of the asset if the credit risk for that financial instrument has increased significantly since initial recognition or objective evidence of impairment has been identified (financial asset in Stage 2 and 3).

Based on the credit risk assessment, all instruments are classified in:

Stage 1: No significant change in credit risk as of the date of initial recognition of the asset (expected credit losses for the next 12 months are calculated)

Stage 2: Significant increase in credit risk from the moment the loan is granted (expected credit losses are calculated for the life time),

Level 3: Assets impaired (non-performing clients, expected credit losses are calculated over the lifetime).

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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

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.

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

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 asset is at stage 2 or 3, or at the amount equal to the expected twelve-month credit losses for all financial instruments in stage 1.

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)

#### 3.8. 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, 86/18 and 42/19), 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:

Risk category	31 December 2019		31 December 2018	
	% Provisions	Days of delay	% Provisions	Days of delay
A	0.5	<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)

#### 3.9. 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.

	<u>Rate %</u>
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.

	<u>Rate %</u>
Intangible assets	20.0-30.0

#### 3.10. 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)**

#### **3.11. 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.

#### **3.12. Employee Benefits**

##### **Taxes and Contributions for Social Security of Employees**

Pursuant to the regulations effective in Montenegro, the Bank has an obligation to pay contributions to various state social security funds 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 with General Collective 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 2019, 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.

#### **3.13. 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.

#### **3.14. 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)**

#### **3.15. 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 mostly exposed to credit risk in its operations and thus the greatest focus is placed on the management and continuous development and improvement of credit risk management, but it does not neglect the impact of other risks to which the Bank is exposed in its operations such as liquidity risk, operational risk, market risk, country risk and etc.

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 is exposed to 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.

Board of Directors adopted the following risk management policies:

Credit Policy

Credit Risk Management Policy

Operational Risk Policy

Country Risk Policy

Liquidity Risk Policy

Interest Rate Risk of the Banking Book and Market Risk Management Policy

ICAAP Policy

In addition to policies, the Board of Directors has adopted other internal documents (procedures, methodologies) that more closely address certain areas of risk management and monitoring.

The Board of Directors has overall responsibility for establishing and overseeing the risk management framework. The Board of Directors established the Assets and Liabilities Management Committee (ALCO), the Credit Committee and the Audit Committee.

The Risk Management Division is responsible for monitoring the Bank's exposure to certain risks, which is reported monthly to the Board of Directors.

#### **4.2. Credit Risk**

Credit risk represents the possibility of 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.

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.

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#### **4. FINANCIAL INSTRUMENTS (continued)**

##### **4.2. Credit Risk (continued)**

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.

##### **4.2.1. 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 placement, i.e. risks taken. After the investment is approved, the Bank is exposed to risks that are constantly evolving depending on the client's standing 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 collection 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 IFRS 9**

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

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

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## 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:

	31 December 2019		31 December 2018	
<b>In thousands of EUR</b>				
<b>Balance sheet items</b>				
Loans and receivables from banks	3,416	3,401	2,706	2,695
Loans and receivables from clients	10,377	10,043	12,797	12,450
Securities	2,010	2,001	2,011	2,004
Other financial assets	10	10	10	10
	<b>15,813</b>	<b>15,455</b>	<b>17,524</b>	<b>17,159</b>
<b>Off balance sheet items</b>				
Payment guarantees	510	472	226	226
Performance guaranties	340	338	241	223
Other guaranties	100	95	100	95
Undrawn credit lines	414	413	611	610
	<b>1,364</b>	<b>1,318</b>	<b>1,178</b>	<b>1,154</b>
<b>Maximum credit risk exposure</b>	<b>17,177</b>	<b>16,773</b>	<b>18,702</b>	<b>18,313</b>

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

Credit risk exposure is partially controlled by obtaining collateral and guarantees from legal entities and private individuals. The use and collateral management is one of the core components of credit risk management. Along with considering 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;
- pledge liens instituted over equipment, securities, inventories, vehicles and receivables;
- bills of exchange;
- collection authorizations;
- administrative prohibitions;
- endorsers and co-borrowers;
- guarantees and warrantees;
- insurance policies.

**NOVA BANKA AD, PODGORICA**

**4. FINANCIAL INSTRUMENTS (continued)**

**4.2. Credit Risk (continued)**

**4.2.4. Quality of financial assets**

<b>31.12.2019</b>	<b>S1</b>	<b>S2</b>	<b>S3</b>	<b>Total</b>	<b>Expected Credit losses S1</b>	<b>Expected Credit losses S2</b>	<b>Expected Credit losses S3</b>	<b>Expected Credit losses S3</b>	<b>Total Expected Credit Losses</b>	<b>Net</b>
Loans and receivables from banks	3,416	-	-	3,416	(15)	-	-	-	(15)	3,401
Housing and mortgage loans	1,452	-	36	1,488	(3)	-	(14)	(14)	(17)	1,471
Cash loans	833	66	49	948	(10)	(6)	(32)	(32)	(48)	900
Consumer loans	30	3	-	33	(1)	-	-	-	(1)	32
Overdrafts	9	-	-	9	-	-	-	-	-	9
Cards, retail	4	-	-	4	-	-	-	-	-	4
SME loans	1,839	670	33	2,542	(9)	(18)	(3)	(3)	(30)	2,512
Loans to big private corporates	3,422	1,596	335	5,353	(127)	(91)	(20)	(20)	(238)	5,115
Loans and receivables to clients	<b>7,589</b>	<b>2,335</b>	<b>453</b>	<b>10,377</b>	<b>(150)</b>	<b>(115)</b>	<b>(69)</b>	<b>(69)</b>	<b>(334)</b>	<b>10,043</b>
Securities	2,010	-	-	2,010	(9)	-	-	-	(9)	2,001
<b>Total</b>	<b>13,015</b>	<b>2,335</b>	<b>453</b>	<b>15,803</b>	<b>(174)</b>	<b>(115)</b>	<b>(69)</b>	<b>(69)</b>	<b>(358)</b>	<b>15,445</b>



**NOVA BANKA AD, PODGORICA**

**4. FINANCIAL INSTRUMENTS (continued)**

**4.2. Credit Risk (continued)**

**4.2.4. Quality of financial assets (continued)**

31.12.2018	S1	S2	S3	Total	Expected Credit losses S1	Expected Credit losses S2	Expected Credit losses S3	Total Expected Credit Losses	Net
Loans and receivables from banks	2,706	-	-	2,706	(11)	-	-	(11)	2,695
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
Securities	2,011	-	-	2,011	(7)	-	-	(7)	2,004
<b>Total</b>	<b>16,491</b>	<b>915</b>	<b>108</b>	<b>17,514</b>	<b>(264)</b>	<b>(58)</b>	<b>(43)</b>	<b>(365)</b>	<b>17,149</b>

*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*

## 4. FINANCIAL INSTRUMENTS (continued)

## 4.2. Credit Risk (continued)

## 4.2.4. Quality of financial assets (continued)

## LOANS FROM CLIENTS BY DAYS OF DELAY

## LOANS FROM CLIENTS BY DAYS OF DELAY - STAGE 1

31.12.2019.	No delay	Delay up to 30 days	From 31-60 days	From 61-90 days	Delay over 90 days	Total
<b>Loans and receivables from banks</b>	<b>3,416</b>	-	-	-	-	<b>3,416</b>
Housing loans mortgage loans	1,452	-	-	-	-	1,452
Cash loans	813	20	-	-	-	833
Consumer loans	28	2	-	-	-	30
Overdrafts	9	-	-	-	-	9
Cards - retail	4	-	-	-	-	4
SME loans	1,597	242	-	-	-	1,839
Loans to state owned companies	-	-	-	-	-	-
Loans to privately owned corporates	2,912	509	-	-	-	3,421
<b>Loans and receivables to clients o/w restructured</b>	<b>6,815</b>	<b>773</b>	-	-	-	<b>7,588</b>

## LOANS FROM CLIENTS BY DAYS OF DELAY - STAGE 2

31.12.2019.	No delay	Delay up to 30 days	From 31-60 days	From 61-90 days	Delay over 90 days	Total
<b>Loans and receivables from banks</b>	-	-	-	-	-	-
Housing loans mortgage loans	-	-	-	-	-	-
Cash loans	45	-	21	-	-	66
Consumer loans	-	2	1	-	-	3
Overdrafts	-	-	-	-	-	-
Cards - retail	-	-	-	-	-	-
SME loans	-	85	408	177	-	670
Loans to state owned companies	-	-	-	-	-	-
Loans to privately owned corporates	1,098	498	-	-	-	1,596
<b>Loans and receivables to clients o/w restructured</b>	<b>1,143</b>	<b>585</b>	<b>430</b>	<b>177</b>	-	<b>2,335</b>

## 4. FINANCIAL INSTRUMENTS (continued)

## 4.2. Credit Risk (continued)

## 4.2.4. Quality of financial assets (continued)

## LOANS FROM CLIENTS BY DAYS OF DELAY - STAGE 3

31.12.2019.	No delay	Delay up to 30 days	From 31-60 days	From 61-90 days	Delay over 90 days	Total
<b>Loans and receivables from banks</b>	-	-	-	-	-	-
Housing loans mortgage loans	-	-	-	-	69	69
Cash loans	-	4	-	-	45	49
Consumer loans	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
Cards - retail	-	-	-	-	-	-
SME loans	-	-	-	-	-	-
Loans to state owned companies	-	-	-	-	-	-
Loans to privately owned corporates	-	-	-	-	335	335
<b>Loans and receivables to clients o/w restructured</b>	-	<b>4</b>	-	-	<b>449</b>	<b>453</b>

## LOANS FROM CLIENTS BY DAYS OF DELAY - STAGE 1

31.12.2018.	No delay	Delay up to 30 days	From 31-60 days	From 61-90 days	Delay over 90 days	Total
<b>Loans and receivables from banks</b>	<b>2,706</b>	-	-	-	-	<b>2,706</b>
Housing loans mortgage loans	1,314	61	-	-	-	1,375
Cash loans	947	11	-	-	-	958
Consumer loans	46	2	-	-	-	48
Overdrafts	8	-	-	-	-	8
Cards - retail	2	-	-	-	-	2
SME loans	3,196	816	-	-	-	4,012
Loans to state owned companies	519	-	-	-	-	519
Loans to privately owned corporates	4,021	832	-	-	-	4,853
<b>Loans and receivables to clients o/w restructured</b>	<b>10,053</b>	<b>1,722</b>	-	-	-	<b>11,775</b>

## 4. FINANCIAL INSTRUMENTS (continued)

## 4.2. Credit Risk (continued)

## 4.2.4. Quality of financial assets (continued)

## LOANS FROM CLIENTS BY DAYS OF DELAY - STAGE 2

31.12.2018.	No delay	Delay up to 30 days	From 31-60 days	From 61-90 days	Delay over 90 days	Total
<b>Loans and receivables from banks</b>	-	-	-	-	-	-
Housing loans mortgage loans	-	-	-	-	-	-
Cash loans	-	-	-	-	-	-
Consumer loans	-	-	2	-	-	2
Overdrafts	-	-	-	-	-	-
Cards - retail	-	-	-	-	-	-
SME loans	9	4	-	-	-	13
Loans to state owned companies	-	-	-	-	-	-
Loans to privately owned corporates	498	402	-	-	-	900
<b>Loans and receivables to clients o/w restructured</b>	<b>507</b>	<b>406</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>915</b>

## LOANS FROM CLIENTS BY DAYS OF DELAY - STAGE 3

31.12.2018.	No delay	Delay up to 30 days	From 31-60 days	From 61-90 days	Delay over 90 days	Total
<b>Loans and receivables from banks</b>	-	-	-	-	-	-
Housing loans mortgage loans	-	24	-	-	-	24
Cash loans	-	-	-	-	43	43
Consumer loans	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
Cards - retail	-	-	-	-	-	-
SME loans	-	-	-	-	41	41
Loans to state owned companies	-	-	-	-	-	-
Loans to privately owned corporates	-	-	-	-	-	-
<b>Loans and receivables to clients o/w restructured</b>	<b>-</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>84</b>	<b>108</b>

**NOVA BANKA AD, PODGORICA**

**4. FINANCIAL INSTRUMENTS (continued)**

**4.2. Credit Risk (continued)**

**4.2.4. Quality of financial assets (continued)**

**NONPERFORMING LOANS – STAGE 3 IN TOTAL LOANS**

31.12.2019.	Gross exposures	Impairment	S3 receivables	Impairment S3	Restructured S3 receivables	Impairment restructured S3 receivables	Share of S3 receivables in gross exposure
<b>Loans and receivables from banks</b>	<b>3,416</b>	<b>15</b>	-	-	-	-	<b>0%</b>
Housing loans mortgage loans	1,488	17	36	14	-	-	2%
Cash loans	948	48	49	32	-	-	5%
Consumer loans	33	1	-	-	-	-	0%
Overdrafts	9	-	-	-	-	-	0%
Cards - retail	4	-	-	-	-	-	0%
SME loans	2,543	30	33	3	-	-	1%
Loans to state owned companies	-	-	-	-	-	-	0%
Loans to privately owned corporates	5,352	238	335	20	-	-	6%
<b>Loans and receivables to clients</b>	<b>10,377</b>	<b>334</b>	<b>453</b>	<b>69</b>	<b>-</b>	<b>-</b>	<b>4%</b>

**NOVA BANKA AD, PODGORICA**

**4. FINANCIAL INSTRUMENTS (continued)**

**4.2. Credit Risk (continued)**

**4.2.4. Quality of financial assets (continued)**

**NONPERFORMING LOANS – STAGE 3 IN TOTAL LOANS**

31.12.2018.

	Gross exposures	Impairment	S3 receivables	Impairment S3	Restructured S3 receivables	Impairment restructured S3 receivables	Share of S3 receivables in gross exposure
<b>Loans and receivables from banks</b>	<b>2,706</b>	<b>11</b>	-	-	-	-	<b>0%</b>
Housing loans mortgage loans	1,399	16	24	15	-	-	2%
Cash loans	1,001	32	43	28	-	-	4%
Consumer loans	49	-	-	-	-	-	0%
Overdrafts	8	-	-	-	-	-	0%
Cards - retail	2	-	-	-	-	-	0%
SME loans	4,585	230	41	-	-	-	1%
Loans to state owned companies	519	-	-	-	-	-	0%
Loans to privately owned corporates	5,236	69	-	-	-	-	0%
<b>Loans and receivables to clients</b>	<b>12,799</b>	<b>347</b>	<b>108</b>	<b>43</b>	<b>-</b>	<b>-</b>	<b>1%</b>

**NOVA BANKA AD, PODGORICA**

**4. FINANCIAL INSTRUMENTS (continued)**

**4.2. Credit Risk (continued)**

**4.2.4. Quality of financial assets (continued)**

	Gross 31.12.2018.	New S3 clients	Decrease of S3 clients	Other movements	Gross 31.12.2019.	Net 31.12.2019.
<b>Loans and receivables from banks</b>	-	-	-	-	-	-
Housing loans mortgage loans	24	14	3	-	36	22
Cash loans	43	9	3	-	49	17
Consumer loans	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
Cards - retail	-	-	-	-	-	-
SME loans	41	-	7	-	33	30
Loans to state owned companies	-	-	-	-	-	-
Loans to privately owned corporates	-	335	-	-	335	315
<b>Loans and receivables to clients</b>	<b>108</b>	<b>358</b>	<b>13</b>	<b>-</b>	<b>453</b>	<b>384</b>



## 4. FINANCIAL INSTRUMENTS (continued)

## 4.2. Credit Risk (continued)

## 4.2.4. Quality of financial assets (continued)

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	Individually Impaired	Total, gross	Impairment Allowance	Total, Net
Housing and mortgage loans	643	-	824	22	1,489	(17)	1,472
Cash loans	96	-	852	-	948	(48)	900
Consumer loans	-	1	31	-	32	(1)	31
Overdrafts	-	-	9	-	9	-	9
Loans to medium and small enterprises	873	383	1,076	210	2,542	(30)	2,512
Loans to state companies	-	-	-	-	-	-	-
Loans to other private companies	549	-	4,469	335	5,353	(238)	5,115
Cards - retail	-	-	4	-	4	-	4
Loans and receivables from banks	-	-	3,416	-	3,416	(15)	3,401
<b>31<sup>st</sup> December 2019</b>	<b>2,161</b>	<b>384</b>	<b>10,681</b>	<b>568</b>	<b>13,93</b>	<b>(349)</b>	<b>13,444</b>
Housing and mortgage loans	486	15	897	-	1,399	(16)	1,383
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)	4,353
Loans to state companies	-	-	519	-	519	-	519
Loans to other private companies	498	-	4,739	-	5,236	(69)	5,167
Cards - retail	-	-	2	-	2	-	2
Loans and receivables from banks	-	-	2,706	-	2,706	(11)	2,695
<b>31<sup>st</sup> December 2018</b>	<b>1,709</b>	<b>109</b>	<b>13,685</b>	<b>-</b>	<b>15,503</b>	<b>(358)</b>	<b>15,145</b>

As at 31<sup>st</sup> December 2019, 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							Total
	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	
Consumer loans	-	1	-	-	-	-	-	1
Loans to medium and small enterprises	3	380	-	-	-	-	-	383
<b>31 December 2019</b>	<b>3</b>	<b>381</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>384</b>
Housing and mortgage loans	15	-	-	-	-	-	-	15
Loans to medium and small enterprises	53	-	-	5	-	35	-	93
<b>31 December 2018</b>	<b>68</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>-</b>	<b>35</b>	<b>-</b>	<b>108</b>

## b) Fair Value of Collaterals

	In thousands of EUR	
	31 December 2019	31 December 2018
Cash collateral	657	676
Mortgage	16,017	14,830
Pledge	1,310	1,342
Insurance	218	204
<b>Total</b>	<b>18,202</b>	<b>17,052</b>

Properties used as collateral are residential premises, houses, commercial premises, industrial premises, construction land, 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:

- extended the principal or interest maturity,
- decreased the interest rate on the loan approved,
- decreased the debt amount, principal or interest, or
- 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 31<sup>st</sup> December 2019 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:

	Montenegro	Russia	Bosnia & Herzegovina	Azerbaijan	Serbia	Macedonia	In thousands of EUR	
							European Union	Total
Loans and receivables from banks	-	1,132	433	-	995	-	841	3,401
Loans and receivables from clients	9,445	-	-	3	14	1	580	10,043
<b>31 December 2019</b>	<b>9,445</b>	<b>1,132</b>	<b>433</b>	<b>3</b>	<b>1,009</b>	<b>1</b>	<b>1,421</b>	<b>13,444</b>
Loans and receivables from banks	-	1,392	288	-	1,015	-	-	2,695
Loans and receivables from clients	12,425	-	-	8	15	2	-	12,450
<b>31 December 2018</b>	<b>12,425</b>	<b>1,392</b>	<b>288</b>	<b>8</b>	<b>1,030</b>	<b>2</b>	<b>-</b>	<b>15,145</b>

**NOVA BANKA AD, PODGORICA**

**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:

	Finance	Production	Electricity	Water industry	Construction	Trade	Traffic	Hotel industry	Administration	Information and communication	Real estate	Other	Individuals	Total
Loans and receivables from banks	3,401	-	-	-	-	-	-	-	-	-	-	-	-	3,401
Loans and receivables from clients	-	464	545	257	433	1,472	270	2,524	137	443	352	731	2,415	10,043
<b>31 December 2019</b>	<b>3,401</b>	<b>464</b>	<b>545</b>	<b>257</b>	<b>433</b>	<b>1,472</b>	<b>270</b>	<b>2,524</b>	<b>137</b>	<b>443</b>	<b>352</b>	<b>731</b>	<b>2,415</b>	<b>13,444</b>
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
<b>31 December 2018</b>	<b>2,695</b>	<b>941</b>	<b>-</b>	<b>455</b>	<b>2,289</b>	<b>2,265</b>	<b>290</b>	<b>2,444</b>	<b>143</b>	<b>-</b>	<b>498</b>	<b>714</b>	<b>2,411</b>	<b>15,145</b>

in thousands of EUR

## 4. FINANCIAL INSTRUMENTS (continued)

## 4.2. Credit Risk (continued)

## 4.2.4. Quality of financial investments (continued)

## LOANS AND RECEIVABLES FROM CLIENTS WITH COLLATERALS

	S 1 clients				S 2 clients				S 3 clients			
	Property	Deposits	Other collaterals	Total	Property	Deposits	Other collaterals	Total	Property	Deposits	Other collaterals	Total
Housing mortgage loans	1,336	28	-	1,364	-	-	-	-	29	-	-	29
Cash loans	6	88	23	117	-	22	-	22	-	-	-	-
Consumer loans	-	-	-	-	-	1	-	1	-	-	-	-
Overdrafts	-	-	-	-	-	-	-	-	-	-	-	-
Cards - retail	-	-	-	-	-	-	-	-	-	-	-	-
<b>SME loans</b>	<b>1,705</b>	<b>2</b>	<b>-</b>	<b>1,707</b>	<b>378</b>	<b>-</b>	<b>-</b>	<b>378</b>	<b>33</b>	<b>-</b>	<b>-</b>	<b>33</b>
Loans to state corporates	-	-	-	-	-	-	-	-	-	-	-	-
Loans to private corporates	1,219	250	138	1,607	999	-	400	1,399	330	-	-	330
<b>Loans and receivables form clients</b>	<b>4,266</b>	<b>368</b>	<b>161</b>	<b>4,795</b>	<b>1,377</b>	<b>23</b>	<b>400</b>	<b>1,800</b>	<b>392</b>	<b>-</b>	<b>-</b>	<b>392</b>
<b>31.12.2018.</b>												
	S 1 clients				S 2 clients				S 3 clients			
	Property	Deposits	Other collaterals	Total	Property	Deposits	Other collaterals	Total	Property	Deposits	Other collaterals	Total
Housing mortgage loans	1,347	28	-	1,375	-	-	-	-	15	-	-	15
Cash loans	19	105	35	159	-	-	-	-	-	-	-	-
Consumer loans	-	2	-	2	-	-	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-	-	-	-	-	-	-
Cards - retail	-	-	-	-	-	-	-	-	-	-	-	-
<b>SME loans</b>	<b>2,195</b>	<b>13</b>	<b>-</b>	<b>2,208</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>41</b>	<b>-</b>	<b>-</b>	<b>41</b>
Loans to state corporates	-	-	-	-	-	-	-	-	-	-	-	-
Loans to private corporates	2,851	253	170	3,274	499	-	402	901	-	-	-	-
<b>Loans and receivables form client</b>	<b>6,412</b>	<b>401</b>	<b>205</b>	<b>7,018</b>	<b>508</b>	<b>-</b>	<b>402</b>	<b>910</b>	<b>56</b>	<b>-</b>	<b>-</b>	<b>56</b>

## 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	309	730	1,039
From 1 to 2 years	100	155	255
Over 2 years	4	20	24
<b>31 December 2019</b>	<b>413</b>	<b>905</b>	<b>1,318</b>
Up to one year	584	369	953
From 1 to 2 years	9	155	164
Over 2 years	17	20	37
<b>31 December 2018</b>	<b>610</b>	<b>544</b>	<b>1,154</b>

## 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	978	3	2	-	983
Liabilities in foreign currencies	964	-	-	-	964
<b>Net open position:</b>					
- 31 December 2019	14	3	2	-	19
- 31 December 2018	9	3	2	-	14
<b>% of the core capital:</b>					
- 31 December 2019	0.26%	0.05%	0.04%	-	
- 31 December 2018	0.13%	0.04%	0.03%	-	
<b>Aggregate open position:</b>					
- 31 December 2019	19				
- 31 December 2018	14				

## 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:

	Total	Amount in foreign currency	In thousands of EUR Change in exchange rates	
			10%	-10%
<b>ASSETS</b>				
Cash balances and deposits with central banks	9,533	156	16	(16)
Loans and receivables to banks	3,416	827	83	(83)
<b>Total assets</b>	<b>12,949</b>	<b>983</b>	<b>99</b>	<b>(99)</b>
<b>LIABILITIES</b>				
Deposits of the clients	18,885	964	96	(96)
<b>Total liabilities</b>	<b>18,885</b>	<b>964</b>	<b>96</b>	<b>(96)</b>
<b>Net currency risk exposure:</b>				
- 31 December 2019			3	(3)
- 31 December 2018			1	(1)

As of 31 December 2019, 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 3 thousand (31 December 2018: EUR 1 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 2019:

	In thousands of EUR		
	Interest Bearing	Non-Interest Bearing	Total
<b>ASSETS</b>			
Cash balances and deposits with central banks	7,798	1,735	9,533
Loans and receivables from banks	3,416	-	3,416
Loans and receivables from clients	10,363	(320)	10,043
Investment securities	2,000	1	2,001
<b>Total assets</b>	<b>23,577</b>	<b>1,416</b>	<b>24,993</b>
<b>LIABILITIES</b>			
Deposits due to clients and banks	15,333	3,552	18,885
Borrowings from other clients	479	-	479
<b>Total liabilities</b>	<b>15,812</b>	<b>3,552</b>	<b>19,364</b>
<b>Interest rate GAP:</b>			
- 31 December 2019	<b>7,765</b>	<b>(2,136)</b>	<b>5,629</b>
- 31 December 2018	<b>9,073</b>	<b>(2,292)</b>	<b>6,781</b>

Interest rate GAP as of 31 December 2019 is presented in the following table:

	In thousands of EUR					
	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year	Total
<b>Interest sensitive assets</b>						
Interest bearing deposits	11,214	-	-	-	-	11,214
Interest bearing securities	-	-	-	-	2,000	2,000
Loans and receivables from clients	861	969	2,110	2,728	3,695	10,363
<b>Total</b>	<b>12,075</b>	<b>969</b>	<b>2,110</b>	<b>2,728</b>	<b>5,695</b>	<b>23,577</b>
<b>% total interest-bearing assets</b>	51.22%	4.11%	8.95%	11.57%	24.15%	100%
<b>Interest sensitive liabilities</b>						
Interest-bearing deposit	8,580	1,273	1,050	1,700	2,730	15,333
Interest-bearing liabilities	9	18	28	65	359	479
<b>Total</b>	<b>8,589</b>	<b>1,291</b>	<b>1,078</b>	<b>1,765</b>	<b>3,089</b>	<b>15,812</b>
<b>% interest bearing liabilities</b>	54.32%	8.16%	6.82%	11.16%	19.54%	100%
<b>Interest rate GAP:</b>						
- 31 December 2019	<b>3,486</b>	<b>(322)</b>	<b>1,032</b>	<b>963</b>	<b>2,606</b>	<b>7,765</b>
- 31 December 2018	<b>4,249</b>	<b>900</b>	<b>858</b>	<b>(3,325)</b>	<b>6,376</b>	<b>9,058</b>
<b>Cumulative GAP:</b>						
- 31 December 2019	<b>3,486</b>	<b>3,164</b>	<b>4,196</b>	<b>5,159</b>	<b>7,765</b>	
- 31 December 2018	<b>4,249</b>	<b>5,149</b>	<b>6,007</b>	<b>2,682</b>	<b>9,058</b>	



#### 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.

As of 31 December 2019, 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.

## 4. FINANCIAL INSTRUMENTS (continued)

## 4.4. Liquidity risk (continued)

The remaining contractual maturity matching of financial assets and liabilities as of 31 December 2019 is as follows:

In thousands of EUR

	Up to a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
<b>Cash and cash equivalents:</b>							
Cash and cash equivalents	8,059	-	-	-	-	-	8,059
Mandatory reserve	737	-	-	-	738	-	1,475
<b>Financial assets at amortized cost:</b>							
Receivables from banks	3,416	-	-	-	-	-	3,416
Receivables from clients	861	969	2,061	2,734	2,835	903	10,363
Securities held to maturity	-	-	-	2,000	-	-	2,000
Other financial assets	10	-	-	-	-	-	10
Interest receivables, prepayments and accruals and impairments*	37	-	-	1	(371)	-	(333)
<b>Total</b>	<b>13,083</b>	<b>969</b>	<b>2,061</b>	<b>4,734</b>	<b>3,573</b>	<b>903</b>	<b>25,323</b>
<b>Financial liabilities at amortized cost:</b>							
Deposits of clients	12,045	1,273	1,050	1,700	2,720	10	18,798
Borrowings from other clients	9	18	28	65	359	-	479
Interest liabilities, prepayments, accruals *	9	38	10	15	12	1	85
Other liabilities:	167	-	-	-	2	-	169
<b>Total</b>	<b>12,221</b>	<b>1,291</b>	<b>1,078</b>	<b>1,765</b>	<b>3,081</b>	<b>10</b>	<b>19,446</b>
<b>Maturity GAP:</b>							
- 31 December 2019	862	(322)	983	2,969	492	893	5,877
- 31 December 2018	(684)	367	1,508	(227)	4,945	1,106	7,015
<b>Cumulative GAP:</b>							
- 31 December 2019	862	540	1,523	4,492	4,984	5,877	
- 31 December 2018	(684)	(317)	1,191	964	5,909	7,015	
<b>% of total funds:</b>							
- 31 December 2019	4.43%	2.78%	7.83%	23.10%	25.63%	30.22%	
- 31 December 2018	-3.70%	-1.72%	6.45%	5.22%	32.00%	37.99%	

## 4. FINANCIAL INSTRUMENTS (continued)

## 4.4. Liquidity risk (continued)

In thousands of EUR

	<u>Up to a month</u>	<u>From 1 to 3 months</u>	<u>From 3 to 6 months</u>	<u>From 6 to 12 months</u>	<u>From 1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<b>Cash and cash equivalents:</b>							
Cash and cash equivalents	6,483	-	-	-	-	-	6,483
Mandatory reserve	734	-	-	-	735	-	1,469
<b>Financial assets at amortized cost:</b>							
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
<b>Total</b>	<b>10,286</b>	<b>861</b>	<b>2,171</b>	<b>5,212</b>	<b>5,802</b>	<b>1,146</b>	<b>25,478</b>
<b>Financial liabilities at amortized cost:</b>							
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
<b>Total</b>	<b>10,970</b>	<b>494</b>	<b>663</b>	<b>5,439</b>	<b>857</b>	<b>40</b>	<b>18,463</b>
<b>Maturity GAP:</b>							
- 31 December 2018	<u>(684)</u>	<u>367</u>	<u>1,508</u>	<u>(227)</u>	<u>4,945</u>	<u>1,106</u>	<u>7,015</u>
- 31 December 2017	<u>3,489</u>	<u>896</u>	<u>856</u>	<u>(3,323)</u>	<u>4,920</u>	<u>1,433</u>	<u>8,271</u>
<b>Cumulative GAP:</b>							
- 31 December 2018	<u>(684)</u>	<u>(317)</u>	<u>1,191</u>	<u>964</u>	<u>5,909</u>	<u>7,015</u>	
- 31 December 2017	<u>3,489</u>	<u>4,385</u>	<u>5,241</u>	<u>1,918</u>	<u>6,838</u>	<u>8,271</u>	
<b>% of total funds:</b>							
- 31 December 2018	<u>-3,70%</u>	<u>-1,72%</u>	<u>6,45%</u>	<u>5,22%</u>	<u>32,00%</u>	<u>37,99%</u>	
- 31 December 2017	<u>25,90%</u>	<u>32,80%</u>	<u>39,18%</u>	<u>14,34%</u>	<u>51,12%</u>	<u>61,83%</u>	

\* 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 2019, the Bank has no financial assets initially classified at fair value. Fair value of financial assets and liabilities as of 31 December 2019 is as follows:

	Carrying Value		In thousands of EUR Fair Value	
	2019	2018	2019	2018
<b>Financial assets</b>				
Cash and other deposits to CBM	9,533	7,951	9,533	7,951
Loans and receivables to banks	3,401	2,706	3,401	2,706
Loans and receivables to clients	10,043	12,450	10,043	12,450
Held to Maturity securities	2,001	2,004	2,001	2,004
<b>Financial liabilities</b>				
Deposits due to clients	18,885	18,272	18,885	18,272
Borrowing from other clients	479	58	479	58

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 2019, the capital adequacy ratio calculated by the Bank for statutory financial statements equalled 42.24%.

**5. INTEREST INCOME, INTEREST EXPENSES AND SIMILAR INCOME****5.1. Interest Income**

<b>In thousands of EUR</b>	<b>2019</b>	<b>2018</b>
Loans to:		
- privately-owned companies	561	432
- interest income on impaired financial assets (note 132)	20	5
- state-owned companies	19	59
- entrepreneurs	8	9
- NGOs	-	1
- retail clients	169	177
	<u>777</u>	<u>683</u>
Loan origination fee income	59	64
	<u>836</u>	<u>747</u>
Interest on financial investments in securities:		
Held to maturity	80	80
	<u>80</u>	<u>80</u>
	<u>916</u>	<u>827</u>

**5.2. Interest Expenses**

<b>In thousands of EUR</b>	<b>2019</b>	<b>2018</b>
Assets on the account of:		
- International banks	1	5
	<u>1</u>	<u>5</u>
Deposits:		
- Government of Montenegro	44	46
- state owned companies	10	10
- privately-owned companies	1	4
- insurance companies	1	2
- retail clients	109	58
	<u>165</u>	<u>120</u>
Borrowings:		
-from IRF	6	1
	<u>6</u>	<u>1</u>
	<u>172</u>	<u>126</u>

**6. FEE AND COMMISSION INCOME AND EXPENSES****6.1. Fee and Commission Income**

<b>In thousands of EUR</b>	<b>2019</b>	<b>2018</b>
Domestic payments	60	40
International payments	56	21
E-banking	31	6
Approved guarantees	9	4
Cards	39	11
Other	5	5
	<u>201</u>	<u>87</u>

**6. FEE AND COMMISSION INCOME AND EXPENSES (continued)****6.2. Fee and Commission Expenses**

In thousands of EUR	2019	2018
Fees and commissions payable to the Central Bank	40	38
Fees and commissions for international payment transactions	51	44
Deposit protection premium fees	100	63
Fees and commissions for card business	77	59
Fees and commissions for e-banking	14	14
	<b>282</b>	<b>218</b>

**7. PERSONNEL EXPENSES**

In thousands of EUR	2019	2018
Net salaries	629	606
Taxes and contributions on salaries	432	423
Other employee benefits, net	1	1
Service contract, gross	1	-
Business travel costs and per diems	11	11
Provision for unused vacations	(3)	11
Provisions for severance pay (note 18)	50	2
Employee training costs	2	1
	<b>1,123</b>	<b>1,055</b>

**8. GENERAL AND ADMINISTRATIVE EXPENSES**

In thousands of EUR	2019	2018
Rental costs (Note 26)	118	138
Security services	31	31
Electricity, utilities and fuel costs	17	17
Cleaning services	9	17
License costs and software maintenance	247	238
Objects, equipment, IT equipment, ATM maintenance costs	13	5
Legal fees	44	44
Insurance costs	14	14
External control expenses	129	124
Consultant fees	8	38
Phone charges	13	13
Communication network costs	18	18
Office supplies	4	3
Representation costs	5	5
Advertising and marketing	15	17
Membership fees	16	16
Subscription costs	13	14
Vehicle maintenance and registration costs	2	1
Miscellaneous expenses	7	12
	<b>723</b>	<b>765</b>

*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*

**9. DEPRECIATION AND AMORTIZATION**

In thousands of EUR	2019	2018
Property and equipment (Note 14)	116	136
Intangible assets (Note 15)	133	121
	<b>249</b>	<b>257</b>

**10. NETIMPAIRMENT LOSSES/GAINS OF FINANCIAL ASSETS WHICH ARE NOT VALUED THROUGH PROFIT AND LOSS**

In thousands EUR	2019	2018
Net increase of provisions impairment losses for:		
- loans	5	285
- deposits to the banks	5	4
- securities	2	-
- approved guarantees	21	23
	<b>33</b>	<b>312</b>

**11. INCOME TAXES****11.1. Components of Income Tax**

In thousands of EUR	2019	2018
Deferred income taxes	(10)	(6)
	<b>(10)</b>	<b>(6)</b>
In thousands of EUR	2019	2018
<b>Profit before tax</b>	<b>(1,453)</b>	<b>(1,808)</b>
Income tax at Law rate of 9%	(116)	(163)
Unrecognized tax asset on tax losses	116	163
Effects of different treatment on fixed assets for tax purposes	10	6
<b>Income tax in income statement</b>	<b>10</b>	<b>6</b>
<b>Effective tax rate</b>	<b>-0.69%</b>	<b>-0.33%</b>

The tax rate used in 2019 equals 9% and is applied to the taxable profit of legal entities in Montenegro in accordance with the Corporate Income Tax Law.

**11.2. Deferred Tax**

In thousands of EUR	Tax asset	Tax liability	Net asset/ (liability)
<b>Balance as of 31 December 2018</b>	-	(12)	(12)
Increase in deferred tax liability based on temporary differences between accounting and tax values of property, equipment and intangible assets	-	10	10
<b>Balance as of 31 December 2019</b>	-	(2)	(2)

Deferred tax assets amounting to EUR 116 thousand after tax loss carry forward from 2019 has not been recognized (for 2018, EUR 163 thousand). In accordance with the Law on Corporate Income Tax of Montenegro, tax losses can be used to up to the end of 2024 (for 2018 up to 2023).



## 12. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

In thousand EUR	31 December 2019	31 December 2018
Cash on hand:		
- in EUR	782	1,162
- in foreign currencies	155	92
Gyro account:		
- in EUR	7,061	5,157
Obligatory reserves held with the Central Bank of Montenegro	1,475	1,469
Other	60	71
	<b>9,533</b>	<b>7,951</b>

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, 2019, 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.

**13. FINANCIAL ASSETS AT AMORTIZED COSTS****13.1. LOANS AND RECEIVABLES FROM BANKS**

In thousand EUR	31 December 2019	31 December 2018
Correspondent accounts with foreign banks	3,416	2,706
Impairment loss	(15)	(11)
	<b>3,401</b>	<b>2,695</b>

As of December 31, 2019, the Bank has an open account with the following foreign banks: VTB Moscow, SberBank Bosnia and Herzegovina, AIK Bank Serbia and KT Bank Germany.

Deposits placed in banks abroad as at 31 December 2019 fully represent a vista deposits with negative interest calculated on the balances exceeding certain limits. Limits for the balances over which negative interest is calculated are for SberBank Bosnia and Hercegovina and VTB Moscow EUR 500 thousand, for KT Bank Germany EUR 1,000 thousand while for the balances placed with AIK Bank Serbia negative interest is not charged. In accordance to IFRS9, Bank calculated impairment on loans and receivables from banks in amount of EUR 15 thousand.

Movements on impairment losses for loans and receivables from banks

In thousand EUR	Balance on 31 December 2018	Additions	Balance on 31 December 2019
Impairment losses for loans and receivables from banks	11	4	15

## 13. FINANCIAL ASSETS AT AMORTIZED COSTS (continued)\*

## 13.2. LOANS AND RECEIVABLES FROM CUSTOMERS

In thousand EUR	December 31, 2019	December 31, 2018
Matured loans:		
- privately-owned companies	2,340	2,089
- retail customers	130	143
Short-term loans:		
-privately-owned companies	2,980	6,005
- privately-owned companies non-residents	580	-
-retail costumers	38	40
Long-term loans:		
-privately-owned companies	1,871	1,589
-state-owned companies	-	520
- entrepreneurs	113	144
- retail customers	2,308	2,278
- cards retail	4	2
	<b>10,364</b>	<b>12,810</b>
Interest receivables:		
- loans	22	11
Accruals and prepayments:		
- interest on loans	28	32
- loan origination fees	(37)	(56)
	<b>13</b>	<b>(13)</b>
	<b>10,377</b>	<b>12,797</b>
<i>Minus:</i>		
Impairment losses on loans:	(334)	(347)
Total:	<b>10,043</b>	<b>12,450</b>

Movements of loans and receivables during 2019 is shown in the table below:

	Stage 1	Stage 2	Stage 3	Total
<b>Loans and receivables from clients</b>				
<b>Gross loans and receivables from clients 31 December 2018</b>	<b>11.776</b>	<b>916</b>	<b>108</b>	<b>12.800</b>
New receivables	8.209	826	-	9.035
Decrease/repayment of receivables	(9.526)	(1.920)	(12)	(11.458)
Moved to stage1	-	-	-	-
Moved to stage 2	(2.513)	2.513	-	-
Moved to stage 3	(358)	-	358	-
Other movements	-	-	-	-
<b>Gross loans and receivables from clients 31 December 2019</b>	<b>7.588</b>	<b>2.335</b>	<b>454</b>	<b>10.377</b>

Movements in impairment of loans and receivables by risk levels during 2019 are shown in the table below:

	Stage 1	Stage 2	Stage 3	Total
<b>Loans and receivables from clients</b>				
<b>Impairment of loans and receivables 31 December 2018</b>	<b>246</b>	<b>58</b>	<b>43</b>	<b>347</b>
New receivables	134	35	-	169
Decrease/repayment of receivables	(233)	(58)	(4)	(295)
Moved to stage1	-	97	8	105
Moved to stage 2	(3)	-	-	(3)
Moved to stage 3	(1)	-	20	19
Unwinding (recognized as interest income)	-	(17)	(1)	(18)
Other movements	7	-	3	10
<b>Impairment of loans and receivables 31 December 2019</b>	<b>150</b>	<b>115</b>	<b>69</b>	<b>334</b>

*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*

**13. FINANCIAL ASSETS AT AMORTIZED COSTS (continued)****13.2. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)**

Short-term loans to corporate entities are mostly approved for working capital with interest rate between 5.3% and 9% p.a.. Long-term loans are granted for a period of 14 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 9.95% per annum.

Short-term retail loans are granted for a period of one month to 12 months with annual interest rate ranging from 2% to 11.45%. Long-term loans to retail customers include cash loans, housing loans, adaptation loans, consumer loans and other types of loans, maturing within 15 to 300 months with an interest rate ranging from 2% to 11.45% per annum.

Movements on the impairment balances are shown below:

<b>Balance on 1 January 2018</b>	<b>66</b>
Impairments (note 10)	285
Interest accrued on impaired receivables (note 5.1.)	(5)
<b>Balance on 31 December 2018</b>	<b>347</b>
Impairments (note 10)	5
Interest accrued on impaired receivables (note 5.1.)	(18)
<b>Balance on 31 December 2019</b>	<b>334</b>

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

In thousand EUR	31 December 2019	31 December 2018
Montenegro	9,479	12,425
Azerbaijan	3	8
Macedonia	1	2
Serbia	14	15
Slovakia	546	-
	<b>10,043</b>	<b>12,450</b>

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

In thousand EUR	31 December 2019	31 December 2018
Trade activities	1,473	2,265
Construction	433	2,289
Manufacturing	464	941
Accommodation and nutrition services	2,523	2,444
Electricity supply	545	-
Water supply	257	455
Traffic and storage	270	290
Information and communication	443	-
Administrative and auxiliary service activities	-	143
Other service activities	731	714
Real estate	352	498
Professional, scientific and technical activities	137	-
Retail	2,415	2,411
	<b>10,043</b>	<b>12,450</b>

**13. FINANCIAL ASSETS AT AMORTIZED COSTS (continued)****13.3. SECURITIES**

As at 31 December 2019 the portfolio of the securities valued at amortized cost amounts EUR 2,001 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 10 thousand,
- Impairment loss on government bonds in amount of EUR 9 thousand.

In accordance to IFRS 9, Bank calculated impairment losses on securities valued at amortized cost.

In thousand EUR	31 December 2018	Additions	31 December 2019
Impairments of securities	7	2	9

**14. PROPERTY, PLANT AND EQUIPMENT**

Movements on property and equipment and other assets during 2019 are presented in the following table:

In thousand EUR

	Buildings	Equipment and other assets	Total
<b>Cost</b>			
Balance as at 1 January 2018	97	555	652
Additions	-	10	10
<b>Balance as at 31 December 2018</b>	<b>97</b>	<b>565</b>	<b>662</b>
Additions	2	-	2
<b>Balance as at 31 December 2019</b>	<b>99</b>	<b>565</b>	<b>664</b>
<b>Accumulated depreciation</b>			
Balance as at 1 January 2018	51	143	194
Depreciation (Note 9)	34	102	136
<b>Balance as at 31 December 2018</b>	<b>85</b>	<b>245</b>	<b>330</b>
Depreciation (Note 9)	14	103	117
<b>Balance as at 31 December 2019</b>	<b>99</b>	<b>348</b>	<b>447</b>
<b>Current Value:</b>			
- 31 December 2019	-	217	217
- 31 December 2018	12	320	332

As at 31 December 2019 the Bank does not have own property under collateral agreements for insuring the repayment of loans and other liabilities.

**15. 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	2019	2018
<b>Cost</b>		
Balance as at 1 January	619	565
Additions during the period	1	54
	<b>620</b>	<b>619</b>
<b>Accumulated Amortization</b>		
Balance as at 1 January	250	129
Amortization (Note 9)	133	121
	<b>383</b>	<b>250</b>
<b>Net Book Value as at 31 December</b>	<b>237</b>	<b>369</b>

Intangible assets in the amount of EUR 237 consist of: computer programs (software) in the amount of EUR 161 thousands and other intangible assets in the amount of EUR 76. Other intangible assets mainly consist of Visa International license in the amount (current value) of EUR of 72 thousand.

**16. OTHER ASSETS**

In thousand EUR	2019	2018
Prepaid expenses	50	51
Receivables of the Tax Administration	13	13
Inventories of plastic cards	17	18
Receivables from funds (maternity leave)	8	8
Receivables from employees	1	2
Payment transaction fees receivables	5	7
	<b>94</b>	<b>99</b>

## 17. FINANCIAL LIABILITIES AT AMORTIZED COST

## 17.1. DEPOSITS BY CUSTOMERS

In thousand EUR	31 December 2019	31 December 2018
Demand deposits:		
- privately-owned companies	9,953	7,421
- state-owned companies	22	10
- other financial companies	7	
- Government of Montenegro	74	1,685
- entrepreneurs	72	12
- insurance companies	-	3
- non-profit organizations	2	0
- retail costumers	1,663	1,050
	<b>11,793</b>	<b>10,181</b>
Short-term deposits:		
- privately-owned company	300	282
- state-owned companies	-	2,000
- Government of Montenegro	-	1,000
- insurance companies	-	10
- retail companies	1,016	488
	<b>1,316</b>	<b>3,780</b>
Long-term deposits:		
- privately-owned companies	180	677
- Government of Montenegro	2,000	1,000
- insurance companies	-	110
- retail costumers	3,510	2,466
	<b>5,690</b>	<b>4,253</b>
	<b>18,799</b>	<b>18,214</b>
<i>Interest and other liabilities</i>		
Accrued interest	86	58
	<b>86</b>	<b>58</b>
	<b>18,885</b>	<b>18,272</b>

On demand deposits for retail clients no interest rate is applied, while interest rates on sight deposit for private costumers up to 0.15%. 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 0.6% to 2.2%.

**17. FINANCIAL LIABILITIES AT AMORTIZED COST (continued)****17.2. LOANS FROM THE CUSTOMERS WHICH ARE NOT BANKS**

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, 2019 consist of one credit debt towards the Fund in amount of EUR 479 thousand.

					In thousand EUR
Approved amount	Approval date	Maturity date	Interest rate	Balance as at 31 December, 2019	
84	19.09.2017	30.09.2021	1,50%	37	
360	25.12.2018	31.03.2024	1,50%	298	
100	12.08.2018	31.08.2024	1,50%	94	
50	05.09.2019	30.09.2024	1,50%	50	

					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	

**18. PROVISIONS**

In thousand EUR	31 December 2019	31 December 2018
Provisions for employee benefits	66	16
Provisions for unused holidays	35	38
Provisions on approved guarantees	45	24
Provisions on approved, unused credit lines	1	1
	<b>147</b>	<b>79</b>

**19. OTHER LIABILITIES**

In thousand EUR	31 December 2019	31 December 2018
Liabilities to domestic suppliers	120	109
Liabilities to foreign suppliers	4	3
Accrued liabilities	40	51
Other liabilities	3	17
	<b>167</b>	<b>180</b>



**20. CAPITAL**

As of 31 December 2019, the Bank's share capital was comprised of 299,511,761 ordinary shares, with nominal value per share of EUR 0.04. There were no changes on the share capital of the bank during 2019.

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

Name of the person/company	31 December 2019		% ownership
	No of shares	In EUR	
Azmont Investments d.o.o. Herceg Novi	299,511,761	11,980,470.44	100%
	<b>299,511,761</b>	<b>11,980,470.44</b>	<b>100%</b>

**21. 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 2019 amounted to 42.24% (31 December 2018: 45.62%).

As of 31 December 2019, the own funds of the Bank are above prescribed minimum of EUR 5,000 thousand and amount EUR 5,472 thousand. (31 December 2018: EUR 6,806 thousand).

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 2019 the Bank's capital is above the regulatory minimum.

**22. OFF-BALANCE SHEET ITEMS**

In thousand EUR	31 December 2019	31 December 2018
<b>Off-balance assets that bears credit risk</b>		
Irrevocable commitments to grant loans	414	611
Issued guarantees	950	567
	<b>1,364</b>	<b>1,178</b>
<b>Other off-balance items</b>		
Off-balance sheet interest	12	5
Collaterals on receivables	18,203	17,052
	<b>19,579</b>	<b>18,235</b>

## 23. 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 2019	31 December 2018
<i>Loans:</i>		
-retail loans - employees	302	303
- cards – employees	4	
<b>Total receivables:</b>	<b>306</b>	<b>303</b>
<b>Liabilities</b>		
<i>Demand deposits:</i>		
- Azmont investments	36	3,150
- ADC	3	3
-retail deposits – employees	103	66
<i>Term deposits:</i>		
-retail deposits – employees	385	292
Liabilities for accrued interest on deposits	4	3
Liabilities to suppliers – Azmont investment	101	101
<b>Total liabilities</b>	<b>632</b>	<b>3,615</b>
<b>Liabilities, net</b>	<b>(326)</b>	<b>(3,312)</b>

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 2019 there is EUR 7 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 2019 and 2018 are as follows:

In thousand EUR

	31 December 2019	31 December 2018
<i>Interest income:</i>		
- ADC d.o.o.	-	49
- retail loans – employees	19	16
<b>Total income:</b>	<b>19</b>	<b>65</b>
<i>Interest expenses:</i>		
- Azmont investments	-	(1)
- employees	9	4
<b>Total expenses:</b>	<b>9</b>	<b>3</b>
<b>Income, net</b>	<b>10</b>	<b>62</b>

Compensation to senior management based on gross salaries and benefits in 2019 is EUR 246 thousands (2018, EUR 219 thousand).

**24. LITIGATIONS**

As at 31 December 2019 there is one court case against the Bank, initiated by the Central Bank of Montenegro. It is stated that the Bank did not provide 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 60% 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 85 thousand.

**25. OPERATING LEASE**

Agreements on operating lease, with determined lease period refer to the lease of business and residential premises. Starting from 1<sup>st</sup> of January 2020, the bank will treat head office lease agreement in accordance to requirements of IFRS 16.

During 2019, the lease expense amounted to EUR 118 thousand. (Note 8)

The lease of business premises represents the liabilities for a period up to 1 year.

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 2019	31 December 2018
Up to 1 year	82	102
Between 1 and 5 years	-	65
	<b>82</b>	<b>167</b>

**26. 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.

	2019	2018
(Loss)/gain for the year in thousand EUR	(1,453)	(1,808)
The weighted average number of shares	299,511,761	299,511,761
Earnings (loss) per share in EUR	<b>(0.005)</b>	<b>(0.006)</b>

**27. 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 2019 and 2018 were as follows:

	31 December 2019	31 December 2018
USD	0.8937	0.8731
CHF	0.9199	0.8907
GBP	1.1736	1.1078

**28. EVENTS AFTER THE REPORTING PERIOD*****Corona virus pandemic – COVID 19***

The flow and escalation of the coronavirus is unpredictable, so a major challenge for the Bank is to anticipate its implications for economic and business performance, which may result in estimates and assumptions that will require revision, which may result in material adjustments to the carrying amount of assets and liabilities underway next business year. Uncertainty also relates to a set of national measures for suppression of spreading the virus, which have already been and will be undertaken in the future. The measures may affect the business of the entire Montenegrin economy and, consequently, on the Bank's operations. According to preliminary estimates made by the Bank's management, a new pandemic in this case could affect the bank's liquidity, loan distribution, loan portfolio quality, impairment, value adjustments and the similar. The Bank's liquidity will be most influenced by the moratorium on the repayment of loans and other claims on legal entities and individuals over a period of at least 90 days, beginning on March 31, 2020, as well as any other events in this regard. However, the Bank may rely on the support of a new owner, who paid EUR 2,500 in April 2020 for additional capitalization, which demonstrates the owner's intention to both increase business activity and provide additional stability to the Bank.

All these uncertainties regarding the prediction of the impact of the pandemic, the rate of spread of the virus and the state measures that will be taken to protect and prevent the spread of the virus, the effects on the Bank's financial result cannot be predicted with a high degree of certainty.

As of the date of these financial statements, the Bank continues to fulfill its maturity liabilities and therefore continues to apply the going concern concept as the accounting basis for the preparation of the financial statements.

***Change of owners and additional capitalization of the Bank***

An event after the balance sheet date that will affect future operation of the bank is the change of owner. The block transaction was executed on the Montenegro Stock Exchange, on January 15, 2020. The transaction included sale of 299,511,761 ordinary shares (symbol AZMO) issued by Nova Banka AD Podgorica. The 100% ownership transfer was made from Azmont Investment LLC located in Kumbor, Herceg Novi to a buyer Adriatic Capital LLC located in Wilmington, Delaware, United States.

On March 9, bank has changed its name from Nova Banka AD Podgorica to Adriatic Bank AD Podgorica.

The additional capitalization of the bank in the amount of EUR 2,500 thousand was completed in April 2020. The said amount was paid by the owner and transferred to a separate account for additional capitalization. On 10 April 2020, the Capital Market Authority issued a Decision on determining the performance of the issue of shares issued for sale to existing shareholders, which concluded that the issue was successful.

In addition to the events described in the preceding paragraphs, there were no significant events after the balance sheet date that would be required to be disclosed in the financial statements.

## 29. 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:	<a href="http://www.novabanka.me">http://www.novabanka.me</a>
Email address:	<a href="mailto:office@novabanka.me">office@novabanka.me</a>

The Bank has a head office and one branch on 31 December 2019.

Number of employees as at 31 December 2019 was 30 (31 December 2018: 33 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:

	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 was 100% in ownership of company Azmont Investments doo Herceg Novi on 31<sup>st</sup> of December 2019. Starting from January 15<sup>th</sup>, 2020, bank is 100% owned by Adriatic Capital LLC, United States.

The auditing company that audited the 2019 financial statements Crowe MNE d.o.o., Member Crowe Global Vučedolska 7, Podgorica, Montenegro.

Book value of the shares on 31 December 2019 was EUR 0.04 per share.

There were no payments of dividends in 2019.

# MANAGEMENT REPORT

ON BUSINESS PERFORMANCE OF THE BANK FOR 2019

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**NOVABANKA**



March, 2020

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## 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

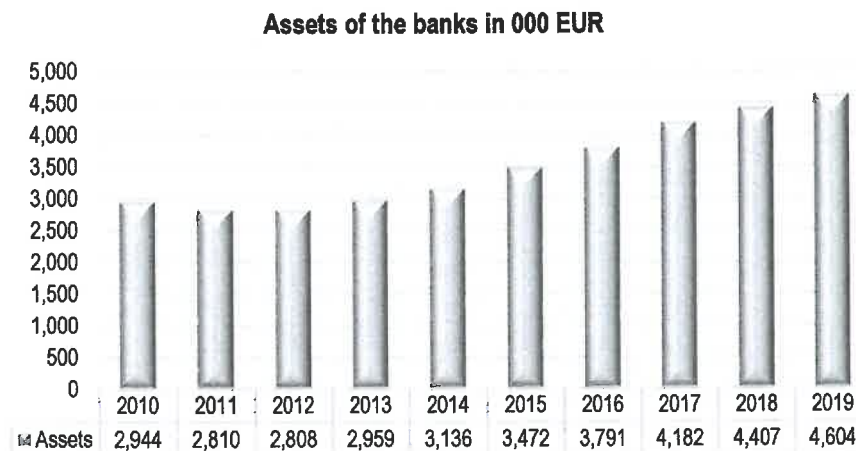
Nova Banka A.D. was formed in 2016 by Azmont Investment DOO, the company that operates in Montenegro since 2012.

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

Table 1 – Market share of the bank on December 31, 2019

Bank	Assets	Loans	Deposit	Equity
Banking sector (in 000eur)	4,603,918	2,705,901	3,485,206	599,988
Nova Banka AD (in 000eur)	25,536	10,043	18,885	5,856
%of share	0.55%	0.37%	0.54%	0.98%

Graph 1 – Asset of the banking sector for the period 2010-2019



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 2019, with the absorption capacity of potential risks from operations. The level of own funds at 31 December 2019 was EUR 5.472 thousands (31 December 2018: EUR EUR 6.806 thousands). For the first quarter 2020 planned is additional capitalization of the bank.

As at 31 December 2019, the Bank is consisted of headquarter in Podgorica and one branch office on the same location.

### 2.1. Registrazion 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, treasury services, issuance, processing and recording of payment instruments.

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.

## 2.2. Organization and employees

### a) Board of directors

*Table 2 - Board of directors of the bank*

Position	Name	Date of birth	Residence
<b>1. President</b>	Ahmet Erentok	21.9.1962	Turkey
<b>2. member</b>	Rashad Aliyev	25.1.1982	Azerbaijan
<b>3. member</b>	Rashad Rasullu	11.4.1980	Azerbaijan
<b>4. member</b>	Gorhmaz Aghayev	1.5.1980	Azerbaijan
<b>5. member</b>	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
<b>Kamran Mammadov</b>	Chief Executive Officer	01.03.2017.
<b>Đorđe Lukić</b>	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
<b>Kamran Mammadov</b>	President
<b>Đorđe Lukić</b>	Member
<b>Ana Rašović</b>	Member
<b>Enesa Bekteši</b>	Member
<b>Maja Barada</b>	Member
<b>Nikola Marinović</b>	Member

d) Members of Audit Committee

Table 5 - Members of Audit Committee

Name	Position
Jeyhun Abdullayev	President
Rashad Aliyev	Member
Nurana Gulyeva	Member

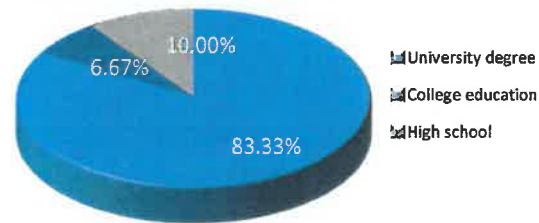
2.3. Personnel qualification structure

On 31 December 2019 the Bank had 30 employees, with the following structure:

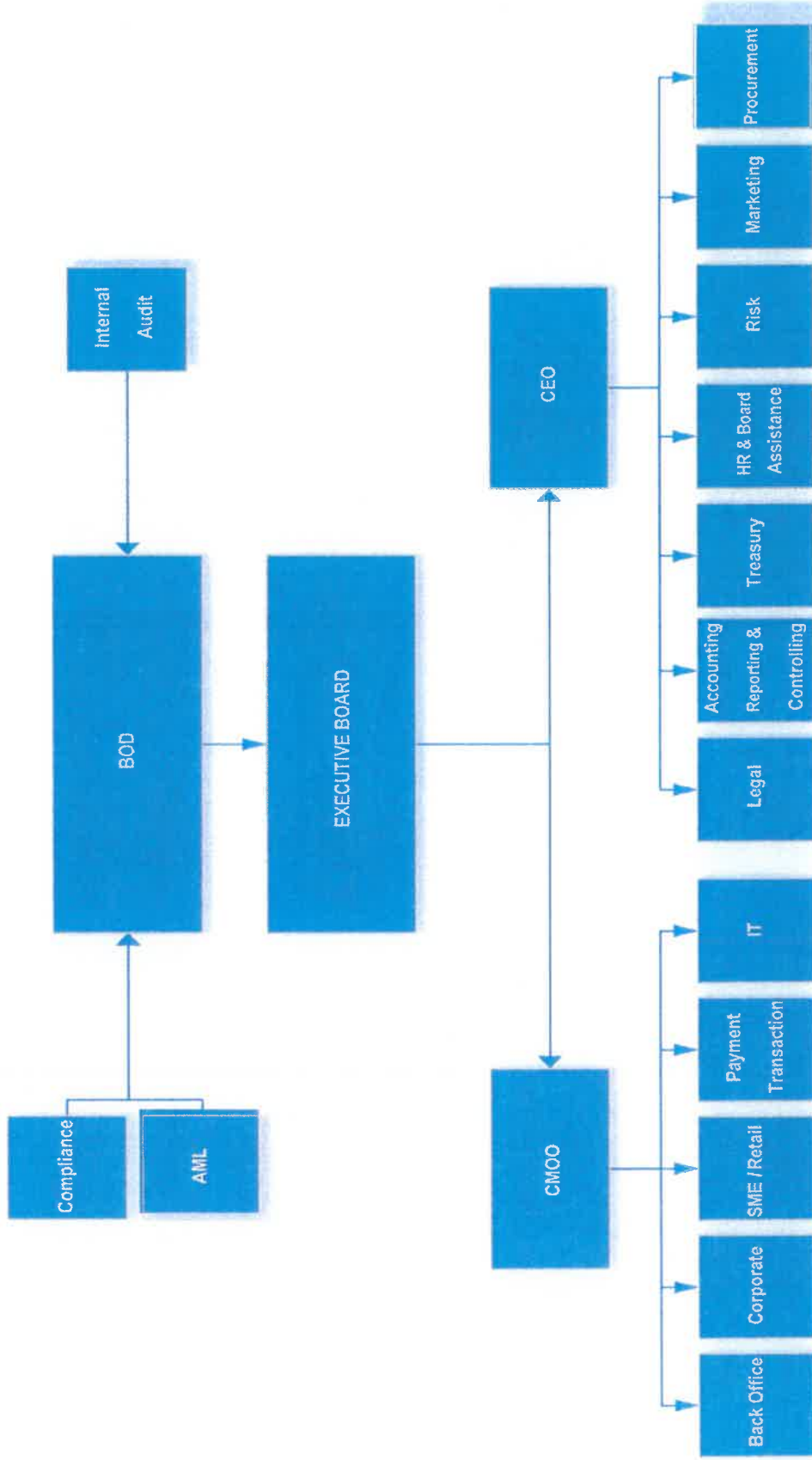
- University degree 25 employees or 83%,
- College education 2 employees or 7%,
- High school 3 employees or 10%.

Graph 2. – Personnel structure

Qualification structure of the employees in 2019



**2.4. Organizational structure of the Bank**  
*Graph 3 – Organizational chart*



### 3. PERFORMANCE OF THE BANK IN 2019

Table 6. - Performance indicators in 2019  
(in 000 EUR)

DESCRIPTION	2019	2018	Change %
<b>BALANCE SHEET ASSETS</b>	<b>25,536</b>	<b>25,910</b>	<b>-1%</b>
<b>GROSS LOANS</b>	<b>10,377</b>	<b>12,797</b>	<b>-19%</b>
Retail loans	2,482	2,459	1%
Corporate loans	7,895	10,338	-24%
<b>DEPOSITS</b>	<b>18,885</b>	<b>18,272</b>	<b>3%</b>
Retail deposits	6,272	4,053	55%
Corporate deposits	12,613	14,219	-11%
<b>Total equity</b>	<b>5,856</b>	<b>7,309</b>	<b>-20%</b>
<b>LOSS FROM OPERATIONS</b>	<b>(1,453)</b>	<b>(1,808)</b>	<b>-20%</b>
<b>PROFITABILITY RATIOS IN %</b>			
ROA - financial result / balance sheet assets %	<b>-5.69</b>	<b>-6.98</b>	<b>-18%</b>
ROE – financial result / total equity %	<b>-24.80</b>	<b>-24.74</b>	<b>0%</b>
NET INTEREST INCOME	744	701	6%
NET FEE AND COMMISSION INCOME	(81)	(131)	-38%
<b>NUMBER OF EMPLOYEES</b>	<b>30</b>	<b>33</b>	<b>-9%</b>
Assets per employee in 000 EUR	851	785	8%
<b>OPERATING EXPENSES</b>	<b>(2,095)</b>	<b>(2,077)</b>	<b>1%</b>
<b>INDICATORS</b>			
<b>CAPITAL ADEQUACY %</b>	<b>42.24</b>	<b>45.62</b>	<b>-7%</b>
<b>LIQUIDITY RATIOS %</b>	<b>3.29</b>	<b>3.01</b>	<b>9%</b>
<b>CASH IN 000 EUR</b>	<b>12,949</b>	<b>10,658</b>	<b>21%</b>
Interest income / Interest bearing assets %	7.60	5.90	29%
Interest income / Total assets %	3.59	3.56	1%
Interest expenses / Interest bearing liabilities%	0.89	0.86	3%
Operating expenses / Total expenses %	81.00	76.04	7%
Liquid assets / Deposits %	64.58	58.27	11%
Liquid assets / Total assets %	47.76	38.30	25%
Liquid assets / Short-term liabilities %	96.88	56.37	72%

#### 4. REGULATORY REQUIREMENTS IN 2019

*Table 7. - Regulatory requirements on 31 December 2019*

R.Br.	OPIS	LIMIT	31.12.2019
1	Capital Adequacy Ratio	min. 10 %	42.24%
3	Exposure to the related parties to the Bank	maks. 200%	6.82%
4	Sum of big exposures	maks. 800%	93.77%
5	Total equity in 000 EUR	min 5 mil	5,856
6	Own funds in 000 EUR	min 5 mil	5,472
7	Total risk assets and other risks in 000 EUR		
7.1.	Risk weighted assets		11,224
7.2.	Capital need for market risk		-
7.3.	Capital need for operating risk		107
7.4.	Capital need for country risk		151
7.5.	Capital need for other risks		511
7.6.	Open FX position		19

Audit company Crowe MNE d.o.o. Montenegro, audited financial statements and regulatory requirements for 2019 and stated that there was no breaching of the same.



## 5. BALANCE SHEET FOR 2019

### 5.1. Assets of the bank on 31 December 2019

Table 8. – Assets of the Bank on 31 December 2019 in 000 EUR

ASETS	31 December 2019.	31 December 2018.	Index (2019/2018)
<b>ASETS</b>			
Cash and cash on the accounts with Central bank	9,533	7,951	1.20
Loans and receivables form banks	3,401	2,695	1.26
Loans and receivables form clients	10,043	12,450	0.81
Investments securities held to maturity	2,001	2,004	1.00
Other financial receivables	10	10	1.00
Property, plant and equipment	217	332	0.65
Intangible assets	237	369	0.64
Other financial receivables	94	99	0.96
<b>TOTAL ASSETS</b>	<b>25,536</b>	<b>25,910</b>	<b>0.99</b>
<b>LIABILITIES</b>			
Deposits of the banks	-	-	-
Deposits of the clients	18,885	18,272	1.03
Borrowings from other clients	479	58	8.23
Provisions	147	79	1.86
Deferred tax liabilities	2	12	0.17
Other liabilities	167	180	0.93
<b>TOTAL LIABILITIES</b>	<b>19,680</b>	<b>18,601</b>	<b>1.06</b>
<b>EQUITY</b>			
Share Capital	11,980	11,980	1.00
Retained earnings	(6,053)	(4,600)	1.32
IFRS9 implementation effects	(71)	(71)	1.00
Total equity	5,856	7,309	0.80
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>25,536</b>	<b>25,910</b>	<b>0.99</b>
<b>OFF-BALANCE</b>	<b>19,579</b>	<b>18,235</b>	<b>1,07</b>

Total assets of the Bank in 2019 amounted EUR 25.536 thousands.

Loans to the clients amounted EUR 10.043 thousands and loan portfolio represents 39% of total Bank's assets. Decrease of loan portfolio of 19% compared to the last year is a result of significant slowdown of activity before transfer of ownership was realized (sale transaction was performed on 15<sup>th</sup> of January 2020).

As at 31 December 2019 the portfolio of the securities held to maturity and valued at amortized cost amounts EUR 2.001 thousands (8% 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 10 thousand,
- Impairment loss booked in amount of EUR 9 thousand.

Except loans to the clients, significant part of the assets of the Bank is cash, representing 51%.

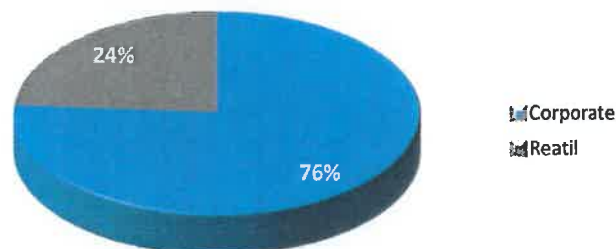
## 5.2. Loans to the clients on 31 December 2019

Table 9. - Net loans to the clients on 31 December 2019 in 000 EUR

NO	DESCRIPTION	31.12.2019	31.12.2018	Index
I	<b>Loans to the clients</b>	<b>10,377</b>	<b>12,797</b>	<b>0.81</b>
1	Corporate	7,895	10,338	0.76
2	Retail	2,482	2,459	1.01
II	Loan impairment	(334)	(347)	0.96
I+II	<b>Net loans to the clients</b>	<b>10,043</b>	<b>12,450</b>	<b>0.81</b>

Graph 4. - Loans to the clients - 2019

Loans portfolio 2019



Total loans to the clients, on 31 December 2019, amounted EUR 10,043 thousands (31 December 2018: EUR 12,450 thousands).

Retail loans amounted EUR 2,415 thousands, and corporate loans were EUR 7,628 thousands.



Table 10. - Portfolio overview on 31 December 2019 in 000 EUR

Type of loan	2019	% share 2019	2018	% share 2018
<b>Balance sheet item</b>				
Loans and receivables form banks	3,416	22%	2,706	15%
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%	(13)	0%
HTM securities	2,010	13%	2,011	11%
<b>Total balance sheet exposure to credit risk</b>	<b>15,803</b>	<b>100%</b>	<b>17,514</b>	<b>100%</b>
<b>Off-balance sheet items</b>				
Performance guarantees	950	70%	567	48%
Undrawn loans	414	30%	611	52%
<b>Total off-balance sheet exposure to credit risk</b>	<b>1,364</b>	<b>100%</b>	<b>1,178</b>	<b>100%</b>
<b>Total exposure to credit risk</b>	<b>17,167</b>	<b>100%</b>	<b>18,692</b>	<b>100%</b>

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

Table 11 - Overview of total portfolio by holders 31 December 2019 in 000 EUR

Type of loan	2019	% share	2018	% share
Banks, non-resident	3,416	22%	2,706	15%
Banks, residents	-	0%	-	0%
State - owned companies	-	0%	519	3%
Privately owned companies	7,200	46%	9,677	55%
Privately owned companies – non-residents	582	4%	-	0%
Entrepreneurs	113	1%	144	1%
Individuals, residents	2,460	16%	2,432	14%
Individual, non-residents	18	0%	25	0%
Individuals, cards	4	0%	-	0%
Government Bonds	2,010	13%	2,011	11%
<b>Total credit risk exposures</b>	<b>15,803</b>	<b>100%</b>	<b>17,514</b>	<b>100%</b>

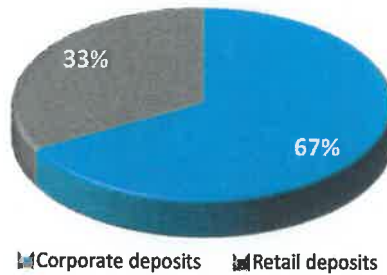
In 2019 the highest amount of approved loans relates to corporate loans.

### 5.3. Equity and liabilities of the bank on 31 December 2019

In the equity and liabilities structure total deposits of the clients, with accrued interest on 31 December 2019, represents 74% and amounts EUR 18.885 thousands (2018: EUR 18.272 thousands).

**Graph 5. - Deposit structure by sector 31 December 2019**

**Deposit structure by sector on 31.12.2019**

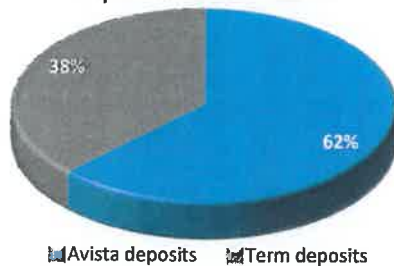


Deposit structure by sector at the end of 2019, shows that retail deposits represents 33% of total deposits, or EUR 6.272 thousands.

Corporate deposits are 67% of total deposits of the Bank, or EUR 12.614 thousands (2018: EUR 14.219 thousand). 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 recorded growth.

**Graph 6. - Deposit structure on 31 December 2019 by type**

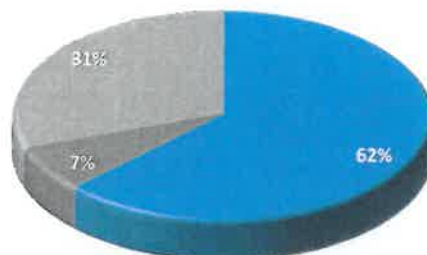
**Deposit structure 31.12.2019**



Avista deposits at the end of 2019 amounts EUR 11.794 thousands (2018: EUR 10.184 thousands) or 62% of total deposits, while term deposits are EUR 7.091 thousand (2018: EUR 8.088 thousand) or 38% total Bank's deposits. Interest rates offered by the Bank on term deposits are higher than average passive interest rates on the market. Deposit contraction is still high.

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

**Maturity structure of deposits on 31.12.2019**



Maturity structure of deposits at the end of 2019, shows that long-term deposits represents only 31% of total deposits and they amounts EUR 5.766 thousands (2018: EUR 4.312 thousands).

Short-term and a vista deposits are 69% of total deposit portfolio of the Bank and amounts EUR 13.119 thousands (2018: EUR 13.960 thousands).

Avista deposits Short-term deposits Long-term deposits

**5.4. Changes on equity up to 31<sup>st</sup> of December 2019**

As of 31 December 2019, 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 and share capital was not changed during 2019.

Table 12 - The ownership structure of the Bank as at 31 December 2019

Name of the person/company	31 December 2019		% ownership
	No of shares	In EUR	
Azmont Investments d.o.o. Herceg Novi	299,511,761	11,980,470.44	100.00%
	<b>299,511,761</b>	<b>11,980,470.44</b>	<b>100.00%</b>

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 2019 amounted to 42,24%.

As of 31 December 2019, the own funds of the Bank are above prescribed minimum of EUR 5.000 thousand and amount EUR 5.472 thousand (2018: 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 2019 the Bank's capital is above the regulatory minimum.

Table 13. - Changes on equity

Position	Share Capital	Retained earnings	TOTAL
<b>Balance on 31 December 2017</b>	<b>11,980</b>	<b>(2,863)</b>	<b>9,117</b>
Effects of IFRS9 application		(71)	(71)
Loss of current period		(1,808)	(1,808)
<b>Balance on 31 December 2018</b>	<b>11,980</b>	<b>(4,671)</b>	<b>7,309</b>
Loss of current period		(1,453)	(1,453)
<b>Balance on 31 December 2019</b>	<b>11,980</b>	<b>(6,124)</b>	<b>5,856</b>

### 5.5. Bank's off-balance sheet records

Commitments of the Bank as at 31 December 2019 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 2019.	31 Dec 2018.
Contingent liabilities of the Bank	<b>1,364</b>	<b>1,178</b>
Irrevocable commitments to grant loans	414	611
Guarantees	950	567
- <i>issued payment guarantees</i>	510	226
- <i>issued performance guarantees</i>	340	241
- <i>other guarantees</i>	100	100
Other off-balance items	<b>18,215</b>	<b>17,057</b>
Collaterals on receivables	18,203	17,052
Accrued interest	12	5
<b>Total</b>	<b>19,579</b>	<b>18,235</b>

Off-balance sheet exposure of the Bank on December 31, 2019 amounts to EUR 1.364 thousands, of which EUR 414 thousands (30%) of the unused approved loans and approved guarantees of EUR 950 thousands (70%).

## 6. INCOME STATEMENT FOR 2019

### 6.1. Income statement

*Table 15.- Income statement*

In thousands EUR:	2019.	2018.	Index (2019/2018)
Interest income	896	822	1.09
Interest income on impaired loans	20	5	4.00
Interest expenses	(172)	(126)	1.37
<b>NET INTEREST INCOME</b>	<b>744</b>	<b>701</b>	<b>1.06</b>
Fee and commission income	201	87	2.31
Fee and commission expenses	(282)	(218)	1.29
<b>NET FEE AND COMMISSION INCOME</b>	<b>(81)</b>	<b>(131)</b>	<b>0.62</b>
Net FX result	3	5	0.00
Personal expenses	(1,123)	(1,055)	1.06
Other administrative expenses	(720)	(764)	0.94
Depreciation	(249)	(257)	0.97
Other costs	(3)	(1)	3.40
Impairment losses	(33)	(312)	0.11
<b>OPERATING PROFIT</b>	<b>(1,463)</b>	<b>(1,815)</b>	<b>0.81</b>
<b>Income tax</b>	<b>10</b>	<b>6</b>	<b>1.72</b>
<b>NET PROFIT</b>	<b>(1,453)</b>	<b>(1,808)</b>	<b>0.80</b>

## 6.2. Interest income and expenses

Table 16.- Interest income and expenses in 000 EUR

Interest income and expenses	2019	2018
<b>Interest income</b>		
<b>Loans:</b>		
-state owned companies	19	59
-privately owned companies	561	432
-entrepreneurs	8	9
-NGOs and other non-profit organizations, residents	-	1
-individuals	169	177
-interest income on impaired loans	20	5
	<b>777</b>	<b>683</b>
Loan origination fees	59	64
Interest on HTM securities	80	80
<b>Total interest income</b>	<b>916</b>	<b>827</b>
<b>Interest expenses</b>		
International banks	1	5
	<b>1</b>	<b>5</b>
<b>Deposits:</b>		
-Government of Montenegro	44	46
-state owned companies	10	10
-privately owned companies	1	4
- insurance companies	1	2
-individuals	109	58
	<b>165</b>	<b>120</b>
IRF Borrowings	6	1
<b>Total interest expenses</b>	<b>172</b>	<b>126</b>
<b>Net interest income</b>	<b>744</b>	<b>701</b>

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 17.- Fee and commissions income and expenses in 000 EUR*

Fee and commissions income and expenses	2018	2017
<b>Fee and commission income</b>		
Guarantee fees	9	4
Payment transactions - domestic	60	40
Payment transactions – international	56	21
E-banking fees	31	6
Cards	39	11
Other	5	5
<b>Total fee and commission income</b>	<b>201</b>	<b>87</b>
<b>Fee and commissions expenses:</b>		
Central bank fees	40	38
International payment fees	51	44
Deposit protection Fund fees	100	63
E-banking fees	14	14
Cards processing fees	24	24
Visa fees	53	35
<b>Total fee and commission expenses</b>	<b>282</b>	<b>218</b>
<b>Net fee and commission income</b>	<b>(81)</b>	<b>(131)</b>

The realized income from fees in 2019 is decreased compared to 2018. 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 2019.

6.3.1. Operating expenses

Table 18.- Operating expenses in 000 EUR

Operating expenses	2019	2018
<b>Personnel expenses</b>		
Net salaries	629	606
Taxes, contributions and surtax on salaries	432	423
Other payments to employees	1	1
Temporary contracts	1	-
Provision for unused annual leave	(3)	11
Provisions for severance payments	50	2
Travel expenses and per diem	11	11
Training expenses	2	1
<b>Total personnel expenses</b>	<b>1,123</b>	<b>1,055</b>
<b>Other administrative expenses</b>		
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 supplies	4	3
Communication network	18	18
Subscriptions	13	14
Phone charges	13	13
Membership fees for Bank Association	16	16
Insurance	14	14
Representation	5	5
Cleaning	9	17
Other Costs	4	12
<b>Total administrative expenses</b>	<b>720</b>	<b>765</b>
<b>Depreciation</b>	<b>249</b>	<b>257</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>2,093</b>	<b>2,077</b>

Operating and other expenses in 2019 amounted EUR 2.093 thousands out of which EUR 1.123 thousands or 54% are related to staff costs (2018: EUR 1.055 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 2019, the following projection of the financial results is made for the period 2020-2023:

Table 19.- *Planned profit and loss (2020-2023)*

<b>Projected Profit and Loss</b>					
	<b>Actual</b>		<b>Budgeted</b>		
in TEUR	<b>FY 2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Interest income	916	2,111	3,040	3,772	4,251
Interest Expense	(172)	(192)	(265)	(326)	(356)
<b>Net interest income</b>	<b>744</b>	<b>1,919</b>	<b>2,775</b>	<b>3,446</b>	<b>3,895</b>
<b>Fee and commission income</b>					
Fee and commission income	201	1,142	1,651	2,043	2,289
Fee and commission expenses	(282)	(457)	(661)	(817)	(916)
<b>Net fee and commission income</b>	<b>(81)</b>	<b>685</b>	<b>991</b>	<b>1,226</b>	<b>1,373</b>
Net FX gains/(losses)	3	-	-	-	-
Impairment losses	(33)	(285)	(265)	(311)	(504)
<b>Net banking income</b>	<b>632</b>	<b>2,319</b>	<b>3,500</b>	<b>4,360</b>	<b>4,764</b>
Salaries, wages and other personal expenses	(1,123)	(1,170)	(1,229)	(1,254)	(1,279)
Depreciation expenses	(249)	(381)	(346)	(367)	(389)
Other expenses	(723)	(934)	(953)	(972)	(991)
<b>Total OPEX</b>	<b>(2,095)</b>	<b>(2,485)</b>	<b>(2,528)</b>	<b>(2,593)</b>	<b>(2,659)</b>
Profit/(loss) before tax	(1,463)	(165)	973	1,767	2,105
<b>Income tax @ 9%</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Profit/(loss) after tax</b>	<b>(1,453)</b>	<b>(165)</b>	<b>973</b>	<b>1,767</b>	<b>2,105</b>

Period considered by this business plan assumes continuous work on increasing 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 20 – Planned balance sheet for the period 2020 to 2023

<b>Projected Balance Sheet</b>					
<b>In TEUR</b>	<b>Actual</b>		<b>Budgeted</b>		
	<b>31-Dec-19</b>	<b>31 Dec 20</b>	<b>31 Dec 21</b>	<b>31 Dec 22</b>	<b>31 Dec 23</b>
<b>Assets</b>					
Cash and cash equivalents	8,058	2,587	3,199	3,976	3,620
Obligatory reserve with Central Bank	1,475	2,664	3,730	4,289	4,504
Due from banks & other financial institutions	3,401	2,983	3,133	3,289	3,454
Securities (Government)	2,001	5,611	7,856	9,427	9,898
Loans due from other customers (net)	10,043	34,185	46,115	52,859	57,764
Intangible assets	237	367	388	406	421
Property, plant & equipment	217	463	419	357	277
Other assets	104	135	149	164	180
<b>Total assets</b>	<b>25,536</b>	<b>48,996</b>	<b>64,988</b>	<b>74,768</b>	<b>80,118</b>
<b>Liabilities</b>					
Deposits due to customers	18,885	37,000	51,800	59,570	62,549
Borrowings	479	2,200	2,420	2,662	2,928
Other liabilities	316	400	400	400	400
<b>Total liabilities</b>	<b>19,680</b>	<b>39,600</b>	<b>54,620</b>	<b>62,632</b>	<b>65,877</b>
<b>Equity</b>					
Share capital	11,980	14,980	14,980	14,980	14,980
Current year profit / (loss)	(1,453)	(165)	973	1,767	2,105
Accumulated result	(4,672)	(5,419)	(5,585)	(4,612)	(2,845)
<b>Total equity</b>	<b>5,856</b>	<b>9,396</b>	<b>10,368</b>	<b>12,135</b>	<b>14,240</b>
<b>Total liability and equity</b>	<b>25,536</b>	<b>48,996</b>	<b>64,989</b>	<b>74,768</b>	<b>80,118</b>

Table 21 – Other important indicators for the period 2020 to 2023

<b>Balance Sheet - Assets, Liabilities and Capital</b>	<b>Dec. 19</b>	<b>Dec.20</b>	<b>Dec.21</b>	<b>Dec.22</b>	<b>Dec.23</b>
Interest bearing assets	12,044	39,796	53,970	62,286	67,662
Interest bearing liabilities	19,364	39,200	54,220	62,232	65,477
Share of interest bearing in total assets	47%	81%	83%	83%	84%
Share of interest bearing in total liabilities	76%	80%	83%	83%	82%
Interest income	916	2,111	3,040	3,772	4,251
Interest expense	(172)	(192)	(265)	(326)	(356)
Loan/Deposit ratio	71%	100%	95%	94%	98%
Cost/Income Ratio	-316%	-95%	-67%	-56%	-50%
ROE	-25%	-2%	9%	15%	15%

## 9. RESEARCH AND DEVELOPMENT ACTIVITIES

The Bank's research and development activities are predominantly related to banking market research and analysis and other analyzes necessary for decision making, as well as business and development plans that serve the Bank's strategic goals.

The key values and guarantee of achievement of the declared business goals of the Bank are its employees who possess the necessary qualifications and information-technology knowledge for performing banking operations. In this regard, continuous education, professional development and improvement of employees' skills are the Bank's permanent goal.

## 10. REDEMPTION OF OWN SHARES INFORMATION

During 2019, the Bank did not redeem its own shares.

## 11. BUSINESS UNITS

During 2019, the Bank conducted its business activities at its headquarters in Podgorica, as well as at one of the Bank's branches at the same address.

## 12. CRUCIAL FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION ASSESSMENT

Based on the information contained under the headings 5 and 6 THE BALANCE SHEET AND THE INCOME STATEMENT, it can be concluded that at the end of the business year 2019, the following financial instruments are crucial for assessing the Bank's financial position.

- Cash and funds with the CBM
- Bank loans and receivables;
- Loans and receivables from clients;
- Securities;
- Customer deposits;
- Borrowed funds;
- Equity.

### 13. RISK MANAGEMENT

The Bank is mostly exposed to credit risk in its operations and thus the greatest focus is placed on the management and continuous development and improvement of credit risk management, but it does not neglect the impact of other risks to which the Bank is exposed in its operations such as liquidity risk, operational risk, market risk, country risk and etc.

The Risk Management Strategy is a comprehensive general document regulating the Bank's risk management area. 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. The risk management policies and procedures are subject to regular review in order to allow adequate response to the changes in the market, products and services.

The Board of Directors has overall responsibility for establishing and overseeing the risk management framework. The Board of Directors established the Assets and Liabilities Management Committee (ALCO), the Credit Committee and the Audit Committee.

The Risk Management Division is responsible for monitoring the Bank's exposure to certain risks, which is reported monthly to the Board of Directors.

#### **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 Management 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 Management 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 placement, i.e. risk taken. After the placement 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 placement, as well as tracking placement up to final repayment.



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 2019 amounts EUR 10,377 thousands while off-balance sheet exposure was EUR 1,364 thousands, and all exposures were classified in the table below:

Table 22. – Exposures and impairments on 31 December 2019

No	DESCRIPTION	31.12.2019		31.12.2018	
	Category	Exposure	Impairments	Exposure	Impairments
<b>I</b>	<b>Balance</b>	<b>10,377</b>	<b>334</b>	<b>12,797</b>	<b>347</b>
1	A	5,721	36	9,652	19
2	B	4,202	229	3,037	285
3	C	367	34	11	7
4	D	-	-	-	-
5	E	86	35	97	36
<b>II</b>	<b>Off - Balance</b>	<b>1,364</b>	<b>46</b>	<b>1,178</b>	<b>25</b>

On 31<sup>st</sup> December 2019, impairments are calculated in accordance to IFRS9 and for balance sheet exposures it amounts EUR 334 thousand and off-balance exposures it is EUR 46 thousand.

### Market risk

The Bank currently does not have and is not planning to have a trading book and on 31<sup>st</sup> December 2019, 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 Risk of the Banking Book and Market Risk Management Policy. 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 Division 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<sup>st</sup> December 2019 was low, with net open position amounted EUR 19 thousand. Long position balance in foreign currency on 31<sup>st</sup> December 2019, amounted to EUR 983 thousand and EUR 964 thousand of short positions in the euro counter value.

### **Interest Rate Risk**

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

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<sup>st</sup> December 2019:

*Table 23 - Interest bearing and non-interest bearing assets and liabilities of the Bank*

Thousands EUR	Interest bearing	Non-interest bearing	Total
<b>ASSETS</b>			
Cash balances and deposits with central banks	7,798	1,735	9,533
Loans and receivables from banks	3,416	(16)	3,400
Loans and receivables from clients	10,363	(321)	10,042
Investment securities	2,000	1	2,001
<b>Total assets</b>	<b>23,577</b>	<b>1,399</b>	<b>24,976</b>
<b>LIABILITIES</b>			
Deposits from clients	15,333	3,467	18,800
Borrowings from others	479	-	479
<b>Total liabilities</b>	<b>15,812</b>	<b>3,995</b>	<b>19,807</b>
<b>Exposure to interest rate risk:</b>			
<b>31 December 2019</b>	<b>7,765</b>	<b>(2,596)</b>	<b>5,169</b>
<b>31 december 2018</b>	<b>9,073</b>	<b>(2,292)</b>	<b>6,781</b>

Exposure to interest rate risk on 31<sup>st</sup> December 2019 is shown in the table below:

*Table 24 – 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	11,214	-	-	-	-	11,214
Interest bearing securities	-	-	-	-	2,000	2,000
Loans and receivables from clients	861	969	2,110	2,728	3,695	10,363
<b>Total</b>	<b>12,075</b>	<b>969</b>	<b>2,110</b>	<b>2,728</b>	<b>5,695</b>	<b>23,577</b>
<b>% total interest bearing assets</b>	<b>51.22%</b>	<b>4.11%</b>	<b>8.95%</b>	<b>11.57%</b>	<b>24.15%</b>	<b>100.00%</b>
<b>Interest sensitive liabilities</b>						
Interest-bearing deposit	8,580	1,273	1,050	1,700	2,730	15,333
Interest-bearing borrowings	9	18	28	65	359	479
<b>Total</b>	<b>8,589</b>	<b>1,291</b>	<b>1,078</b>	<b>1,765</b>	<b>3,089</b>	<b>15,812</b>
<b>% interest bearing liabilities</b>	<b>54.32%</b>	<b>8.16%</b>	<b>6.82%</b>	<b>11.16%</b>	<b>19.54%</b>	<b>100.00%</b>
<b>Interest rate GAP:</b>						
<b>-31 December 2019</b>	<b>3,486</b>	<b>-322</b>	<b>1,032</b>	<b>963</b>	<b>2,606</b>	<b>7,765</b>
<b>-31 December 2018</b>	<b>1,995</b>	<b>464</b>	<b>1,503</b>	<b>-236</b>	<b>5,347</b>	<b>9,073</b>
<b>Cumulative GAP:</b>						
<b>-31 December 2019</b>	<b>3,486</b>	<b>3,164</b>	<b>4,196</b>	<b>5,159</b>	<b>7,765</b>	
<b>-31 December 2018</b>	<b>1,995</b>	<b>2,459</b>	<b>3,962</b>	<b>3,726</b>	<b>9,073</b>	



### **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 2019 amount EUR 1,364 thousands.

As of 31<sup>st</sup> December 2019, the Bank has managed the liquidity risk in accordance with the adopted Risk Management Strategy, 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 2019 is shown in the following table:

Table 25 – Liquidity ratio on 31 December 2019

No.	DESCRIPTION	AMOUNT
<b>I</b>	<b>Liquid assets/receivables(claims)</b>	<b>12,212</b>
1.	Cash	997
2.	Assets on the account in Central Bank of Montenegro	7,061
3.	Other cash claims	0
4.	Assets on the accounts in domestic banks (Avista deposits)	0
5.	Assets in the agents of payment system	0
6.	Assets on the accounts in international banks (A vista deposits)	3,416
7.	Required reserve in the Central Bank of Montenegro (according to the current decision)	737
<b>II</b>	<b>Matured liabilities for loans and borrowings</b>	<b>3,712</b>
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	3,538
5.	10% Approved but unused, irrevocable credit obligations (credit lines)	41
6.	Other due liabilities	133
	<b>SUFICIT / DEFICIT ( I - II )</b>	<b>8.499</b>
	<b>Liquidity ratio ( I / II )</b>	<b>3,29</b>

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 26 – Liquidity ratios

Description	31.12.2019	30.9.2019	30.6.2019	31.03.2019	31.12.2018
Liquid assets	12,212	11,986	6,835	10,824	9,923
Total assets	25,536	28,245	22,995	27,225	25,910
Short-term liabilities	14,569	14,573	6,840	11,272	17,604
Liquid assets / Total assets	47.82%	42.44%	29.72%	39.76%	38.30%
Liquid assets / Short-term liabilities	83.82%	82.25%	99.92%	96.03%	56.37%
Daily liquidity ratio	3.29	2.68	2.97	3.02	3.01
Loan to Deposit ratio	51.86%	58.13%	78.41%	63.67%	67.92%

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

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
<b>Cash and deposit accounts with central banks:</b>							
Cash and cash equivalents	8,059	-	-	-	-	-	8,059
Obligatory reserve	737	-	-	-	738	-	1,475
<b>Financial assets valued at amortized cost:</b>							
Receivables form banks	3,416	-	-	-	-	-	3,416
Receivables form customers	861	969	2,061	2,734	2,835	903	10,363
HTM securities	-	-	-	2,000	-	-	2,000
Other financial assets	10	-	-	-	-	-	10
Interest receivables, accruals, prepayments and imairments*	37	-	-	1	-371	-	-333
<b>Total</b>	<b>13,083</b>	<b>969</b>	<b>2,061</b>	<b>4,734</b>	<b>3,573</b>	<b>903</b>	<b>25,323</b>
<b>Financial liabilities valued at amortized cost:</b>							
Deposits of customers	12,045	1,273	1,050	1,700	2,720	10	18,798
Borrowings	9	18	28	65	359	-	479
Interest liabilities, accruals and prepayments*	9	38	10	15	12	1	85
Other liabilities	167	-	-	-	2	-	169
<b>Total</b>	<b>12,221</b>	<b>1,291</b>	<b>1,078</b>	<b>1,765</b>	<b>3,081</b>	<b>10</b>	<b>19,446</b>
<b>Maturity Gaps</b>							
- 31 December 2019	862	-322	983	2,969	492	893	5,877
- 31 December 2018	-684	367	1,508	(227)	4,945	1,106	7,015
<b>Cummulative GAP:</b>							
- 31 December 2019	862	540	1,523	4,492	4,984	5,877	
- 31 December 2018	-684	-317	1,191	964	5,909	7,015	
<b>% of total liability</b>							
- 31 December 2019	4.43%	2.78%	7.83%	23.10%	25.63%	30.22%	
- 31 December 2018	-3.70%	-1.72%	6.45%	5.22%	32.00%	37.99%	

Table 27 – Liquidity gaps

## Operating risk

Operational risk management at the Bank is fully regulated by Operational Risk Policy 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;
- improper 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, the Bank has carried out processes of risk self-assessment and control and scenario of analysis.

## 14. 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

		in 000 EUR
		<b>31.12.2019</b>
<b>I</b>	<b>Own Funds</b>	<b>11,980</b>
	<i>Issued share capital</i>	<i>(71)</i>
	<i>Retained earnings – effects of implementation of IFRS9</i>	<i>11,909</i>
<b>II</b>	<b>Deduction in calculation of Tier I capital</b>	<b>5,103</b>
	<i>Losses from the previous years</i>	<i>4,601</i>
	<i>Loss for the current year</i>	<i>1,453</i>
	<i>Intangible assets</i>	<i>237</i>
	<i>Positive difference between the amount of regulatory provisions for potential losses and impairments for balance and off-balance sheet items</i>	<i>146</i>
<b>III(I-II)</b>	<b>Tier I capital</b>	<b>5,472</b>

Table 28 – Own Funds for 2019

On 31 December 2019, 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.

Bank is in the process of additional capitalization in amount of EUR 2,5 million which will be finished up to the end of Q1 2020.

Risk weighted assets calculated in accordance to the Decision on Capital Adequacy for the banks, on December 31, 2019 amounted EUR 11.224 thousands.

In accordance to Decision on Capital Adequacy for the banks, which is applicable on 31 December 2019, Bank is obliged to keep Capital Adequacy Ratio on a level of at least 10%.

Capital Adequacy Ratio of the Bank on 31 December 2019 was **42,24%** and it is above prescribed limit of 10%.