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TRANSLATION

TO THE SHAREHOLDERS

HIPOTEKARNA BANKA AD, PODGORICA

Independent Auditors' Report

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, we consider internal control relevant to the preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements give true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the applicable Law on Accounting of Montenegro and other legislation that regulates financial reporting of banks in Montenegro.

Other Matter

Annual Management Report

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

Our opinion on the financial statements does not cover the Annual Management Report and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

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

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

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

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

Podgorica, 28 May 2018

KPMG d.o.o. Podgorica

(L.S.)

Branko Vojnović
Certified auditor

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Podgorica, 28 May 2018

KPMG d.o.o. Podgorica



Branko Vojnović
Certified auditor

TRANSLATION

HIPOTEKARNA BANKA A.D., PODGORICA

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 2017**

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INCOME STATEMENT
for the year ended December 31, 2017
(Thousands of EUR)

	Note	2017	2016
Interest income	3.1., 5a	17,547	17,704
Interest expense	3.1., 5b	(4,685)	(5,316)
Net interest income		12,862	12,388
Dividend income		72	71
Impairment losses	3.7., 6	(3,426)	(2,811)
Provision charges	3.7., 6	207	(670)
Fee and commission income	3.1., 7a	12,972	10,644
Fee and commission expense	3.1., 7b	(5,880)	(4,463)
Net fee and commission income		7,092	6,181
Net gains on investment securities		300	203
Foreign exchange gains, net		652	775
Staff costs	8	(4,807)	(4,622)
General and administrative expenses	9	(8,224)	(7,008)
Depreciation/amortization charge	10	(836)	(849)
Other expenses	11	(38)	(218)
Other income	12	497	545
OPERATING PROFIT		4,351	3,985
Income taxes	3.4, 13	(408)	(361)
PROFIT FOR THE YEAR		3,943	3,624
Earnings per share / in EUR	34	125.95	115.76

Notes are an integral part of these financial statements

These financial statements were approved by the management of Hipotekarna banka A.D., Podgorica, in Podgorica, as at May 3, 2018.

Approved by and signed on behalf of Hipotekarna banka A.D., Podgorica by:

Esad Zaimović
Chief Executive Officer

Božo Đurašković
Executive Director for Business Support

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BALANCE SHEET
as at December 31, 2017
(Thousands of EUR)

	Note	December 31, 2017	December 31, 2016
ASSETS			
Cash and deposit accounts held with central banks	3.6., 14	131,166	99,455
Loans and receivables from banks	3.6, 15	50,152	15,481
Loans and receivables from customers	3.5, 16	215,438	216,049
Investment securities			
- available for sale	3.5, 17	92,572	75,809
- held to maturity	3.5, 17	-	16,785
Investments in associates and joint ventures at equity method		8	8
Property, plant and equipment	3.8, 18	1,437	1,501
Intangible assets	19	1,658	1,498
Current tax assets		-	48
Deferred tax assets	13c	38	33
Other financial receivables	20	984	842
Other operating receivables	21	1,082	1,281
TOTAL ASSETS		494,535	428,790
LIABILITIES			
Deposits due to banks	22	3,059	303
Deposits due to customers	23	391,657	333,350
Borrowings from other customers	24	29,936	35,331
Provisions	25	1,636	2,004
Current tax liabilities		451	389
Deferred tax liabilities	13c	311	114
Other liabilities	26	8,692	8,490
Subordinated debt	27	14,012	9,967
TOTAL LIABILITIES		449,754	389,948
EQUITY			
Share capital	28	16,006	16,006
Share issue premium		7,444	7,444
Retained earnings		8,774	5,462
Other reserves		12,557	9,930
TOTAL EQUITY		44,781	38,842
TOTAL EQUITY AND LIABILITIES		494,535	428,790
OFF-BALANCE SHEET ITEMS	30	574,581	542,974

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STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2017
(Thousands of EUR)

	<u>Share Capital</u>	<u>Share Issue Premium</u>	<u>Retained earnings</u>	<u>Other Reserves</u>	<u>Total</u>
Balance at December 31, 2016	16,006	7,444	2,729	8,226	34,405
Effects of fair value adjustment of available-for sale securities	-	-	-	813	813
Transfer of profit	-	-	(891)	891	-
Profit for the year	-	-	3,624	-	3,624
Balance at December 31, 2016	16,006	7,444	5,462	9,930	38,842
Effects of fair value adjustment of available-for sale securities	-	-	-	1,996	1,996
Transfer of profit	-	-	(631)	631	-
Profit for the year	-	-	3,943	-	3,943
Balance at December 31, 2017	16,006	7,444	8,774	12,557	44,781

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STATEMENT OF CASH FLOWS
for the year ended December 31, 2017
(Thousands of EUR)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from interest and similar income	17,608	17,878
Outflows from interest and similar expenses	(4,814)	(4,768)
Inflows from fee and commission	12,972	10,644
Outflows from fees and commissions	(5,880)	(4,463)
Cash paid to employees and suppliers	(13,504)	(13,579)
Increases in loans and other assets	(1,890)	(27,977)
Inflows from deposits and other liabilities	61,903	18,149
Income taxes paid	(902)	(845)
Other inflows	(14,462)	(8,644)
Net cash inflow/(outflow) from operating activities	<u>51,031</u>	<u>(13,605)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(519)	(449)
Purchase of intangible assets	(688)	(689)
Treasury bills	17,422	(12,820)
Inflows from sales of tangible and fixed assets	3	127
Net cash (outflow) from investing activities	<u>16,218</u>	<u>(13,831)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in borrowings	(1,372)	(5,837)
Net cash inflow/(outflow) from financing activities	<u>(1,372)</u>	<u>(5,837)</u>
Effect of foreign exchange in cash and cash equivalents	651	775
Net increase/(decrease) in cash and cash equivalents	66,528	(32,498)
Cash and cash equivalents at the beginning of the year	<u>116,468</u>	<u>148,966</u>
Cash and cash equivalents at the end of the year (Note 31)	<u>182,996</u>	<u>116,468</u>

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

1. BANK'S FOUNDATION AND ACTIVITY

Hipotekarna banka AD, Podgorica (hereinafter: the "Bank") was registered in 1995 as a shareholding company with the Central Registry of the Commercial Court under reg. number 4-0004632. The Bank is included in the Register of Security Issuers maintained by the Securities Commission under the number 3 (Decision no. 02/3-1/2-01). As at December 18, 2002, the Central Bank of Montenegro issued a Decision no. 0101-75/1-2002 thereby granting the Bank an operating license.

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

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

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

The Bank is headquartered in Podgorica, at no. 67, Josipa Broza Tita Street. As at December 31, 2017, the Bank had 172 employees (December 31, 2016: 169 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis for Preparation and Presentation of the Financial Statements

The Bank is obligated to maintain its accounting records and prepare its financial statements in conformity with the Law on Accounting (Official Gazette of Montenegro no. 052/16,) the Law on Banks (Official Gazette of Montenegro no. 17/08, 44/10 and 40/11) and other bylaws governing financial reporting of the banks.

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

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

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

2.1. Basis for Preparation and Presentation of the Financial Statements (Continued)

The last official translation of International Accounting Standards and International Financial Reporting Standards has been published as at December 31, 2009. The translation includes only the base text of the standards and interpretations and does not include basis for conclusion, illustrative examples, and instructions for application, comments, opinions and other explanatory material. Also, the above mentioned translation does not include the translation of the Regulatory Framework for the Preparation and Presentation of Financial Statements.

The Bank's financial statements have been prepared in accordance with the Decision on Chart of Accounts for Banks, Microcredit Financial Institutions and Credit Unions adopted by the Central Bank of Montenegro on October 23, 2012. Therefore, all banks and micro-credit institutions are obligated to prepare financial statements in accordance with this Decision since January 1, 2013. Also, the Decision of the Council of the Central Bank of Montenegro (Official Gazette of Montenegro no. 15/12, 18/13) prescribes the content of financial statements of banks as well as the method of preparation and deadlines for submission of financial statements.

In addition to the presentation of financial statements, for the preparation of these financial statements, the Bank has adopted policies that are in line with regulations of the Central Bank of Montenegro in recording of receivables for which there are acquired conditions for exclusion from the balance sheet, which differ from the requirements of IFRS and IAS applicable on the day December 31, 2017.

Bearing in mind the effects that differences of accounting regulations of Montenegro from IAS and IFRS may have on the presentation of financial statements of the Bank, the accompanying financial statements in this section are different and differ from IFRS and IAS and cannot be treated as financial statements prepared in accordance with IFRS and IAS.

The financial statements have been prepared in accordance with the historical cost convention, unless otherwise is stated in the accounting policies.

For preparation of these financial statements Bank applied the accounting policies described in Note 3. The adopted accounting policies used in preparation of the financial statements are consistent with accounting policies applied in previous financial year.

The financial statements are presented in thousands of euros (EUR), which is the functional currency of the Bank and the official currency in which financial statements are submitted in Montenegro. Unless otherwise indicated, all amounts are stated in thousands of EUR.

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 estimates and assumptions are based on information available at the date of the financial statements and mostly refer to the assessment of impairment of loans and interest, impairment of deposits with other banks, impairment of permanent investments and off-balance sheet items. The real value of assets and liabilities may differ from the value of which is estimated in this way.

The most significant estimates and assumptions were made in the following balance sheet positions:

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

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

2.2. Use of Estimates (Continued)

2.2.1 Impairment of financial assets

The Bank reviews its credit portfolio to assess the amount of impairment of assets at least quarterly. While determining if the expense arising from the impairment of the assets in the loan portfolio is to be recorded in the Income statement, the Bank assesses if there are indicators which would suggest that the expected future cash flows arising from the loan portfolio are measurably reduced, before the reduction can be identified individual loan in the loan portfolio.

This evidence may include any indicators of the existence of a negative change in the creditworthiness of the debtor, and local economic conditions which are in correlation with the default of the debt. The Management of the Bank uses estimates based on historical losses for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when planning its future cash flows. Methodology and assumptions used in the assessment of the amount and timing of future cash flows are revised regularly as to eliminate any differences between assessed and actual losses.

2.2.2 Impairment of securities available for sale

In the case of available for sale financial instruments, at the reporting date, the Bank assesses if there is objective evidence that the assets are impaired based on the same criteria used for assets measured at amortized cost.

If there is evidence of impairment of available for sale debt securities, the cumulative loss, measured as the difference between the amortized cost and the fair value reduced for losses due to impairment previously recognized in the profit and loss statement, is transferred from the equity to the profit and loss statement. The eventual increase in value after the impairment is recognized through profit and loss statement. When subsequent events suggest that the amount of the impairment is reduced, loss previously recognized is reversed through the profit and loss statement.

In the case of available for sale investments in equity instruments, objective evidence is considered as "material" or "prolonged" fall in the fair value of the equity instrument below its cost value. In that case, cumulative loss is determined as the difference between the cost value and fair value of the instrument, and the loss is transferred from equity to the profit and loss statement. When subsequent events suggest that the amount of the impairment is reduced, the amount of previously recognized impairment is reversed and recognized in equity.

2.2.3 Fair value of financial instruments

For the purpose of determining the fair value of assets and liabilities for which there are no observable market prices, different valuation techniques are used. For financial instruments which are not traded frequently and which have a low price transparency, fair value is less objective and requires a certain degrees of variation in the assessment which depend on liquidity, concentration, uncertainty of market factors, price assumptions and other risks that influence the financial instrument.

2.2.4 Long term employee provision

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

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

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

2.2. Use of Estimates (Continued)

2.2.5 Useful life of intangible assets and PP&E

The Bank reviews the assumed useful lives of intangible assets and PP&E in every reporting period.

2.2.6 Litigations

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

2.3. Going concern

The financial statements have been prepared in accordance with the going concern concept, which assumes that the Bank will continue to operate over an unlimited period of time in the foreseeable future.

2.4 Consolidation

The Bank has no control over any entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest, Fee and Commission Income and Expense Recognition

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

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

Income from fees and commissions for other banking services (payment transactions, custody services, card transactions) are generally recognized on accrual basis in the period when the services are performed. Fees for unused loan facilities are deferred (together with related expenses) and recognized as loan effective interest rate adjustments.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Operating lease expense

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

3.3. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into EUR at the middle exchange rate determined 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 rate determined at the Interbank Foreign Exchange Market at the statement of financial position date.

Net foreign exchange gains or losses arising from the business transactions in foreign currency and the translation of items of statement of financial position denominated in foreign currencies are credited or charged to the Income statement as foreign exchange gains or losses. Commitments and contingent liabilities denominated in foreign currencies are translated into EUR by applying the official exchange rates prevailing on the Interbank Foreign Exchange Market, at the statement of financial position date.

3.4. Taxes and Contributions

Income Taxes

Current Income Tax

Income taxes are calculated and paid under Article 28 of the Corporate Income Tax Law (Official Gazette of Montenegro, no. 65/01, 12/02, 80/04, 40/08, 86/09, 73/10, 40/11, 14/12, 61/13 and 055/16) at the proportional income tax rate of 9% applied to the taxable income.

Taxable income is determined based on the profit stated in the Bank's statutory income statement after the adjustments of income and expenses performed in accordance with Corporate Income Tax Law (Articles 8 and 9, regarding the adjustment of income and Articles 10 to 20 pertaining to the adjustment of expenses) and Central Bank of Montenegro's Decision on Chart of Accounts for Banks (Official Gazette of Montenegro, no. 55/12).

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, the tax payer can carry forward and utilize these outstanding losses against capital gains during the following five years.

Montenegro tax regulations do not envisage that any tax losses of the current period can be used to recover taxes paid within a specific carryback 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.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Taxes and Contributions (Continued)

Deferred Income Taxes

Deferred income tax is calculated 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 carrying forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

Taxes, Contributions and Other Duties Payable

Taxes, contributions and other duties payable include property and other taxes, fees and contributions that are being paid pursuant to various republic and municipal tax regulations.

3.5. Financial assets

3.5.1. Classification

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

a) Financial assets at fair value through profit or loss

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

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

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

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank borrow funds or services to the clients, without intention to trade with such receivables. Loans and receivables includes loans and receivables due to banks and loans and receivables due to clients.

c) Available-for-sale financial assets

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

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Financial assets (Continued)

3.5.1. Classification (Continued)

d) Held to maturity financial assets

Held to maturity financial assets are financial instruments with fixed or determinable payment deadlines, that the Bank has the positive intention and the ability to hold them to maturity.

3.5.2. Measurement and Recognition

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

Financial assets measured at fair value whose effects in change of fair value are presented through profit or loss are initially recognized at fair value. Transaction costs are recognized as expenses in the Profit and loss statement.

Financial assets available for sale and financial assets at fair value through profit and loss are subsequently measured at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit and loss in the period in which they arise.

3.5.2. Measurement and Recognition (Continued)

Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in Equity as revaluation reserves, until the financial asset is derecognized or impaired, when the cumulative gain or loss previously recognized in other comprehensive income is recognized in the profit and loss.

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

Financial assets available for sale are subsequently measured at fair value. Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in revaluation reserves which are a part of equity. If the investment is ceded or transferred, cumulative gain or loss previously recognized as revaluation reserves is recognized in the profit and loss. Interest earned during the period in which the entity held the investment is recognized as interest revenue using the effective interest rate method. Dividends earned in the period in which the entity held the investment are recognized in the profit and loss statement in the period in which it obtained the right for dividend payments. Losses arising from the impairment of these assets are recognized in the statement of profit and loss and derecognized from the revaluation reserves.

Held to maturity financial assets are non-derivative financial instruments with fixed or determinable payments that the Bank has the positive intention and the ability to hold them to maturity. Held to maturity investments are subsequently measured at amortized cost using the effective interest rate method, minus any reduction for impairment. Amortized cost is calculated by taking into account any premiums or discounts and fees which form an integral part of the effective interest rate. Amortization is included in the interest revenue. Losses arising from the impairment of these assets are recognized in the profit and loss statement.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Financial assets (Continued)

3.5.3. Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from financial asset expire, or when the Bank transfer all the risks and rewards of ownership of the financial asset.

Financial liabilities are derecognized when the obligation is discharged, cancelled or expires. Carrying value of financial liabilities derecognized based on debt to equity swap, is extinguished with equivalent value of share capital issued based on market value per share recorded in the Montenegrin stock exchange for the Bank.

If the requirements for excluding of receivables from balance sheet are fulfilled, the Bank is obliged to write off that receivable and keep it in the internal records in the amount of debt, until the end of the repayment process.

3.6. Cash and Cash Equivalent

For purposes of the cash flow statement, cash and cash equivalents include cash on hand, balances on the current account held with the Central Bank of Montenegro, including the obligatory reserve, and balances held on the accounts with other banks in the country and abroad.

3.7. Provisions and impairment of loans and receivables

The calculation of impairment (for balance sheet asset item), or assessment of the probable loss (for off-balance sheet items)

In accordance with the Central Bank of Montenegro Decision on the Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro no. 22/12, 55/12, 57/13, 44/17 and 82/17), the Bank measures items of balance sheet assets and off-balance sheet items in accordance with IAS 39.

Pursuant to the internal policy, the Bank forms provisions for loans, credit cards, approved current account overdraft facilities, guarantee protests, commissions per retail customer accounts and balance sheet assets of the Bank exposed to credit risk as well as off-balance sheet exposures that may be exposed to credit risk.

The Bank reviews receivables and other investments in order to determine impairment allowance on a quarterly basis. In determining whether the impairment losses on receivables and investments should be recognized in the income statement, the Bank assesses whether there is information and evidence indicative of the existence of a measurable decrease in the estimated future cash flows on a portfolio level before such losses can be identified at an individual level. Information indicating impairment losses include: irregularity and default in liability settlement, local market and economic conditions which cause delays in payment etc. Management's estimates of impairment of receivables and other investments using the estimated future cash flows are based on actual historical losses incurred on financial assets with similar risk exposure and similar impairment causes. The methodology and assumptions underlying the process of defining the amounts and periods of cash inflows from investments are reviewed on an ongoing basis in order to minimize the difference between the estimated and actual losses.

Impairment assessment is performed on an individual level and on a group level.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Provisions and impairment of loans and receivables (Continued)

Individual Impairment Assessment

Impairment assessment is performed on an individual level for each materially significant loan thereby taking into consideration the borrower's financial position, sustainability of the borrower's business plan, borrower's ability to improve performance in instances of financial difficulties, projected revenues, availability of other types of financial support, value of collaterals that may be foreclosed and expected cash flows. If new information becomes available that significantly changes the creditworthiness of the borrower, collateral value and certainty of liability settlement, ad hoc impairment assessment of such loans is performed.

Materially significant receivables are considered to be total gross exposures of the Bank toward a single entity or a group of related entities equal to or exceeding EUR 30,000.

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

1. total gross exposure of the Bank toward a single entity or a group of related entities is equal to or exceeds EUR 30,000;
2. default of over 90 days;
3. receivables matured exceed EUR 20 and EUR 200 for retail and corporate customers, respectively;
4. total gross exposure to a single party or a group of related parties that is greater or equal to EUR 1,000,000 and classification group C, D,E in accordance with regulations of the Central Bank of Montenegro
5. total gross exposure to a single party or a group of related parties that is greater or equal to EUR 1,000,000 and classified group A and B in accordance with regulations of the Central Bank of Montenegro and Methodology of impairment and probable losses bucket 2 and 3.

The amount of the individual impairment loss of the outstanding unsettled exposure is equal to the gross (balance sheet) exposure less expected future cash flows discounted using the original contractual effective interest rate. Estimated cash flows can be related to cash flows from operating activities of the client, if any, and the cash flows that are expected to arise from the realization of the mortgage over a period of 5 years, with the haircut application on value of the collateral.

Materially significant exposures may be subject to individual assessment in the case where the delay is less than 90 days, in the event that the Management of the Bank believes that there is objective evidence of impairment.

Objective evidence of impairment may be:

- Huge financial problems including bankruptcy of the debtor;
- Restructuring of loans (significant changes in conditions, reduction of interest rates, partial grace periods (freezing and pay only the interest) necessary because of credit (financial) ability (not due to market factors or technical changes);
- Impairment coverage, for example due to lower collateral values (especially in the case of project financing) in the event of a shortage of existing cash flows;
- Protest of guarantee (if the guarantee is withdrawn by a third party that is an indicator of impairment) or a high likelihood of a protest (decreases) guarantee in the near future;
- Lack of cooperation by the customer in the event of proven problems with repayment of debts;
- Lack of regular monthly income (especially important for the segment of natural persons);
- The evident decline in turnover due to reduced business activity for companies;
- Transfer of group of related persons in the Department for managing risk assets;

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Provisions and impairment of loans and receivables (Continued)

Individual Impairment Assessment (Continued)

— In the event of material changes in loan impairment (significant changes in the results of the debtor, the value of collateral, other important changes that may affect the extent of security).

Collective Impairment Assessment

Impairment assessment is performed on a group portfolio level for clients that are not individually impaired and for those individually significant loans where there is no objective evidence of individual impairment.

Collective assessment for impairment is performed on a quarterly basis per groups formed based on the internally adopted methodology, the basis of which are the days of delay. Collective impairment percentages are calculated based on statistic models of risk category migrations to the default status per type of borrower or product. The migration percentages obtained are adjusted for the amounts of receivables collected.

Group assessment for impairment is divided into four categories for corporate customers and three categories for retail customers (cash loans, consumer loans and housing loans). At the group level, loans and advances are classified into certain internal risk classes per loan account/sub-account according to the number of days past due.

As the bases for calculating provisions for credit losses per credit products, receivables are decreased by the amount of deposits and guarantees issued in favour of the Bank by a first-class bank or the state as well as by the amount of mortgages with hair-cut by 30% and discounted using the effective interest rate for the particular loan over a 5 years period.

Impairment of loans reduces the value of loans and is recognized as expense within the income statement.

Collective Impairment Assessment (Continued)

The amounts of the expected cash inflows per loan are estimated based on the proof of projected revenues of the borrower, and in case these are insufficient, cash flows from collateral foreclosure are estimated. Estimates of the number of days past due in collection of a certain receivable from the borrower is determined by considering all the relevant indicators on the time of realization of the projected revenues of the borrower and historical data on the borrower's default.

As a hedge against credit risk exposure, in addition to the regular monitoring of the borrower's business operations, the Bank obtains security instruments (collaterals) to securitize the collection of receivables and minimize credit risk. Depending on the estimated possibilities for settlement of the contractual liabilities, the Bank defines the extent of the securitization of the loan, so that, in the event of the borrower's default, the Bank could actually collect its receivables through collateral foreclosure. The quantity and type of collateral required is dependent on the credit risk estimate.

Properties, goods, equipment and other movables which are subject to pledge liens must be insured by an insurance company acceptable to the Bank, and insurance policies must be endorsed in favour of the Bank. The Bank monitors the market value of collaterals and, if necessary, it may demand additional collateral in accordance with the relevant loan agreement executed.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Provisions and impairment of loans and receivables (Continued)

Restructured loans

Were it is possible, the Bank will try to restructure the loan rather than collecting the collateral. This can include the prolongation of the repayment period and an agreement on new credit terms. After the loan has been restructured it is no longer considered due. The management continuously analyses and monitors restructured loans to ensure compliance with the defined criteria and to ensure future payments. The loan is still a part of the individual or group – level assessment for impairment which is calculated with the use of the initial effective interest rate. Once the loan is restructured, it is treated as a bad placement in the next six months.

Calculation of Provisions for Potential Losses

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

Risk Category	As at December 31, 2017	
	Provisioning %	Number of days past due
A	-	<30
B1	2	31-60
B2	7	61-90
C1	20	91-150
C2	40	151-270
D	70	271-365
E	100	>365

The Bank is required to determine the difference between the amount of provision for potential losses and the sum of allowance for losses on items of the balance sheet assets and provisions for off-balance sheet items calculated in accordance with the Bank's internal methodology by applying the International Accounting Standard 39.

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

3.8. Property, Plant, Equipment and Intangible Assets

Property, Plant and Equipment

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

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

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Property, Plant, Equipment and Intangible Assets (Continued)

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

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

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

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

Major groups of assets	Depreciation/Amortization rates (%)
Buildings	2.00
Vehicles	15.00
Furniture and other equipment	15.00 – 20.00
Computer equipment	33.33
Tools and fixtures	50

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

Intangible Assets

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

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

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

3.9. The Bank's Equity

The Bank's equity includes share capital, share premium, the Bank's reserves, as well as retained earnings (accumulated losses).

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. The Bank's Equity (Continued)

The shareholders' equity of the Bank includes funds invested by the founders and shareholders of the Bank in the monetary or non-monetary form. The Law on Securities defines that securities shall be dematerialized and shall exist in an electronic form in the system of the Central Depository Agency. The excerpt obtained from the Registry of the Central Depository Agency is the only and exclusive proof of ownership over securities.

3.10. Employee benefits

Taxes and Contributions for Social Security of Employees

Pursuant to the regulations effective in Montenegro, the Bank has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of an employee, by the employer, in amounts calculated by applying the specific, legally prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

Retirement Benefits or Other Long-Term Employee Benefits

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

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

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

3.11. Fair Value

The fair value is defined as an amount at which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's-length transaction. The determination of fair value is based on the assumption that the transaction has taken place in a primary market of the asset or liability, or, in the absence of the primary market, on the most favourable market.

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Fair Value (Continued)

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

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

Level 1 – Quoted prices (uncorrected) on active markets for identical prices and liabilities

Level 2 – Valuation techniques in which the smallest level of the input data significant for the determination of fair value is directly or indirectly observable

Level 3 - Valuation techniques in which the smallest level of the input data significant for the determination of fair value is directly or indirectly non - observable.

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

3.12. Provisions

Provisions are recognized when:

- the Bank has a present legal or a constructive obligation as a result of the previous events
- if it is probable that a transfer of resource embodying economic benefits will be required to settle the obligation
- and a reliable estimate of its amount can be made

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

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

3.13. Borrowings

Borrowings are initially recognized at fair value excluding any transaction costs that are incurred. In subsequent periods, borrowings are recognized at amortized cost. All differences between the received cash flow reduced for the transaction costs and the amount of payment are recognized in the profit and loss statement as interest expense deferred over the period of repayment using effective interest rate method

3.14. Issued Debt Securities

Issued Debt Securities are initially recognized at fair value less transaction costs that are directly attributable to their issuance. Issued debt securities are subsequently measured at amortized cost. Interest, discounts and premiums are recognized in the profit and loss statement as interest expense deferred during the repayment period.

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NOTES TO THE FINANCIAL STATEMENTS
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4. FINANCIAL INSTRUMENTS

4.1. Risk Management

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

In its operations the Bank is exposed to various risks. The most significant ones are the following:

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

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

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

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

4.2. Credit Risk

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

Credit risk mitigation entails maintenance of risk at an acceptable level of the Bank, i.e. maintaining acceptable loan portfolio. Credit risk mitigation is carried out through contracting of adequate collaterals for receivables.

4.2.1. Credit Risk Management

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

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

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

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

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 securitized by the underlying deliveries of goods that they relate to and therefore carry less risk than loans.

4.2.2. Provisions for Impairment Losses

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

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

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.2. Provisions for Impairment Losses (Continued)

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

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

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

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

	In thousand EUR	
	2017	2016
Balance sheet items		
Loans and receivables from banks	50,152	15,481
Loans and receivables from clients	213,776	214,424
Interest and other receivables from clients	1,662	1,625
Securities available for sale	89,714	71,717
Securities held to maturity	-	16,785
	355,304	320,032
Off balance sheet items		
Payment guarantees	59,644	51,177
Performance guarantees	20,587	15,356
Unsecured letters of credit	51	1,050
Undrawn loan facilities	22,803	22,707
	103,085	90,290
Total exposure to credit risk	458,389	410,322

The Bank's management believes that cash and deposit accounts with central banks, as well as other financial and business receivables, are not exposed to credit risk and are therefore not shown in the table above. The same relate to cash and cash equivalents, as well as funds for settlement and obligatory reserve with CBM, as well as other receivables that are not exposed to credit risk.

Exposure to credit risk is controlled by obtaining collateral and guarantees of legal entities and individuals.

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

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

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.3 Maximum Credit Risk Exposure per Balance Sheet and Off-Balance Sheet Items (Continued)

Types of collaterals are as follows:

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

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements

Loans and advances are presented in the following tables:

	In thousands EUR							
	Neither Past due nor Impaired	Past Due but not Impaired	Individually Impaired	Total. Gross	Individual Impairment Allowance	Group Impairment Allowance	Total Impairment Allowance	Total. Net
December 31, 2017								
Housing loans	664	-	-	664	-	(3)	(3)	661
Current account overdrafts	2,824	171	-	2,995	-	(148)	(148)	2,847
Customer loans	-	-	-	-	-	-	-	-
Credit cards	700	27	4	731	(2)	(30)	(32)	699
Special purpose loans	56,941	241	-	57,182		(1,318)	(1,318)	55,864
Other retail loans secured by mortgages	21,580	76	322	21,978	(119)	(177)	(296)	21,682
Loans to small enterprises	63,274	249	19,182	82,705	(3,538)	(1,037)	(4,575)	78,130
Loans to medium and large enterprises	22,264	1	23,836	46,101	(2,203)	(344)	(2,547)	43,554
Loans to Government and municipalities	10,333	2	-	10,335	-	(5)	(5)	10,330
Loans to financial institutions	10	-	-	10	-	(1)	(1)	9
	178,590	767	43,344	222,701	(5,862)	(3,063)	(8,925)	213,776

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

	In thousands EUR							
	Neither Past due nor Impaired	Past Due but not Impaired	Individually Impaired	Total. Gross	Individual Impairment Allowance	Group Impairment Allowance	Total Impairment Allowance	Total. Net
December 31, 2016								
Housing loans	795	-	-	795	-	(6)	(6)	789
Current account overdrafts	2,167	131	-	2,298	-	(109)	(109)	2,189
Customer loans	44,632	204	55	44,891	(55)	(1,077)	(1,132)	43,759
Credit cards	594	19	18	631	(15)	(33)	(48)	583
Special purpose loans	219	10	-	229	-	(8)	(8)	221
Other retail loans secured by mortgages	17,376	144	462	17,982	(155)	(203)	(358)	17,624
Other loans	51,227	1,328	20,969	73,524	(2,679)	(979)	(3,658)	69,866
Loans to small enterprises	39,455	2,075	27,836	69,366	(373)	(536)	(909)	68,457
Loans to medium and large enterprises	359	3	10,000	10,362	(2)	(7)	(9)	10,353
Loans to Government and municipalities	600	1	-	601	-	(18)	(18)	583
Loans to financial institutions	157,424	3,915	59,340	220,679	(3,279)	(2,976)	(6,255)	214,424

Loans and receivables neither past-due nor impaired in 2017 and 2016 are classified as 'good assets.'

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

a) Loans and Placements Past-Due but not Individually Impaired

In thousand EUR

	Up to 30 days past-due	From 31 to 60 days past- due	From 61 to 90 days past-due	From 91 to 180 days past-due	From 181 to 365 days past-due	From 1 to 5 years past-due	Over 5 years past due	Total
December 31, 2017								
Current account overdrafts	67	13	7	15	19	43	7	171
Customer loans	-	-	-	-	-	-	-	-
Credit cards	6	1	-	-	3	17	-	27
Special purpose loans	41	58	-	40	33	69	-	241
Other retail loans secured by mortgages	9	17	-	3	19	28	-	76
Loans to micro and small Enterprises	75	54	2	10	48	60	-	249
Loans to medium and large enterprises	1	-	-	-	-	-	-	1
Loans to Government and municipalities	2	-	-	-	-	-	-	2
Loans to financial institutions	-	-	-	-	-	-	-	-
	201	143	9	68	122	217	7	767

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

a) Loans and Placements Past-Due but not Individually Impaired

	Up to 30 days past-due	From 31 to 60 days past- due	From 61 to 90 days past-due	From 91 to 180 days past-due	From 181 to 365 days past-due	From 1 to 5 years past-due	Over 5 years past due	Total
December 31, 2016								
Current account overdrafts	50	12	9	16	15	29	-	131
Customer loans	40	33	-	28	38	61	4	204
Credit cards	2	2	-	-	4	11	-	19
Special purpose loans	1	-	-	-	-	9	-	10
Other retail loans secured by mortgages	24	28	-	11	26	55	-	144
Loans to micro and small Enterprises	918	305	-	25	60	20	-	1,328
Loans to medium and large enterprises	2,075	-	-	-	-	-	-	2,075
Loans to Government and municipalities	2	1	-	-	-	-	-	3
Loans to financial institutions	1	-	-	-	-	-	-	1
	3,113	381	9	80	143	185	4	3,915

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

b) Fair Value of Collaterals

	In thousand EUR	
	December 31, 2017	December 31, 2016
Deposits	37,286	26,821
Pledge liens	51,224	46,271
Mortgages and fiduciaries	319,198	311,144
Insurance policies	599	573
Guarantees	4,249	8,722
Total	412,556	393,531

	In thousand EUR	
	December 31, 2017	December 31, 2016
Groupally impaired		
Deposits	33,337	25,164
Pledge liens	39,668	40,677
Mortgages and fiduciaries	257,119	236,689
Insurance policies	599	573
Guarantees	1,425	2,849
Total	332,148	305,952

	In thousand EUR	
	December 31, 2017	December 31, 2016
Individually impaired		
Deposits	3,949	1,657
Pledge liens	11,556	5,594
Mortgages and fiduciaries	62,079	74,455
Policy	-	-
Guarantees	2,824	5,873
Total	80,408	87,579

As collateral the Bank accepts mortgages over properties whose fair values defined on an individual case basis, for legal entities, which is under authority of the person making decision on the loan approval, whereas for private individuals the amounts are defined depending on the product type. Properties used as collateral are residential premises, houses and apartment buildings, commercial buildings and business premises, as well as land depending on its location and future use.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

c) Restructured Loans and Placements

The Bank has restructured a loan due to the deterioration in the borrower's creditworthiness if it has:

- a. extended the principal and interest maturity,
- b. replaced the existing loan with a new one,
- c. took over the receivables of the debtor against a third party on behalf of the full or partial loan repayment
- d. reduce the amount of debt principal and interest
- e. decreased the interest rate on the loan approved and
- f. 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.

During 2017 the Bank restructured loans in the amount of EUR 8,842 thousand (2016: 33,333 EUR thousand).

d) Concentration per Geographic Regions

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

	In thousand EUR				
	<u>Montenegro</u>	<u>European Union</u>	<u>USA and Canada</u>	<u>Other</u>	<u>Total</u>
Loans and advances to banks	-	37,530	-	12,622	50,152
Loans and advances to customers	207,008	5,572	-	2,858	215,438
Securities available for sale	63,769	19,826	2,066	4,053	89,714
December 31, 2017	<u>270,777</u>	<u>62,928</u>	<u>2,066</u>	<u>19,533</u>	<u>355,304</u>
December 31, 2016	<u>256,462</u>	<u>52,350</u>	<u>1,727</u>	<u>9,493</u>	<u>320,032</u>

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

e) Concentration per Industry

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

	In thousand EUR													
	Finance Sector	Transportation, Traffic and Tele-Communication	Accommodation and Catering Services	Wholesale and Retail and Vehicle Repairs	Construction Industry	Power Industry	Ore and Stone Mining	Administration and Service Industry	Real Estate Trade	Agriculture, Forestry and Fishing	Manufacturing	Other	Retail Clients	Total
Loans and advances to banks	9,729	-	-	-	-	-	-	-	-	-	-	40,423	-	50,152
Loans and advances to customers	1,586	9,170	18,594	41,642	21,489	528	3,898	1,764	3,131	708	8,660	22,515	81,753	215,438
Securities - available for Sale	64,169	424	-	-	-	-	616	-	-	-	-	24,505	-	89,714
December 31,2017	75,484	9,594	18,594	41,642	21,489	528	4,514	1,764	3,131	708	8,660	87,443	81,753	355,304
December 31,2016	68,437	11,118	22,648	39,576	12,900	849	2,305	1,453	15,322	4,411	8,962	67,009	65,042	320,032

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.5. Off-Balance Sheet Items

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

	In thousand EUR			
	Undrawn Loan Facilities	Guarantees	Letters of Credit	Total
December 31, 2017				
Up to one year	20,536	59,458	51	80,045
From 1 to 5 years	2,046	19,338	-	21,384
Over 5 years	221	1,435	-	1,656
	22,803	80,231	51	103,085

	In thousand EUR			
	Undrawn Loan Facilities	Guarantees	Letters of Credit	Total
December 31, 2016				
Up to one year	19,741	51,184	1,050	71,975
From 1 to 5 years	2,795	13,914	-	16,709
Over 5 years	171	1,435	-	1,606
	22,707	66,533	1,050	90,290

4.3. Market Risk

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

4.3.1. Foreign exchange Currency Risk

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

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.1. Currency Risk (Continued)

The Bank's exposure to foreign currency risk as of December 31, 2017 is presented in the following table:

In thousand EUR	<u>USD</u>	<u>GBP</u>	<u>CHF</u>	<u>Other</u>	<u>Total</u>
Assets in foreign currencies	24,878	1,748	583	243	27,452
Liabilities in foreign currencies	24,439	1,749	525	220	26,933
Net foreign exchange exposure:					
- December 31, 2017.	<u>439</u>	<u>(1)</u>	<u>58</u>	<u>23</u>	<u>519</u>
- December 31, 2016.	<u>(360)</u>	<u>5</u>	<u>(20)</u>	<u>6</u>	<u>(369)</u>
% of the core capital:					
- December 31, 2017.	<u>2%</u>	<u>-</u>	<u>-</u>	<u>-</u>	
- December 31, 2016.	<u>(2)%</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Aggregate open position:					
- December 31, 2017	519				
- December 31, 2016	(369)				
% of the core capital:					
- December 31, 2017.	2.10%				
- December 31, 2016.	(1.59)%				

4.3.2. Operational risk

Operational risk is the risk of possible occurrence of negative effects on financial result and equity due to failure (unintentional and intentional) by employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, as well as due to the occurrence of unforeseen external events , including events with a low probability events .

Exposure to operational risk is regularly monitored by harmonizing them with the limits prescribed by the Central Bank of Montenegro.

4.3.3. Interest Rate Risk

The risk of changes in interest rates on cash flows is the risk that the future cash flows of the financial instrument will be subject to fluctuations due to fluctuating interest rates on the market. Interest rate risk is the risk that the value of a financial instrument will be subject to oscillations due to variable interest rates on the market. The Bank is exposed to the effects of changing current interest rates on the market, based on the risk of changing interest rates on cash flows. As a consequence of such changes, there may be an increase in interest margins, however, they may reduce profits or lead to loss in case of unexpected movements. Interest rates are based on market rates so that the Bank regularly re-determines prices.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.3. Interest Rate Risk (Continued)

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

	In thousand EUR		
	<u>Interest Bearing</u>	<u>Non-Interest Bearing</u>	<u>Total</u>
FINANCIAL ASSETS			
Cash balances and deposits with the Central Bank	13,504	117,662	131,166
Loans and advances to banks	-	50,152	50,152
Loans and advances to customers	215,438	-	215,438
Securities available for sale	81,658	10,914	92,572
Total assets	<u>310,600</u>	<u>178,728</u>	<u>489,328</u>
FINANCIAL LIABILITIES			
Deposits due to banks	49	3,010	3,059
Deposits due to customers	346,847	44,810	391,657
Borrowings from other customers	29,936	-	29,936
Subordinated debt	14,012	-	14,012
Total financial liabilities	<u>390,844</u>	<u>47,820</u>	<u>438,664</u>
Interest rate GAP:			
- December 31, 2017.	<u>(80,244)</u>	<u>130,908</u>	<u>50,664</u>
- December 31, 2016.	<u>(38,489)</u>	<u>83,117</u>	<u>44,628</u>

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.3. Interest Rate Risk (Continued)

The following table presents annual lending and borrowing interest rates for monetary financial instruments:

Loan type	Interest rate %
Legal Entities:	
- short-term loans from Bank's own funds	1.5%p.a. -10%p.a.
- long-term loans from Bank's own funds	1.2%p.a.-10%p.a.
- long-term loans from other resources	4%p.a.-9.5%p.a.
- loans to SMEs for period up to 24 months	At rates sanctioned by the bank
- loans to SMEs for period over 24 months	At rates sanctioned by the bank
- loans to entrepreneurs for periods of up to 24 months	7%p.a.-9.5%p.a.
- loans to entrepreneurs for periods of over 24 months	6.75%p.a.-9.5%p.a.

Lending interest rates applied to loans granted to retail customers during 2017 were as follows:

Loan type	Interest rate %
Retail customers:	
- cash loans	0.88%p.m.-12%p.a.
- consumer loans	0%p.m.-6.5%p.a.
- car loans	4.99%p.a.

Deposit interest rates applied to legal entities deposits during 2017 were as follows:

Deposit type	Interest rate %
Demand deposits	-
Short-term deposits	0-5.9%p.a.
Long-term deposits	0-2.5%p.a.

Deposit interest rates applied to retail customer deposits during 2017 were as follows:

Deposit type	Interest rate %
Demand deposits	
Savings demand deposits:	
- EUR	0.01%p.a.
- other currencies	-
Term deposits in EUR placed:	
- for a month	0%p.a.-5.9%p.a.
- for 3 months	0.05%p.a.-5.9%p.a.
- for 6 months	0.2%p.a.-2.85%p.a.
- for 12 months	0.25%p.a.-3%p.a.
- for 24 months	1.5%p.a.-3.1%p.a.
- for 36 months	1%p.a.-3.25%p.a.
Term deposits in foreign currencies (USD):	
- for 3 months	0.01%p.a.
- for 6 months	0.01%p.a.-0.05%p.a.
- for 12 months	0%p.a.-0.9%p.a.

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.3. Interest Rate Risk (Continued)

The exposure to risk from interest rate changes as of December 31, 2017 is as follows

	In thousand EUR					
	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Up to 1 year	Total
Interest Sensitive assets						
Interest bearing deposits in other institutions	13,504	-	-	-	-	13,504
Loans and receivables from banks	-	-	-	-	-	-
Loans and receivables from clients	12,135	10,415	21,906	53,406	117,576	215,438
Securities available for sale	78,926	281	1,240	23	1,188	81,658
Total	104,565	10,696	23,146	53,429	118,764	310,600
% total interest earning assets	34%	3%	8%	17%	38%	100%
Interest Sensitive liabilities						
Interest bearing deposits due to banks	49	-	-	-	-	49
Interest bearing deposits due to clients	209,127	14,058	30,497	47,099	46,066	346,847
Interest bearing loans due to clients	1,154	134	779	1,213	26,656	29,936
Subordinated debt	12	-	-	-	14,000	14,012
Total	210,342	14,192	31,276	48,312	86,722	390,844
% interest bearing liabilities	54%	4%	8%	12%	22%	100%
Interest rate risk exposure:						
- December 31, 2017.	(105,777)	(3,496)	(8,130)	5,117	32,042	(80,244)
- December 31, 2016.	(61,758)	12,435	(13,452)	(11,723)	36,009	(38,489)
Cumulative GAP:						
- December 31, 2017.	(105,760)	(109,242)	(117,341)	(112,149)	(79,943)	
- December 31, 2016.	(61,758)	(49,323)	(62,775)	(74,498)	(38,489)	

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.3. Interest Rate Risk (Continued)

Sensitivity measurement of economic value of equity on changes of interest rate is performed for every of significant currencies. It starts from assumptions of parallel changes in interest rate for 200 basis points (2 percentage points).

Influence of increase in interest rates by 200 basis points on equity measured as of December 31, 2017 is shown in the following table:

In thousand EUR

Securities AFS - fixed rate	Amount	Changes in interest rate	Weighted average b.p.	Changes in EUR	Mark
Short-term	17,863	50 b.p.	11	89	+/-
Mid-term	58,666	100 b.p.	72	587	+/-
Long-term	5,129	200 b.p.	13	103	+/-
Total	81,658		96	779	+/-

4.4. Liquidity Risk

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk (Continued)

4.4.1. Liquidity Risk Management (Continued)

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.

The expected maturity matching of financial assets and liabilities as of December 31, 2017 was as follows:

	<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>In thousand EUR Total</u>
Financial assets							
Cash balances and deposits with the Central Bank	131,166	-	-	-	-	-	131,166
Loans and advances to banks	50,152	-	-	-	-	-	50,152
Loans and advances to Customers	12,135	10,415	21,906	53,406	85,793	31,783	215,438
Securities available for sale	89,840	281	1,240	23	1,164	24	92,572
Total	283,293	10,696	23,146	53,429	86,957	31,807	489,328
Financial liabilities							
Deposits due to banks	3,059	-	-	-	-	-	3,059
Deposits due to customers	253,937	14,058	30,497	47,099	44,482	1,584	391,657
Borrowings from customers	1,154	134	779	1,213	14,100	12,556	29,936
Subordinated debt	12	-	-	-	10,000	4,000	14,012
Total	258,162	14,192	31,276	48,312	68,582	18,140	438,664
Maturity GAP							
- December 31, 2017	25,131	(3,496)	(8,130)	5,117	18,375	13,667	50,664
- December 31, 2016	101,975	(10,750)	(37,356)	(42,221)	14,368	18,612	44,628
Cumulative GAP:							
- December 31, 2017	25,131	21,635	13,505	18,622	36,997	50,664	
- December 31, 2016	101,975	91,225	53,869	11,648	26,016	44,628	
% of total funds:							
- December 31, 2017	5.14%	(0.71)%	(1.66)%	1.05%	3.76%	2.79%	
- December 31, 2016	24.07%	(2.54)%	(8.82)%	(9.97)%	3.39%	4.39%	

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk (Continued)

4.4.1. Liquidity Risk Management (Continued)

The structure of the Bank's financial assets and liabilities as classified into their relevant maturity groups as at December 31, 2017 indicates the existence of a liquidity gap in maturity period from 1 to 3 months, and from 3 to 6 months.

The Bank's liquidity, which is its ability to settle its liabilities as due, depends on one hand on the balance sheet structure, and on the other hand, on the matching between cash inflows and outflows. In the cumulative gap there is no maturity mismatching in maturity of assets and liabilities. As at December 31, 2017 demand deposits in the table above are presented by the expected maturity using the model based on the Bank's historical data.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk (Continued)

4.4.2 Outstanding Maturities of Financial Liabilities

	In thousand EUR						
	Demand	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2017							
Liabilities							
Liabilities due to banks	3,020	39	-	-	-	-	3,059
Liabilities due to customers	244,793	9,144	14,058	77,596	44,482	1,584	391,657
Borrowings from other customers	-	1,154	134	1,992	14,100	12,556	29,936
Subordinated debt	-	12	-	-	10,000	4,000	14,012
	247,813	10,349	14,192	79,588	68,582	18,140	438,664

	In thousand EUR						
	Demand	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2016							
Liabilities							
Liabilities due to banks	283	20	-	-	-	-	303
Liabilities due to customers	181,928	7,937	23,437	31,820	55,367	32,861	333,350
Borrowings from other customers	-	1,018	239	2,684	13,578	17,812	35,331
Subordinated debt	-	(33)	-	-	10,000	-	9,967
	182,211	8,942	23,676	34,504	78,945	50,673	378,951

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Fair Value of financial assets and liabilities

	Carrying Value		In thousand EUR Fair Value	
	2017	2016	2017	2016
Financial assets				
Loans and receivables to banks	50,152	15,481	50,152	15,481
Loans and receivables to customers	215,438	216,049	215,438	216,049
Securities available for sale	92,572	75,809	92,572	75,809
Securities held to maturity	-	16,785	-	16,785
	358,162	324,124	358,162	324,124
Financial liabilities				
Deposits of customers	391,657	333,350	391,657	333,350
Borrowings from other customers	29,936	35,331	29,936	35,331
Subordinated debt	14,012	9,967	14,012	9,967
	435,605	378,648	435,605	378,648

Fair value of financial instruments is the amount for which an asset could be sold, or a liability settled, between knowledgeable, willing parties during the transaction. However, there is no available market price for a certain part of the Bank's financial instruments. In conditions where there are no available market prices, fair value is estimated by using discounted cash flows or other models. Changes in the assumptions that form the basis of estimates, including discount rates and estimated future cash flows, significantly affect the estimates. For this reason, the assessment of fair market value can not be realized in a current sale of the financial instrument.

In the estimation of fair value of financial instruments for which these values can be determined, the following methods and assumptions were used:

a) Loans and receivables to Banks

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

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

b) Loans and receivables to Customers

In order to determine the fair value of loans to customers with fixed interest rate, measured at amortized cost, the Bank compared the its interest rates on loans and advances to customers 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).

According to the Bank's management, the interest rates do not materially differ from prevailing market interest rates in the banking sector of Montenegro accordingly the fair value of loans to customers calculated as the present value of future cash flows discounted using current market rates, or the average weighted interest rate for the banking sector does not materially differ from the carrying value of the loans on the balance sheet date. According to the Bank's management, carrying values as presented in the Bank's financial statements represent values that are believed to be the most valid under the circumstances and most useful for the purposes of financial reporting.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Fair Value of financial assets and liabilities (Continued)

c) Available-for-Sale Securities

The fair value of available-for-sale securities is based on market prices. Where this information is not available, fair value has been estimated using market prices for quoted securities with similar characteristics.

d) Deposits and Borrowings

The estimated fair values of demand deposits and deposits with remaining contractual maturities of less than one year approximate 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 fair value for the purposes of financial reporting under the current circumstances.

The carrying values of borrowings with floating interest rates approximate their fair values at the statement of financial position date.

In the opinion of Bank's management, the carrying value of subordinated debt approximates its fair value at the statement of financial position date.

e) Fair Value Hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or not. Inputs reflect market data obtained from independent sources; entries that are not available include the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 - Listed value (non-adjusted) in active markets for identical assets or liabilities. This level includes listed equity securities.
- Level 2 – Amounts other than quoted included in Level 1, which are available and refer to given asset or liability, either directly (i.e. in the form of price / value) or indirectly (in the form of conclusions based on price / value)
- Level 3 - entries for assets and liabilities that are not based on available market data. This level includes investments in the capital market under the assumptions of the Bank (no data are available).

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Fair Value of financial assets and liabilities (Continued)

e) Fair Value Hierarchy (Continued)

This hierarchy requires the use of available market data when available. The bank, in its evaluation, is taking into consideration the market value whenever possible.

December 31, 2017	Level 1	Level 2	Level 3	Total
Securities available for sale	76,045	8,056	8,471	92,572
Total assets	76,045	8,056	8,471	92,572
December 31, 2016				
	Level 1	Level 2	Level 3	Total
Securities available for sale	59,643	4,913	11,253	75,809
Total assets	59,643	4,913	11,253	75,809

Valuation Techniques and Assumptions Used in Valuation of Financial Assets Measured at Fair Value

Fair values of securities available for sale and securities at fair value through other comprehensive income were based on market prices. Unless there were available market prices, market prices of quoted securities with similar characteristics were used.

In the case that at the day of valuation market prices are not available, the fair value can be considered as the last available price of these securities for the previous 30 days of evaluation. In that case, it will be performed the check of the accuracy of the last available prices and it will be determined whether there is a basis for determination of the fair value.

Equity securities for which conditions for evaluation of fair value with available market prices have not been achieved for more than 365 days it will be performed valuation by assessment techniques.

Long-term debt securities for which conditions for evaluation of fair value have not been available in accordance with available market prices or it has not established "mark to model" more than 90 days, it will be evaluated using effective interest rate, provided that the initial value is last established fair value of that security available in the market. Once when the conditions for evaluation with prescribed fair value are met again, it will be evaluated in accordance with these regulations.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Fair Value of financial assets and liabilities (Continued)

Valuation Techniques and Assumptions Used in Valuation of Financial Assets Measured at Fair Value (Continued)

Techniques of evaluation include the following:

- a) Factors which market participants would consider in process of price determination
- b) In accordance with the accepted economic methodologies used for determine the price of financial instruments

In the process of assessing the fair value, the following indicators or information are also taken into account:

- A significant decrease in the volume and activity level (amount and price)
- A wide margin between supply and demand (bid ask spread)
- A significant decline or lack of new release
- A significant increase in premium for liquidity risk i.e. required yield until maturity with fixed income,
- Market prices represent expectations of market participants rather than being based on current information
- Quoted prices significantly vary over the time in the marketplace which is comprised of brokers (market makers trading)
- Other indicators that can be used in determine fair value

Market (quoted) prices in an inactive market could be input for measuring fair value, but it is not necessarily a measure of fair value. Characteristics of an inactive market include a significant decline in volume, in price levels, in activities of trading with financial instruments, in the availability of market prices change significantly over time or among market participants or available market prices are not updated (current).

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Fair Value of financial assets and liabilities (Continued)

Valuation Techniques and Assumptions Used in Valuation of Financial Assets Not Measured at Fair Value

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

December 31, 2017	Level 1	Level 2	Level 3	Total	Book value
Cash and deposit accounts with central banks	-	131.166	-	131.166	131.166
Loans and receivables from banks	-	-	50.152	50.152	50.152
Loans and receivables from customers	-	-	215.438	215.438	215.438
Investments in associates and joint ventures using the equity method	-	-	8	8	8
Other financial receivables	-	-	984	984	984
Total assets	-	131.166	266.582	397.748	397.748
Bank deposits	-	-	3.059	3.059	3.059
Customer deposits	-	-	391.657	391.657	391.657
Borrowed funds from other clients	-	-	29.936	29.936	29.936
Subordinated debt	-	-	14.012	14.012	14.012
Total liabilities	-	-	438.664	438.664	438.664
December 31, 2016	Level 1	Level 2	Level 3	Total	Book value
Cash and deposit accounts with central banks	-	99.455	-	99.455	99.455
Loans and receivables from banks	-	-	15.481	15.481	15.481
Loans and receivables from customers	-	-	216.049	216.049	216.049
Investments in associates and joint ventures using the equity method	-	16.785	-	16.785	16.785
Other financial receivables	-	-	8	8	8
Total assets	-	-	842	842	842
Total assets	-	116.240	232.380	348.620	348.620
Bank deposits	-	-	303	303	303
Customer deposits	-	-	333.350	333.350	333.350
Borrowed funds from other clients	-	-	35.331	35.331	35.331
Subordinated debt	-	-	9.967	9.967	9.967
Total liabilities	-	-	378.951	378.951	378.951

The fair value of financial instruments not measured at fair value is calculated only for the purposes of disclosure, no effect on the position of the balance sheet or income statement. In addition, due to the fact that there is no active trading in these instruments, the determination of fair value requires the use of their assessment management significantly.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Fair Value of financial assets and liabilities (Continued)

Fair value is the price that would be received if asset is sold or paid to transfer a liability in an orderly transaction in the principal (or the most favourable) market at the measurement date under current market conditions, regardless of whether the price is directly observable or estimated using another valuation techniques. However, there are no available market prices for a certain part of financial instruments. In conditions where there are no available market prices, fair value is estimated using discounted cash flows or other models. Changes in assumptions of estimates, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, assessment of fair market value cannot be realized in a current sale of the financial instrument.

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 book value of off-balance sheet items with the prescribed conversion factors. Total risk-weighted assets are comprised of assets and credit equivalents of off-balance sheet items exposed to risk (the Bank's risk weighted assets) classified in four categories and multiplied by adequate prescribed risk weights.

In accordance with the regulations 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 maintain certain minimum or maximum ratios with respect to its activities and composition of risk assets in compliance with the Law on Banks of the Republic of Montenegro and with the Central Bank of Montenegro Regulations. As at December 31, 2017 the capital adequacy ratio calculated by the Bank for statutory financial statements equalled 12.36% (December 31. 2016: 11.34%), exceeding the prescribed minimum.

4.6. 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 (based on Decision on capital adequacy of banks Gazette of Montenegro, 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 own funds are comprised of:

- core capital (paid in share capital, undistributed profits from previous years, profit for the year decreased for loss)
- additional capital (reserves allocated from profit after tax :legal, statutory and other reserves, subordinated loan)
- both decreased for intangible assets, positive difference between the amount of calculated provisions for potential losses and the sum of impairment allowances per balance sheet assets and provisions for losses on off-balance sheet items as well as for the amount in excess of the limit prescribed by the Central Bank of Montenegro for investments in properties and fixed assets.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Sensitivity analysis

4.7.1. Sensitivity analysis (foreign currency risk)

In addition to analysis of receivables and liabilities denominated in foreign currencies, exposure to foreign exchange risk includes sensitivity analysis of changes in exchange rates. The following table shows a scenario of change of the exchange rate in the range of + 10% to -10% compared to the EUR:

	Total	2017 Amount in foreign currency	In thousands EUR Change in exchange rates	
			+10%	-10%
Assets				
Cash and deposit accounts with central banks	131,166	1,855	186	(186)
Loans and advances to banks	50,152	16,009	1,601	(1,601)
Loans and advances to customers	215,438	1,639	164	(164)
Securities available for sale	92,572	7,949	795	(795)
Other financial receivables	984	-	-	-
Other operating receivables	1,082	-	-	-
Total assets	491,394	27,452	2,745	(2,745)
Liabilities				
Deposits due to banks	3,059	37	4	(4)
Deposits due to customers	391,657	24,837	2,484	(2,484)
Provision	1,636	1	-	-
Other liabilities	8,692	2,007	201	(201)
Total liabilities	405,044	26,882	2,689	(2,689)
Other liabilities (guarantees and letters of credit) - Off- Balance Sheet	80,282	51	5	(5)
Net exposure to currency risk:				
- December 31, 2017			52	(52)
- December 31, 2016			(134)	134

As at December 31, 2017, assuming that all other parameters remained the same, change in the EUR exchange rate in relation to other currencies to + 10% and -10%, would affect Bank's profit to increase, or decrease in the amount of EUR 52 thousand (as at December 31, 2016: profit would have increased or decreased by an amount of EUR 134 thousand). The cause of small Bank's exposure to exchange rate changes is the fact that most of the claims and liabilities are denominated in EUR.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Sensitivity analysis (Continued)

4.7.2. Sensitivity analysis (the risk of changes in interest rates)

During the process of risk management of interest rate changes, the Bank analyses the exposure of assets and liabilities with variable interest rates. The following table shows the effect of fluctuations in interest rates for assets and liabilities denominated in EUR in the range of + 0.4% percentage points to -0.4% pp., i.e. receivables and liabilities denominated in foreign currencies in the range of + 0.3% percentage points to -0.3% percentage points.

	2017	In thousands EUR	
		+0.4 b.p. EUR IR	-0.4 b.p. EUR IR
Net effect of changes in interest rates		+0.3 b.p. FX IR	-0.3 b.p. FX IR
Assets			
Cash and deposits with central banks	13,504		
-With variable interest rate	13,504	54	(54)
Loans and advances to customers	215,438	-	-
- With fixed interest rate	215,346	-	-
- With variable interest rate	92	-	-
Securities available for sale	81,658		
- With fixed interest rate	81,658	-	-
	310,600	54	(54)
Liabilities			
Deposits due to banks	49	-	-
Deposits due to customers	346,847	-	-
Borrowings from other customers	29,936		
- With fixed interest rate	18,031	-	-
- Variable interest rate	11,905	48	(48)
Subordinated debt	14,012	-	-
	390,844	48	(48)
Net exposure to changes Interest rate			
Decembar 31, 2017	(80,244)	6	(6)

4.7.2. Sensitivity analysis (foreign currency risk)

Assuming that all other parameters remained the same, increase, or decrease in the variable interest rate for receivables and liabilities in EUR by 0.4 percentage points or for claims and liabilities in foreign currency by 0.3 percentage points, would affect Bank's profit to increase, or decrease in the amount of EUR 6 thousand.

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

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

5. INTEREST INCOME AND EXPENSES AND SIMILAR INCOME AND EXPENSES

a) Interest Income and similar Income

In thousands EUR	<u>2017</u>	<u>2016</u>
Deposits with:		
- foreign banks	55	20
- Other deposit institutions	-	2
- Central bank	11	-
	<u>66</u>	<u>22</u>
Loans approved to:		
- State institutions	272	386
- Government of Montenegro	350	3
- corporate customers	7,438	9,332
- retail customers	6,490	5,467
	<u>14,550</u>	<u>15,188</u>
Securities:		
- Securities held to maturity	278	323
- Securities available for sale	2,798	2,188
	<u>3,076</u>	<u>2,511</u>
Other interest income	<u>3</u>	<u>3</u>
Total interest income	<u>17,695</u>	<u>17,724</u>
<i>Impairment allowances of interest receivables</i>	<u>(148)</u>	<u>(20)</u>
	<u>17,547</u>	<u>17,704</u>

b) Interest Expenses and similar Expenses

In thousand EUR	<u>2017</u>	<u>2016</u>
Deposits of:		
- banks	176	61
- financial institutions	63	112
- state institutions	289	423
- corporate customers	343	411
- retail customers	2,196	2,565
	<u>3,067</u>	<u>3,572</u>
Loans and other borrowings	896	1,129
Subordinated debt	<u>722</u>	<u>615</u>
	<u>4,685</u>	<u>5,316</u>

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NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017

6. IMPAIRMENT LOSSES AND PROVISIONS

a) Impairment losses

In thousand EUR	<u>2017</u>	<u>2016</u>
Net provisions in respect of:		
– loans	3,364	1,436
– other operating receivables	(11)	462
– AFS securities	-	878
– other	73	35
	<u>3,426</u>	<u>2,811</u>

b) Provision expenses

In thousand EUR	<u>2017</u>	<u>2016</u>
Net provisions/reversal of provisions in respect of:		
– off-balance sheet items	195	(644)
– other	12	(26)
	<u>207</u>	<u>(670)</u>

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

6. IMPAIRMENT LOSSES AND PROVISIONS (Continued)

c) Movements on the accounts of allowances for impairment of credit risk weighted assets and provisions for off-balance sheet items

Year 2017.

In thousand EUR	Loans and leases (Note 16)	Interest (Note16)	Repossessed assets (Note21)	Provisions for Operational Risk and Country Risk (Note 25)	Other receivables (Note 21)	Provisions for Off-Balance Sheet Items (Note 25)	Impairment of AFS securities (Note 17)	Impairment of deposits	Total
Balance at the beginning of the year	6,255	82	1,281	341	777	1,489	2,200	38	12,463
Impairment during the year	3,364	-	-	(11)	60	(196)	-	-	3,217
Reverse of provisions with no effect on IS	-	154	370	-	(164)	-	-	-	360
Transfer to Off- Balance sheet	(694)	(28)	-	-	(6)	-	-	(5)	(733)
Balance at the end of the year	8,925	208	1,651	330	667	1,293	2,200	33	15,307

Year 2016.

In thousand EUR

	Loans and leases (Note 16)	Interest (Note16)	Repossessed assets (Note 21)	Provisions for Operational Risk and Country Risk (Note 25)	Other receivables	Provisions for Off-Balance Sheet Items (Note 25)	Impairment of AFS securities (Note 17)	Impairment of deposits (Note 16)	Total
Balance at the beginning of the year	6,295	84	580	315	294	845	1,322	-	9,735
Impairment during the year	1,437	-	-	26	459	644	878	38	3,482
Reverse of provisions with no effect on IS	-	26	701	-	30	-	-	-	757
Transfer to Off- Balance sheet	(1,477)	(28)	-	-	(6)	-	-	-	(1,511)
Balance at the end of the year	6,255	82	1,281	341	777	1,489	2,200	38	12,463

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

7. FEE AND COMMISSION INCOME AND EXPENSES AND PROVISIONS INCOME AND EXPENSES

a) Fee and Commission and Provisions Income

In thousand EUR	2017	2016
Loan origination and processing fees	1,171	1,225
Fees and commissions from off-balance-sheet operations	1,007	937
Fees and commissions from payment transactions and e-banking	2,835	1,232
Fees and commissions for foreign payments	1,182	2,329
Fees and commissions on credit card operations	6,010	4,270
Other fees and commissions	767	651
	12,972	10,644

b) Fee and Commission and Provisions Expenses

In thousand EUR	2017	2016
Fees and commissions payable to the Central Bank	345	313
Fees and commissions for foreign payment transactions	294	313
Deposit insurance premium fees	1,711	1,575
Fees paid for borrowings and guarantees	38	31
Visa and Master card fees	3,150	1,897
Other fees and commissions	342	334
	5,880	4,463

8. STAFF COSTS

In thousand EUR	2017	2016
Net salaries	2,369	2,270
Taxes and contributions on salaries	1,777	1,694
Other employee benefits, net	165	64
Retirement benefits	18	35
Remunerations to members of the Board of Directors	124	140
Remunerations to members of the Development committee	66	60
Remunerations to members of the Credit risk committee	27	18
Employee transportation allowance, net	34	34
Business travel costs and per diems	298	192
Employee training costs	44	37
Net provisions for severance pay and jubilee awards (Note 25)	(154)	40
Aid to employees	6	6
Other costs	33	32
	4,807	4,622

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

9. GENERAL AND ADMINISTRATIVE EXPENSES

In thousand EUR	<u>2017</u>	<u>2016</u>
Rental costs	1,093	1,051
Security services	560	550
Electricity and fuel bills	102	99
Cleaning services	110	106
Computer and other equipment maintenance	211	209
Premises-related taxes	16	15
Vehicle maintenance	51	47
Insurance costs	481	319
External control expense	288	310
Court expenses	1	1
Other professional fees	44	48
Lawyer fees	30	21
Consultant services	562	360
Intellectual services	78	113
Telecommunication costs	106	110
Communication network costs	118	111
Postage	23	19
Office supplies	190	170
Utilities	18	18
Representation expenses	355	284
Advertising and marketing	408	413
Subscriptions and donations	186	137
Miscellaneous expenses – software maintenance	331	304
Miscellaneous expenses – equipment rentals	444	425
Miscellaneous expenses – data processing services	373	233
Miscellaneous expenses – payment card operations	1,536	1,095
Other expenses	509	440
	<u>8,224</u>	<u>7,008</u>

10. DEPRECIATION AND AMORTIZATION

In thousand EUR	<u>2017</u>	<u>2016</u>
Property plant and equipment (Note 18)	574	631
Intangible assets (Note 19)	262	218
	<u>836</u>	<u>849</u>

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NOTES TO THE FINANCIAL STATEMENTS
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11. OTHER EXPENSES

In thousand EUR	2017	2016
Direct write off of receivables	2	17
Other charges	20	34
Losses on the sale and write-offs of property, plant and equipment	4	154
Extraordinary expenses	11	12
Other	1	1
	38	218

12. OTHER INCOME

In thousand EUR	2017	2016
Gains on the sale of property, plant and equipment	3	127
Gains from the sale of repossessed assets	153	82
Other operating income	109	106
Collected receivables previously written off	93	115
Other income	139	115
	497	545

13. INCOME TAXES

a) Components of Income Taxes

In thousand EUR	2017	2016
Current income tax	(412)	(368)
Calculated deferred income tax	4	7
	(408)	(361)

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

In thousand EUR	2017	2016
Profit before taxes	4,351	3,985
Income tax at statutory rate of 9%	392	358
Tax effects of expenses not recognized for tax purposes	20	10
Other	(4)	(7)
Current Income tax	408	361
Effective tax rate	9.38%	9.06%

The tax rate used in 2017 and 2016 equals 9% and is applied to the taxable profit of legal entities in Montenegro as in accordance with the Corporate Income Tax Law.

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NOTES TO THE FINANCIAL STATEMENTS
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13. INCOME TAXES (Continued)

c) Deferred Tax Assets/Liabilities

In thousand EUR	2017	2016
Differed tax based on temporary differences between book and tax value for property plant and equipment	38	33
Deferred tax based on unrealized losses on AFS securities	(311)	(114)
	(273)	(81)

14. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

In thousand EUR	December 31, 2017	December 31, 2016
Cash on hand:	16,586	9,487
- in EUR	14,731	8,488
- in foreign currencies	1,855	999
Gyro account	86,031	58,755
Obligatory reserves held with the Central Bank of Montenegro	27,008	30,518
Other	1,541	695
	131,166	99,455

As of December 31, 2017 the Bank's obligatory reserves were set aside in accordance with the Regulation of the Central Bank of Montenegro on Bank which refers on Reserve Requirement to Be Held with the Central Bank of Montenegro (Official Gazette of Montenegro no. 88/17), 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
- 6.5% to the base comprised of deposits with maturities of over a year. i.e. 365 days.

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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14. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS (Continued)

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

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

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

15. LOANS AND RECEIVABLES FROM BANKS

In thousand EUR	December 31, 2017	December 31, 2016
Correspondent accounts with foreign banks	49,056	14,498
Deposits held with non-resident banks and other depository institutions	1,096	983
	50,152	15,481

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

16. LOANS AND RECEIVABLES FROM CUSTOMERS

In thousand EUR	December 31, 2017	December 31, 2016
Due loans:		
- municipalities (public organizations)	2	3
- privately-owned companies	1,892	4,847
- state owned companies	112	711
- retail customers	581	679
- others	1,794	82
Short-term loans:		
- The Government of Republic of Montenegro	10,000	10,000
- municipalities (public organizations)	156	115
- privately-owned companies	39,400	47,867
- state owned companies	2,506	1,217
- retail customers	7,731	5,996
- others	354	14,742
Long-term loans:		
- municipalities (public organizations)	177	244
- privately-owned companies	76,569	69,404
- state owned companies	2,687	3,977
- retail customers	75,237	60,150
- others	3,503	645
	222,701	220,679
Interest receivables:		
- loans	1,301	1,362
Accruals:		
- interest on loans	234	85
- fees	(1,304)	(1,237)
Deposits with other depository institutions	1,674	1,529
Activated guarantees	-	10
	1,905	1,749
<i>Less:</i>		
Impairment allowance of loans, activated guarantees and factoring (note 6c)	(8,925)	(6,255)
Impairment allowance of interest receivables (note 6c)	(208)	(82)
Impairment of deposits (note 6c)	(33)	(38)
Impairment allowance of accruals	(2)	(4)
	(9,168)	(6,379)
	215,438	216,049

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NOTES TO THE FINANCIAL STATEMENTS
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16. LOANS AND RECEIVABLES FROM CUSTOMERS (Continued)

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

In thousand EUR	December 31, 2017	December 31, 2016
Agriculture, forestry and fishing	708	4,411
Mining	3,898	1,605
Processing industry	8,660	8,962
Water supply	528	849
Construction industry	21,849	12,900
Trade	41,643	39,576
Transport and storage	9,170	8,712
Accommodation and catering services	18,593	22,648
Information and communications	1,514	963
Finance and insurance sector	1,586	2,455
Real estate trade	3,131	15,322
Professional, scientific and technical activities	5,489	4,495
Administrative and support service activities	1,764	1,453
Public administration, defence and compulsory social security	10,012	10,002
Education	236	205
Health and social care	427	1,012
Art, entertainment and recreational activities	273	416
Other services	1,111	1,410
Non-resident legal entities	3,093	13,611
Retail customers	81,753	65,042
	215,438	216,049

17. SECURITIES AVAILABLE FOR SALE

In thousand EUR	December 31, 2017	December 31, 2016
Debt Securities		
The Government of Republic of Montenegro	63,769	41,563
Non-residents	25,945	30,154
	89,714	71,717
Equity Securities		
Residents	3,006	2,837
Non-residents	2,052	3,455
	5,058	6,292
Allowance for Impairment t of equity securities available for sale (Note 6c)	(2,200)	(2,200)
	2,858	4,092
	92,572	75,809

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NOTES TO THE FINANCIAL STATEMENTS
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17. SECURITIES AVAILABLE FOR SALE (Continued)

Securities classified as available for sale amounting to EUR 63,769 thousand as at December 31, 2017, refer to public bonds issued by the Ministry of Finance of the Government of Montenegro, with nominal value of EUR 48,067 thousand, maturing from March 2018 to March 2021, with a coupon interest rate amounting 3.875% for the series that is due in 2020 and 5.75% for the series that is due in 2021.

Debt securities of non-residents classified as available for sale amounting to EUR 25,945 as of December 31, 2017, maturing from January 2018 to March 2023 with interest rate from zero to 10.38%.

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NOTES TO THE FINANCIAL STATEMENTS
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18. PROPERTY, PLANT AND EQUIPMENT

Movements on property, equipment and other assets for 2017. and 2016. are presented in the following table:

In thousand EUR	Buildings	Computer Equipment	Other Equipment	Investment s in progress	Total
Purchase Value					
Balance as at January 1, 2016.	290	1,161	3,742	36	5,229
Additions	-	50	154	195	399
Transfers	-	13	212	(225)	-
Sales and disposals	(197)	(40)	(141)	-	(378)
Balance as at December 31. 2016.	93	1,184	3,967	6	5,250
Balance as at January 1, 2017.	93	1,184	3,967	6	5,250
Additions	-	51	106	355	512
Transfers	-	3	242	(245)	-
Sales and disposals	-	(32)	(73)	-	(105)
Balance as at December 31. 2017.	93	1,206	4,242	116	5,657
Accumulated Depreciation					
Balance as at January 1, 2016.	62	1,015	2,272	-	3,349
Depreciation (Note 10)	3	106	522	-	631
Sales and disposals	(61)	(40)	(130)	-	(231)
Balance as at December 31. 2016.	4	1,081	2,664	-	3,749
Balance as at January 1, 2017.	4	1,081	2,664	-	3,749
Depreciation (Note 10)	2	65	507	-	574
Sales and disposals	-	(33)	(70)	-	(103)
Balance as at December 31. 2017.	6	1,113	3,101	-	4,221
Net book value:					
-As at December 31, 2017.	87	93	1,141	116	1,437
-As at December 31, 2016.	89	103	1,303	6	1,501

As at December 31, 2017 the Bank doesn't have any property under mortgage as a collateral for repayment of loans and other liabilities.

Investments in progress mostly relate to procurement of equipment and investments related to the relocation of the branch office in a new location in Budva, which amounts to EUR 91 thousand.

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NOTES TO THE FINANCIAL STATEMENTS
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19. INTANGIBLE ASSETS

Intangible assets are mostly comprised of licenses and software. The movements on intangible assets in the course of 2017 and 2016 were as follows:

In thousand EUR

	Other intangible assets	Licenses	Software	Investment in Progress	Total
Purchase Value					
Balance as at January 1, 2016.	526	794	1,212	92	2,624
Additions	-	18	214	406	638
Transfers	-	-	232	(233)	(1)
Sales and disposals	-	-	(16)	-	(16)
Balance as at December 31, 2016.	526	812	1,642	265	3,245
Balance as at January 1, 2017.	526	812	1,642	265	3,245
Additions	-	1	166	255	422
Transfers	-	-	227	(227)	-
Sales and disposals	-	-	(4)	-	(4)
Balance as at December 31, 2017.	526	813	2,031	293	3,663
Accumulated amortization					
Balance as at January 1, 2016.	503	251	791	-	1,545
Depreciation (Note 10)	13	26	179	-	218
Sales and disposals	-	-	(16)	-	(16)
Balance as at December 31, 2016.	516	277	954	-	1,747
Balance as at January 1, 2017.	516	277	954	-	1,747
Depreciation (Note 10)	10	26	226	-	262
Sales and disposals	-	-	(4)	-	(4)
Balance as at December 31, 2017.	526	303	1,176	-	2,005
Net book value:					
-As at December 31, 2017.	-	510	855	293	1,658
-As at December 31, 2016.	10	535	688	265	1,498

Additions to intangible assets during 2017. related mainly to increase in software and implementation of new applications within the application software Dabar, amounting to EUR 72 thousand and new services, functionalities and software improvements related to card and e-banking operations (3D Secure, POS, DCC, Super Platna Kartica, Premium Platna Kartica, etc), amounting to EUR 229 thousand.

Investment in progress amounting to EUR 293 thousand. Those investment mainly relates to software projects related to card and ATM operations.

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NOTES TO THE FINANCIAL STATEMENTS
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20. OTHER FINANCIAL RECEIVABLES

In thousand EUR	December 31, 2017	December 31, 2016
Receivables from custody operations	25	26
Advances paid	247	201
Other fee and commission receivables	182	214
Receivables from state funds	59	39
Receivables from customers	153	137
Receivables from card operations	117	71
Receivables from employees	77	54
Other financial receivables	297	252
Allowance for Impairment (Note 6c)	(173)	(152)
	984	842

21. OTHER OPERATING RECEIVABLES

In thousand EUR	December 31, 2017	December 31, 2016
Reposessed assets	1,661	1,290
Other operating receivables	959	907
Prepaid expenses	591	811
Impairment	(2,129)	(1,727)
	1,082	1,281

Reposessed assets in the amount of EUR 1,661 thousand as at December 31, 2017 (December 31, 2016: EUR 1,290 thousand) relate to assets acquired based on the foreclosure of collaterals, which are owned by the Bank for a period exceeding 12 months. Reposessed assets are stated at the lower of the total amount of receivables and the estimated value.

Decision of the Central Bank of Montenegro on minimum standards for bank investments in real estate and fixed assets ("Off. Gazette of Montenegro" no. 24/09, 66/10, 58/11, 61/12, 13/13, 51/13, 16/15 and 82/17), stipulates that the amount of investment in real estate and fixed assets which exceeding 50% of the bank's own funds is treated as a deduction in the calculation of the total amount of own funds.

For property which is acquired in exchange for receivables in the process of debt restructuring, in bankruptcy or liquidation of the debtor, in the process of reorganization of the debtor in accordance with the regulations governing bankruptcy or procedure for the settlement of claims, the bank is obliged to include in the calculation of the total amount of investments and fixed assets the value of the property at the following minimal percentages:

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NOTES TO THE FINANCIAL STATEMENTS
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21. OTHER OPERATING RECEIVABLES (Continued)

1. 0%, if no more than four years have passed from the date of acquiring the property;
2. 30%, if more than four but not more than five years have passed from the date of acquiring property;
3. 50%, if more than five but not more than six years have passed from the date of acquiring property;
4. 75%, if more than six years have passed from the date of acquiring the property.

Allowance for impairment of the other assets refers to the repossessed assets in the amount of EUR 1,651 thousand (as at 31 December 2016: EUR 1,281 thousand) and EUR 478 thousand refers to impairment of other receivables (as at 31 December 2016: EUR 446 thousand).

22. DEPOSITS DUE TO BANKS

In thousand EUR	December 31, 2017	December 31, 2016
Demand deposits:	3,020	283
Term deposits	39	20
	3,059	303

Deposits due to banks in the amount of EUR 3,059 thousand as at December 31, 2017 (December 31, 2016 EUR 303 thousand) refer to term deposits and demand deposits, of which EUR 9 thousand are interest bearing deposits from domestic banks, while EUR 222 thousand relate to non-monetary demand deposits from domestic banks, while EUR 2,788 thousand relate to non-interest bearing deposits by sighting foreign banks.

Term deposits in the amount of EUR 39 thousand are 7 deposits of domestic banks, whereas 6 are termed for 2 years at a rate of 0%, while 1 is termed for 2 years and 3 months, also at a rate of 0%.

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NOTES TO THE FINANCIAL STATEMENTS
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23. DEPOSITS DUE TO CUSTOMERS

In thousand EUR	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Demand deposits:		
- financial institutions	1,388	1,300
- privately-owned companies	91,895	66,583
- companies with majority state ownership	17,607	7,157
- municipalities (public organizations)	2,364	6,503
- funds	1,417	742
- retail customers	103,021	72,759
- non-profit organizations	9,043	6,198
- The Government of Republic of Montenegro	1,920	-
- others	15,952	19,455
	<u>244,607</u>	<u>180,697</u>
Funds on the escrow account	187	1,230
Short-term deposits::		
- financial institutions	280	710
- privately-owned companies	9,508	7,632
- companies with majority state ownership	18,371	25,001
- municipalities (public organizations)	655	66
- retail customers	50,461	48,535
- non-profit organizations	667	114
- The Government of Republic of Montenegro	50	-
- others	1,544	1,196
	<u>81,536</u>	<u>83,254</u>
Long-term deposits::		
- financial institutions	703	1,153
- privately-owned companies	20,901	11,051
- companies with majority state ownership	1,856	7,830
- municipalities (public organizations)	584	847
- retail customers	36,328	41,883
- non-profit organizations	59	99
- The Government of Republic of Montenegro	200	-
- others	2,589	2,737
	<u>63,220</u>	<u>65,600</u>
<i>Interest and other liabilities</i>		
Accrued interest on deposits	<u>2,107</u>	<u>2,569</u>
	<u>391,657</u>	<u>333,350</u>

Demand deposits of retail customers denominated in EUR were placed at interest rates ranging from 0% to 0.01% annually.

Short-term and long-term deposits of retail customers denominated in EUR were placed at interest rates ranging from 0% to 7.0% annually depending on the selected savings package and the amount deposited (up to EUR 50 thousand or over EUR 50 thousand). Short-term and long-term deposits of retail customers denominated in foreign currencies were placed at interest rates ranging from 0% to 1.80% annually depending on the currency.

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NOTES TO THE FINANCIAL STATEMENTS
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23. DEPOSITS DUE TO CUSTOMERS (Continued)

Short-term and long-term deposits of corporate customers denominated in EUR were placed at interest rates ranging from 0% to 5.40% annually, depending on the term of deposit placement and the amount deposited (up to EUR 100 thousand or over EUR 100 thousand). Corporate short-term and long-term deposits denominated in other foreign currencies were placed at interest rates ranging from 0.01% to 0.05%.

Demand deposits of legal entity bear interest ranging from 0% to 0.40% per annum.

24. BORROWINGS FROM OTHER CUSTOMERS

In thousands of EUR	Period/ Year	Annual interest rate	December 31, 2017	December 31, 2016
European Investment Bank (2009)	12	4.032%	1,121	1,374
European Investment Bank (2009)	12	3.923%	626	768
European Investment Bank (2010)	12	3.604%	1,977	2,375
European Investment Bank (2010)	12	3.168%	1,084	1,281
European Investment Bank (2010)	12	3.019%	1,069	1,265
European Investment Bank (2011)	12	3.841%	1,850	2,147
European Investment Bank (2011)	12	3.181%	550	632
European Investment Bank (2012)	12	2.398%	1,388	1,568
			9,665	11,410
European Bank for Reconstruction and Development (2014, 2015)	4-7	3% - 4.559%	2,240	4,156
Investment Development Fund Montenegro AD, Podgorica	1.9-12	1% - 7.64%	17,767	19,429
Directorate for Development of Small and Medium Enterprises(2007 to 2010)	5-8	0% - 1%	196	245
			20,203	23,830
			29,868	35,240
Accruals:				
Accrued interest expense			68	91
Total			29,936	35,331

As at December 31, 2017, the Bank has liabilities towards European Investment Bank ("EIB") relating to long term loans in the amount EUR 9,665 thousand (as at December 31, 2016: EUR 11,410 thousand). Loans were granted with the aim to stimulate and develop small and middle enterprises in Montenegro, with a grace period no longer than two years. The loans are covered with the guarantee of the State of Montenegro.

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NOTES TO THE FINANCIAL STATEMENTS
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24. BORROWINGS FROM OTHER CUSTOMERS (Continued)

European Bank for Research and Development („EBRD“) has granted a loan to the Bank in the amount of EUR 5,000 thousand with the annual interest rate of 4.75% plus the official inter-banking interest rate 6M EURIBOR on period of 5 years (loan is due as at 15 January 2018). In addition, as at November 20, 2014 two loan agreements were concluded with the Bank in the amount of EUR 2.500 thousand with a variable annual interest rate plus 6M EURIBOR of 3% and 3.3 % (until November 19, 2018, 3.8 %, until November 19, 2019 and 4.3 % until January 15, 2022), on period of 5 and 7 years, respectively (loans are due as at January 15, 2020 and January 15, 2022 respectively). The Bank is obligated to use these funds for the development and the stimulation of micro, small and middle enterprises in Montenegro, as well as grant “mortgage” loans to individuals.

25. PROVISIONS

In thousand EUR	December 31, 2017	December 31, 2016
Provisions for potential losses for:		
- off-balance sheet exposures (note 6c)	1,293	1,489
- operational risk (note 6c)	330	341
Provisions for employee retirement benefits and jubilee awards	13	174
	1,636	2,004

Provisions for employee retirement benefits totalling EUR 13 thousand as at December 31, 2017 were made based on the present value of the expected future payments of retirement benefits to the employees upon fulfilment of retirement criteria.

The present value of the expected future payments of retirement benefits to the employees upon fulfilment of retirement criteria was determined by an independent certified actuary as at December 31, 2017 in accordance with the rules of the actuarial profession, using the projected unit credit actuarial valuation method. Technical basis used for the calculation of the present value of the expected future payments entailed the use of:

- a) commutative numbers obtained from the calculated survivorship probability of the Montenegro population from the 1980 – 1982 census; and
- b) annual interest rate of 7% for discounting future payments to the employees.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

25. PROVISIONS (Continued)

Assumptions used to assess the present value of the expected future payments of retirement benefits to the employees are presented below:

	Assessment as at	
	December 31, 2017	December 31, 2016
	<u> %</u>	<u> %</u>
Discount rate for retirement benefits	4.00	7.00
Employee turnover ratio	1.78	(3.98)
Inflation rate	2.40	(0.30)
Expected rate of wage growth	1.50	-

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

In thousand EUR	<u> 2017</u>	<u> 2016</u>
Balance, at beginning of the year	174	134
Provisions during the year (Note 6c)	-	40
Usage of provisions	<u>(161)</u>	<u>-</u>
	<u> 13</u>	<u> 174</u>

26. OTHER LIABILITIES

In thousand EUR	<u> December 31, 2017</u>	<u> December 31, 2016</u>
Liabilities from consignment operations	81	390
Advances received	2,499	2,549
Liabilities for other taxes	45	50
Liabilities relating to deductions from salaries	4	4
Trade payables	274	231
Accrued liabilities	694	548
Custody operation liabilities	2,596	2,961
Suspense accounts	569	963
Other liabilities	<u>1,930</u>	<u>794</u>
	<u> 8,692</u>	<u> 8,490</u>

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

27. SUBORDINATED DEBT

On July 24, 2017, the Bank issued 40,000 subordinated bonds with a nominal value of EUR 100, with a maturity of 6 years, that is, until July 24, 2023. Bonds carry a fixed rate of 5.90% per annum with a semi-annual calculation and payment of interest. Bonds have been sold to well-known customers without a public bid procedure.

In thousand EUR	Year of Debt	Period/ year	Annual interest rate	December 31, 2017	December 31, 2016
Subordinated bonds HB01	2014.	7	6.000%	9,950	9,967
Subordinated bonds HB02	2017.	6	5.900%	4,062	-
				14,012	9,967

28. SHARE CAPITAL

The ownership structure of the Bank's share capital as at December 31, 2017 and 2016 was as follows:

Shareholder	December 31, 2017			December 31, 2016		
	Number of shares	In thousand EUR	%	Number of shares	In thousand EUR	%
Generali Financial Holdings FCP-FIS - Sub-Fund 2	5,281	2,700	16.87	5,281	2,700	16.87
Cerere s.r.l	4,360	2,229	13.93	4,360	2,229	13.93
Gorgoni Lorenzo	4,063	2,077	12.98	4,063	2,077	12.98
Gorgoni Antonia	3,131	1,601	10.00	3,131	1,601	10.00
Todorović Miljan	2,316	1,184	7.40	2,316	1,184	7.40
Other shareholders	12,154	6,215	38.83	12,154	6,215	38.83
Total	31,305	16,006	100.00	31,305	16,006	100.00

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

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

In accordance with the Decision on Capital Adequacy in Banks ("Official Gazette of Montenegro." no. 38/2011, 55/2012 and 82/17), the Bank's capital is comprised of the Bank's core capital and additional capital, minus deductible items. The Bank's capital as at December 31, 2017 amounted to EUR 34,982 thousand (December 31, 2016: EUR 31,159 thousand).

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

**29. COMPLIANCE WITH THE REGULATIONS OF THE CENTRAL BANK OF MONTENEGRO
(Continued)**

The Bank's core capital formed in accordance with the Decision on Capital Adequacy of Banks as at December 31, 2017 amounted to EUR 24,982 thousand (December 31, 2016: EUR 23,159 thousand). The Bank's capital as at December 31, 2017 was comprised of the following components: paid-in share capital at nominal value, collected share premiums decreased by the amount of prior period losses and amount of intangible assets and unrealized loss on fair value adjustment of financial assets available for sale, at fair value, as well as the positive difference between the amount of the calculated reserve for potential losses and the sum of the amounts of impairment allowance per balance sheet assets and provisions per off-balance sheet items.

Additional elements of the Bank's capital that are included in the additional capital as at December 31, 2017 amounted to EUR 10,000 thousand relate to subordinated debt for which the requirements of Article 6 of the Decision on the capital adequacy of banks are fulfilled, i.e. subordinated bonds issued by the Bank with a face value of EUR 14,000 thousand, whereby, in accordance with Article 4 of the Decision, the Bank shall, in calculating Bank's capital, adhere to the following:

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

Pursuant to Decision on Capital Adequacy of Banks effective as at December 31, 2017 the Bank is required to maintain the minimum capital adequacy ratio of 10%. As at December 31, 2017 the Bank's capital adequacy ratio equalled 12.36% (December 31, 2016: 11.44%) and was above the prescribed minimum. As at December 31, 2017 all of the Bank's performance adequacy ratios were in compliance with the prescribed minimum values required by the regulations of the Central Bank of Montenegro.

<i>(in thousands of EUR)</i>	The realized indicators of business performance		
	Prescribed limits	2017	2016
Capital	Minimum amount of EUR 5 million	44,780	38,842
The solvency ratio	Minimum 10%	12%	11%
The Bank's exposure to a single entity or group of related entities	limit 25% of regulatory capital of the Bank	24%	22%
The sum of large exposures	limit 800% of regulatory capital of the Bank	308%	287%
The total exposure to related parties of the Bank	limit 200% of regulatory capital of the Bank	34%	28%
Total exposure to a shareholder who does not have a qualified participation in the bank	limit 10% of regulatory capital of the Bank	1%	1%
Minimum liquidity ratio	0,9 on daily basis/1 on decade basis	RLS 2.04 / DPL 1.80	RLS 1.36 / DPL 1.63
Foreign exchange risk – net open position to a single currency	15% of Equity	2%	2%

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

30. OFF-BALANCE SHEET ITEMS

In thousand EUR	December, 31 2017	December, 31 2016
Off-balance sheet items exposed to credit risk		
Undrawn loan facilities	22,803	22,707
Irrevocable documentary letters of credit issued for payments abroad	51	63
Other letters of credit for payments abroad	-	987
Guarantees issued		
- Payment guarantees	35,017	33,681
- Performance guarantees	20,587	15,356
- Other types of guarantees	24,627	17,496
	103,085	90,290
Off-balance sheet items that are not exposed to credit risk		
Collaterals securing receivables	412,556	393,531
Other off-balance sheet items	57,641	58,559
Interest of off-balance evidence	1,299	594
	471,496	452,684
Total	574,581	542,974

31. CASH AND CASH EQUIVALENTS

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

In thousand EUR	December, 31 2017	December, 31 2016
Cash on hand	14,731	8,488
Cash on hand-foreign currency	1,855	999
Assets in the course of settlement	1,541	695
Gyro account	86,031	58,755
Correspondent accounts with foreign banks	49,056	14,498
Deposits placed with the Central Bank of Montenegro	27,008	30,518
Deposits placed with banks and other depositary institutions –		
Residents	35	39
Deposits placed with banks/central banks and other depositary institutions – non-residents	2,739	2,476
	182,996	116,468

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

32. RELATED PARTY TRANSACTIONS

The Law on Banks ("Official Gazette of Montenegro." no. 17/2008, 44/2010 and 40/2011) defines that significant influence on the Bank's operations is exercised by those entities/persons appointing at least one representative in the Board of Directors or some similar board, either through shareholding, through agreement with the owners or otherwise. In accordance with the Law on Banks, related party transactions are presented in the following tables:

RELATED PARTY TRANSACTIONS

	December 31, 2017	December 31, 2016
<u>Assets</u>		
Loans and receivables due to Banks		
Podravska Banka d.d., Koprivnica	150	4,199
Loans and receivables due to customers		
Montinari Dario	423	399
Gorgoni Mario	9	10
Cerere s.p.a	3,147	-
	3,579	409
 <u>Investment securities – available for sale</u>		
Podravska Banka d.d., Koprivnica	2,288	2.271
	2,288	2,271
Total Assets	6,017	6,879

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

32. RELATED PARTY TRANSACTIONS (Continued)

Liabilities

Bank Deposits

Podravska Banka d.d. Koprivnica	1,906	106
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Deposits from clients

Miljan Todorović	324	286
Gorgoni Lorenzo	47	47
Cerere s.p.a.	12	3
Gorgoni Mario	210	17
Gorgoni Paolo	2	2
	595	355

Other liabilities

CERERE s.p.a.	9	28
Gorgoni Paolo	2	1
	11	29

Total liabilities

	2,512	490
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Expenses from transactions with related parties during 2017 amounted to EUR 277 thousand (2016: EUR 314 thousand), while income totalled EUR 195 thousand (2016: EUR 156 thousand).

33. LITIGATION

As at December 31, 2017 there were 21 legal suits filed against the Bank by legal entities and private individuals totalling EUR 3,568 thousand. The outcome of the pending legal suits cannot be currently anticipated with any certainty. However, the Bank's management and legal counsel do not expect negative outcome of the legal suits that could have material effects on the Bank's financial statements for the year 2017.

As at December 31, 2017 the legal suits involving the Bank as the plaintiff amounts EUR 12,268 thousand.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

34. EARNINGS PER SHARE

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

	2017	2016
Basic and diluted earnings per share		
Net profit (In 000 EUR)	3,943	3,624
Weighted average number of ordinary shares outstanding	31,305	31,305
Earnings per share / in EUR	125.95	115.76

35. SUBSEQUENT EVENTS

35.1 First-time adoption of IFRS 9 - *Financial Instruments*

In July 2014, the International Accounting Standards Board (IASB) published IFRS 9 - Financial Instruments, which will replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier application allowed. IFRS 9 Financial Instruments is based on a new approach of the classification and measurement of financial instruments. The Standard introduces new requirements regarding the classification, recognition and measurement of financial instruments, impairments, and access to risk accounting.

Classification and Measurement

The concept of IFRS 9 is based on a new approach to the classification and measurement of financial instruments that reflects the business model that manages assets and the characteristics of contractual cash flows.

Existing IAS 39 categories - held-to-maturity, loans and receivables and available-for-sale financial assets - will be abolished. In accordance with IFRS 9, financial assets will be classified into the following four categories:

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

The financial assets will be measured at amortized cost if both of the following conditions are met and the assets are not designated as FVTPL:

- The objective of the business model is the collection of contractual cash flows;
- The contract terms provide a basis for collection at specified cash flow dates, which are solely payments of principal and interest on the remaining principal.

A financial asset is classified as FVOCI if it belongs to a business model whose objectives are also the collection of contractual cash flows and the sale of financial assets; and the contractual terms of a financial asset give rise to the collection of cash flows on specified dates, whereby the cash flows relate exclusively to the principal and interest payments on the remaining portion of the principal.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

35. SUBSEQUENT EVENTS (continued)

35.1 First-time adoption of IFRS 9 - *Financial Instruments* (continued)

At the initial recognition of equity instruments that are not held for trading, the Bank may irrevocably choose the option to present subsequent changes in fair value through other comprehensive income. This choice is implemented for each individual investment in particular and is essentially applied to strategic investments that are not consolidated by the method of full consolidation.

All other financial assets means i.e. financial assets that do not meet the classification criteria that involve subsequently measured at amortized cost or FVOCI are classified as financial assets that are subsequently measured at fair value through the recognition of a change in fair value in the income statement. In addition, the Bank has the option to identify this financial asset as FVTPL when initially recognizing a financial asset, if it eliminates or significantly reduces the inconsistency in valuation and recognition - i.e. "Accounting mismatch" - which would otherwise arise from the valuation of assets and liabilities, or the recognition of gains and losses on another basis.

The financial asset will be classified into one of the above categories at initial recognition.

Business Model Assessment

The Bank will determine its business model at the level of a group of assets, which best demonstrates how the Bank manages a group of financial assets and how to inform the key management. The following will be considered as evidence when determining which business model is relevant:

- The way in which the management reports on the business model and financial assets that are within the model, its implementation, and performance model assessment,
- Risks affecting the performance of the business model (and financial assets within that business model), and in particular the manner in which these risks are managed,
- How managers are rewarded (whether compensation is based on fair value of assets or on contracted cash flows),
- Frequency, value and time of sale of financial instruments in the previous period, the reasons for such sale and the Bank's expectations of future sales.

The business model assessment is based on reasonably expected scenarios without considering the "worst-case scenario" or the "stress scenario". If the cash flows after initial recognition are realized in a manner that differs from the initial expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but includes such information when assessing newly formed or newly acquired financial assets.

Cash Flow Analysis

When the Bank determines that the business model for a particular portfolio is "held to collect" (or both the hold to collect and sale), it is necessary to assess whether the contractual terms of a financial asset give rise to the collection of cash flows at specific dates represent exclusively solely payment of principal and interest on the remaining part of the principal (the so-called SPPI criterion). This analysis will be carried out at the level of an individual instrument in the initial recognition of a financial asset. The preliminary assessment shows that there are no financial instruments of the Bank in which the SPPI criteria would be breached.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

35. SUBSEQUENT EVENTS (continued)

35.1 First-time adoption of IFRS 9 - *Financial Instruments* (continued)

Preliminary analyzes of business models and contractual cash flows in the Bank's significant portfolios were carried out with the aim of determining the financial instruments that would be measured at amortized cost, at fair value through profit and loss or at fair value through other comprehensive income. The preliminary assessment of the Bank is that the loans and receivables from banks and customers classified as loans and receivables that are measured at amortized cost in accordance with IAS 39 are generally classified and measured at amortized cost in accordance with IFRS 9, debt instruments classified as available for sale in accordance with IAS 39, will be classified and measured as FVOCI in accordance with IFRS 9 and equity instruments held by the Bank in a portfolio on the date of initial application, classified as available for sale in accordance with IAS 39, to be classified and measured as FVOCI.

Impairment Assessment

The application of IFRS 9 introduces a new impairment model and replaces the IAS 39 "incurred losses" model with the new forward looking model of expected credit losses (ECL). The new standard requires the Bank to recognize the provision for ECL for all loans and other debt financial instruments that are not classified as FVTPL, together with credit obligations and financial guarantee contracts.

ECL-based impairment is measured on a 12-month, expected credit losses basis, unless there has been a significant increase in credit risk after initial recognition. If a financial asset is defined as purchased or originated credit impaired (POCI), the impairment is determined based on the change in the ECL over the life of the financial asset.

IFRS 9 prescribes a three-tier impairment model based on changes in credit quality with respect to initial recognition:

- Stage 1: There are no significant changes in credit risk from the date of initial recognition of the financial asset (expected credit losses are estimated in the next 12 months),
- Stage 2: Significant change in credit risk with respect to initial recognition (expected credit losses are estimated in the course of their life),
- Stage 3: Impaired financial instruments (expected credit losses are estimated in the course of their life).

The Bank uses all reasonable and meaningful information on the valuation day that is available without additional significant costs and effort for its staging criteria.

Based on preliminary assessment of the Bank, the first application of IFRS 9 as at January 1, 2018 would lead to an additional impairment of approximately EUR 1.5 million.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

35. SUBSEQUENT EVENTS (continued)

35.1 First-time adoption of IFRS 9 - *Financial Instruments* (continued)

Impairment Assessment (Continued)

In terms of assessing the effects of the initial application of IFRS 9, the following should be taken into account:

- The Bank is working on developing a model for calculation of impairment losses on debt instruments classified as FVOCI;
- The presented assessment is preliminary because all the requirements of the standards have not been finalized, so that corrections are possible;
- A new standard requires the Bank to review its processes and internal controls, and these changes have not yet been fully implemented;
- The Bank has not completed the testing and evaluation of the control over the new IT system solutions. Consequently, the effects shown can be changed when the implementation is completed;
- In the coming period, the Bank will work to establish systems and controls in accordance with the new requirements;
- In the forthcoming period, the Bank will work on the development and adoption of new policies and procedures, assumptions, judgments and valuation techniques.

35.2 The Management of the Bank considers that there were no other significant events after the reporting date that could have affected the financial position and results reported in financial statements for the year ended December 31, 2017.

36. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of the statement of financial position components denominated in foreign currencies into EUR as at December 31, 2017 and 2016 were as follows:

	December 31, 2017	December 31, 2016
USD	1.1993	1.0541
CHF	1.1702	1.0739
GBP	0.8872	0.8562

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GODIŠNJI IZVJEŠTAJ MENADŽMENTA

ZA 2017. GODINU

POSLOVNE AKTIVNOSTI I ORGANIZACIONA STRUKTURA HIPOTEKARNE BANKE

O BANCI

Hipotekarna banka AD Podgorica ("Banka") pruža najširi opseg bankarskih i finansijskih proizvoda i usluga pravnim i fizičkim licima u Crnoj Gori, u skladu sa izdatim dozvolama nadležnih institucija.

Uslovi za osnivanje i poslovanje banaka u Crnoj Gori su regulisani Zakonom o bankama i Zakonom o privrednim društvima, kao i podzakonskim aktima Centralne banke Crne Gore.

Pružanje usluga na tržištu hartija od vrijednosti, koje Banka obavlja, uređeno je Zakonom o hartijama od vrijednosti i podzakonskim aktima Komisije za hartije od vrijednosti (od 2018.godine, Komisije za tržište kapitala). Banka obavlja i poslove platnog prometa, koji su uređeni Zakonom o platnom prometu, uključujući i pripadajuće podzakonske akte Centralne banke Crne Gore.

Banka obavlja i poslove zastupanja u osiguranju, koji su uređeni Zakonom o osiguranju i relevantnim podzakonskim aktom Agencije za nadzor osiguranja.

Banka podliježe kontroli i nadzoru Centralne banke Crne Gore, Komisije za hartije od vrijednosti i Agencije za nadzor osiguranja.

Na 31.12.2017. godine, ukupan broj zaposlenih, radno angažovanih, u Banci je 172, od čega je 76% visokoobrazovanih.

KORPORATIVNO UPRAVLJANJE I PRAVILA KORPORATIVNOG UPRAVLJANJA

Skupštinu Banke čine njeni akcionari.

U skladu sa članom 15b Zakona o preuzimanju akcionarskih društava:

1) Struktura kapitala Banke:

- Akcijski kapital Banke iznosi 16.005.933,45 EUR, a čini ga 31.305 komada običnih akcija koje glase na ime;
- Nominalna vrijednost jedne akcije iznosi EUR 511,29;
- Akcije su dematerijalizovane, neograničeno prenosive i glase na ime. Izvod iz registra kod Centralne Depozitarne Agencije AD Podgorica je jedini dokaz o vlasništvu nad akcijama;

Akcionar Banke, koji je vlasnik običnih akcija, ima slijedeća prava:

1. pravo da prisustvuje sjedici skupštine akcionara,
2. pravo upravljanja srazmjerno učešću u kapitalu ove klase akcija,
3. pravo raspolaganja akcijama, saglasno pozitivnim propisima,
4. pravo preče kupovine akcija novih emisija,
5. pravo na besplatne akcije u slučaju povećanja akcijskog kapitala iz sredstava Banke, srazmjerno svom ulogu,
6. pravo na dividendu, nakon raspodjele vlasnicima povlašćenih akcija, kada Skupština Banke odluči da se dividenda isplaćuje,
7. pravo dostave, na lični zahtjev, kopije bilansa stanja i bilansa uspijeha, kao i izvještaja spoljnjeg revizora,
8. pravo uvida, trideset dana prije održavanja Skupštine akcionara, kao i na samoj Skupštini, u finansijske izvještaje uključujući i izvještaje spoljnjeg revizora,
9. pravo na srazmjeran dio imovine u slučaju likvidacije Banke i druga prava, saglasno pozitivnim propisima.

2) Ne postoje ograničenja prenosa akcija odnosno hartija od vrijednosti;

3) Značajno direktno i indirektno učešće u kapitalu:

Generali Financial Holdings FCP-Sif	16.8695 %
Cerere S.P.A. - Italija	13.9275 %
Lorenzo Gorgoni - Italija	12.9788 %
Antonia Gorgoni –Italija	10.0016 %
Miljan Todorović - Italija	7.3982 %
Podravska Banka Dd - Hrvatska	6.5389 %
Ibis Srl - Italija	4.8682 %
Dario Montinari - Italija	4.6159 %
Sigilfredo Montinari - Italija	4.6159 %
Piero Montinari - Italija	4.6127 %
Andrea Montinari - Italija	4.6127 %

- 4) Ne postoje hartije od vrijednosti koje daju posebna kontrolna prava;
- 5) Na sticanje akcija od strane zaposlenih, primjenjuju se pozitivni zakonski i drugi propisi;
- 6) Ne postoje ograničenja prava glasa, kao što su, ograničenja prava glasa vlasnika određenog procenta hartija od vrijednosti ili određenog broja akcija, rokovima za ostvarivanje prava glasa i sl.;
- 7) Ne postoji sporazum između akcionara sa kojima je emitent upoznat i koja mogu imati za posljedicu ograničenja prenosa hartije od vrijednosti i/ili glasačkih prava;
- 8) Način imenovanja i razrješenja članova Odbora direktora definisan je pozitivnim zakonskim i drugim propisima;
- 9) Ovlašćenja članova odbora direktora, definisana su pozitivnim zakonskim i drugim propisima;
- 10) Ne postoje značajni sporazumi u kojima je emitent ugovorna strana i koji proizvode pravno dejstvo, mijenjaju se ili okončavaju nakon preuzimanja emitenta po sprovođenju javne ponude za preuzimanje i njihovim pravnim dejstvima, osim ako su sporazumi po svojoj prirodi takvi da bi njihovo objavljivanje imalo značajne štetne posljedice po emitenta, pod uslovom da emitent nije izričito obavezan da objavi te podatke u skladu sa zakonom;
- 11) Izvršni direktori i pojedini direktori organizacionih dijelova Banke, imaju ugovorne klauzule o kojima se ugovara plaćanje nadoknade prestanka mandata, u visini od 6 (šest) do 12 (dvanaest) mjesečnih neto zarada.

Odbor direktora Banke upravlja Bankom. Članove Odbora direktora bira i imenuje Skupština akcionara. Struktura Odbora Direktora i njegovih tijela:

1.1. Odbor direktora Banke:

- Sigilfredo Montinari, predsjednik
- Božana Kovačević, zamjenik predsjednika
- Renata Vinković, član
- Goran Varat, član
- Esad Zaimović, član

1.2. Odbor za reviziju Banke:

- Draško Popović, predsjednik
- Božana Kovačević, član
- Marko Žigmund, član do 01.11.2017. godine
- Goran Knežević, član od 02.11.2017. godine

1.3. Odbor za upravljanje kreditnim rizikom Banke:

- Renata Vinković, predsjednik
- Sigilfredo Montinari, član
- Esad Zaimović, član

Odbor direktora Banke održava sjednice, po potrebi, a najmanje jednom mjesečno.

Tokom 2017. godine, Odbor direktora Banke je odlučivao o pitanjima iz svoje nadležnosti, te u kontinuitetu nadzirao poslovanje Banke, periodičnim razmatranjem izvještaja o finansijskom stanju i poslovanju. Takođe, redovno su razmatrani izvještaji stalnih i povremenih tijela Banke, kontrolnih funkcija, kao i o funkcionisanju sistema internih kontrola.

Odbor direktora Banke je razmatrao i izvještaje o obavljenim kontrolama Centralne banke Crne Gore, kao i izvještaje drugih nadzornih institucija.

Izvršni direktori organizuju i vode poslovanje Banke i vrše nadzor nad radom zaposlenih u Banci, na dnevnoj osnovi. Banka ima dva izvršna direktora.

Izvršni direktori Banke:

- Esad Zaimović, glavni izvršni direktor
- Aleksandar Mitrović, izvršni direktor za poslove podrške poslovanju, do 16.06.2017.godine
- Božo Djurašković, izvršni direktor za poslove podrške poslovanju, od 17.06.2017.godine

PRAVILA KORPORATIVNOG UPRAVLJANJA

Skupština akcionara Banke

Akcionari Banke ostvaruju svoja prava na Skupštini akcionara Banke.

Skupština akcionara Banke odlučuje o pitanjima koja su propisana Zakonom o bankama, Zakonom o privrednim društvima i Statutom Banke.

Odbor direktora Banke saziva Skupštinu akcionara, a pravo sazivanja imaju i akcionari s najmanje 5% učešća u akcionarskom kapitalu Banke, saglasno Zakonu o privrednim društvima i Statutu Banke.

Sazivanje Skupštine akcionara Banke, postupanje na Skupštini, kvorum, donošenje odluka i druga pitanja od značaja za rad Skupštine akcionara, utvrđuju se Zakonom o privrednim društvima, Statutom i internim aktima Banke.

Odbor direktora i izvršni direktori

Obaveze i odgovornosti članova Odbora direktora Banke i Izvršnih direktora Banke utvrđeni su Zakonom o bankama, Zakonom o privrednim društvima i Statutom Banke.

Postupak imenovanja i razrješenja, odnosno opoziva članova Odbora direktora Banke i Izvršnih direktora Banke utvrđeni su Zakonom o bankama, Zakonom o privrednim društvima i Statutom Banke.

Odbor direktora

U skladu sa zakonskim propisima i Statutom Banke, Odbor direktora upravlja Bankom i vrši nadzor nad njenim poslovanjem.

Članove Odbora direktora Banke bira Skupština akcionara, uz prethodno izdato odobrenje Centralne banke Crne Gore. Mandat članovima Odbora direktora Banke traje 4 godine i mogu biti ponovo birani. Članovi Odbora direktora Banke moraju ispunjavati uslove, propisane Zakonom o bankama, Zakonom o privrednim društvima, relevantnom Odlukom Centralne banke Crne Gore i internim aktima Banke. Ispunjenost propisanih uslova i lični ugled članova Odbora direktora treba da obezbijedi stručno, zakonito, sigurno i stabilno upravljanje poslovanjem Banke, budući da su zajednički odgovorni za uspostavljanje sistema upravljanja rizicima, usklađenost poslovanja Banke sa propisima, finansijsku stabilnost Banke i tačnost izvještavanja.

Odbor direktora Banke, pored Odbora za reviziju, ima formirane i sljedeća tijela: Odbor za upravljanje aktivom i pasivom, Odbor za upravljanje kreditnim rizikom i Investicioni Komitet. Članovi navedenih odbora/tijela imaju u svom sastavu i člana Odbora direktora.

Izvršni direktori Banke

U skladu sa zakonskim propisima i Statutom Banke, izvršni direktori organizuju i vode poslovanje Banke i vrše nadzor nad radom zaposlenih u Banci, na dnevnoj osnovi.

Banka, saglasno odredbama Statuta Banke, ima najmanje dva a najviše pet izvršnih direktora, od kojih je jedan glavni izvršni direktor.

Izvršne direktore Banke, uz prethodno izdato odobrenje Centralne banke Crne Gore, bira Odbor direktora Banke. Izvršni direktori Banke moraju ispunjavati uslove, propisane Zakonom o bankama, Zakonom o privrednim društvima, relevantnom Odlukom Centralne banke Crne Gore i internim aktima Banke. Budući da Izvršni direktori Banke vode poslove Banke, na dnevnoj osnovi, odgovorni su i za upravljanje rizicima kojima je Banka izložena u poslovanju. Prilikom preduzimanja pravnih radnji u ime i za račun Banke, glavni izvršni direktor mora obezbijediti potpis još jednog izvršnog direktora.

Izvršni direktori Banke su zaposleni u Banci sa punim radnim vremenom.

IZJAVA O PRIMJENI KODEKSA KORPORATIVNOG UPRAVLJANJA

U skladu sa odredbama člana 14. Zakona o računovodstvu, izvršni direktori Banke izjavljaju da se u Banci primjenjuju kodeksi poslovnog ponašanja relevantnih organizacija čiji je član Banka (Udruženje banaka Crne Gore, Privredna komora Crne Gore, Unija poslodavaca Crne Gore), a objavljeni su na web stranama istih.

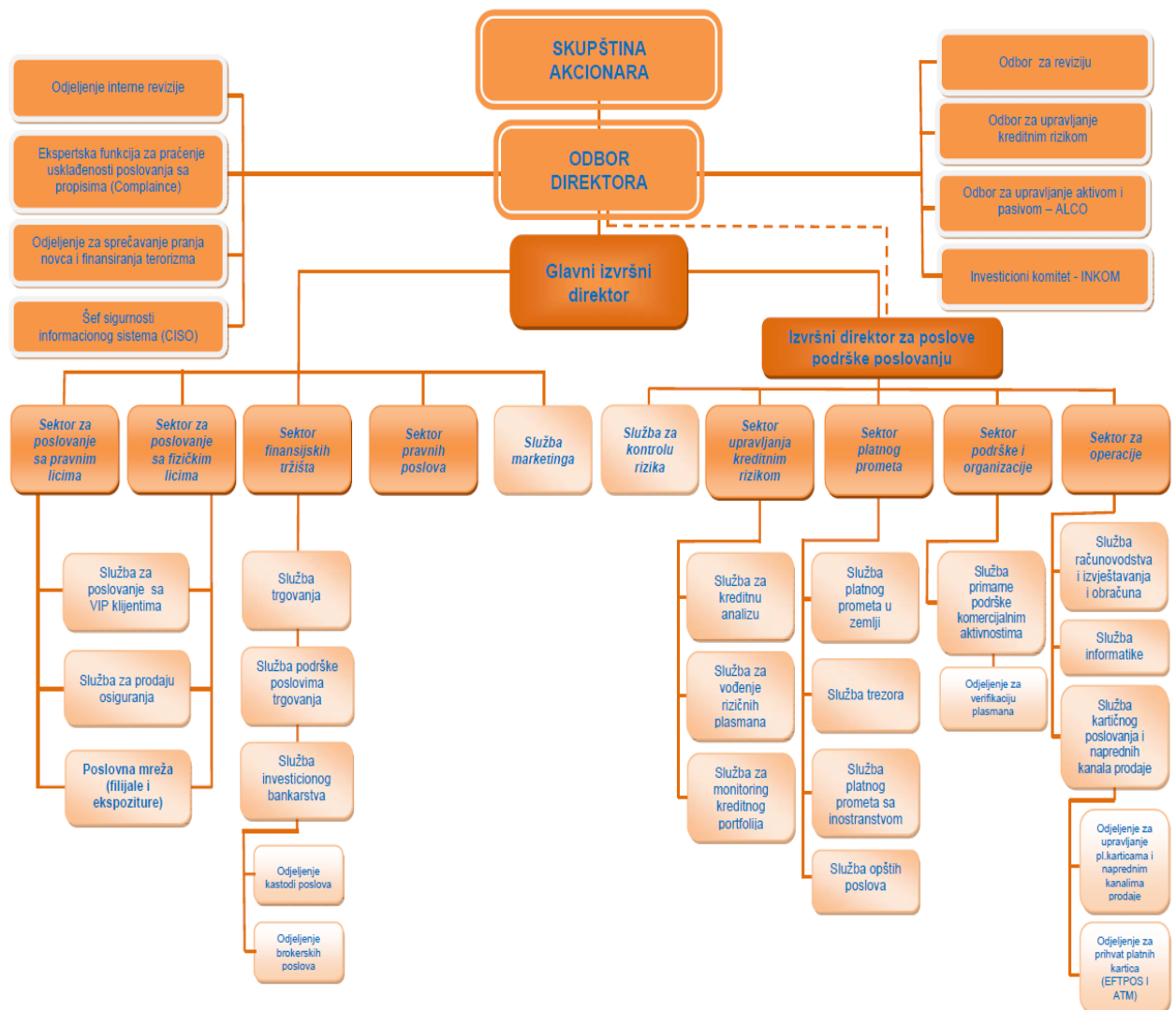
Izvršni direktori Banke izjavljaju da primjenjuju Kodeks korporativnog upravljanja u Crnoj Gori - Kodeks, koji je usvojio Odbor direktora Montenegroberze AD Podgorica, 2009.

Budući da Kodeks sadrži skup pravila i principa za unapredjenje prakse korporativnog upravljanja, da je namijenjen akcionarskim društvima čije su akcije uključene na berzansku kotaciju, kao i da se implementacija Kodeksa zasniva na principu "primijeni ili objasni", to su u nastavku sljedeća objašnjenja vezano za "sprječavanje i rješavanje korporativnih sukoba" i "politiku izvještavanja":

- 1) Statutom Banke je uređeno rješavanje sukoba interesa članova Odbora direktora. Kako Odbor direktora Banke upravlja Bankom, to, po analogiji, u njegovoj nadležnosti treba da bude i rješavanje pitanja eventualnih sukoba koji mogu nastati između akcionara i Banke. Prethodno, naročito, iz razloga što je Odbor direktora Banke odgovoran za obezbjeđivanje poslovanja Banke, saglasno zakonu, drugim propisima i internim aktima Banke, pa, samim tim, i za svođenje štetnih posljedica po Banku na najmanju mjeru, a koje mogu nastati i iz odnosa Banke i njenih akcionara. Niti jedan akcionar Banke do sada nije bio u sukobu sa Bankom, niti je podnosio tužbu protiv Banke;
- 2) U pogledu transparentnosti poslovanja – politike izvještavanja, Banka nije usvojila jedinstvenu politiku izvještavanja, jer se brojnim aktima Banke reguliše pitanje izvještavanja, odgovorna lica za pripremu izvještaja, sadržaj i rokovi izvještavanja. Shodno prethodnom:
 - Zbog značaja blagovremenog i tačnog izvještavanja o finansijskom stanju i poslovanju Banke, najvišim pravnim aktom Banke - Statutom Banke su uspostavljeni opšti principi i pravila izvještavanja regulatora/supervizora, akcionara, uključujući javno objelodanjivanje kvantitavnih i kvalitativnih podataka o finansijskom stanju i poslovanju Banke, koje su od značaja za informisanje javnosti. Takođe, Statutom Banke je određeno da je Odbor direktora Banke odgovoran za tačnost svih izvještaja, koji se javno objavljuju, dostavljaju akcionarima i Centralnoj banci Crne Gore.
 - Politikama i procedurama poslovnih područja Banke su precizno definisana pravila izvještavanja o pitanjima iz djelokruga tih područja, ne samo prema Odboru direktora i akcionarima, već i prema regulatornim organima/institucijama.

Informacije iz člana 14. tačka 4) - 5) Zakona o računovodstvu sadržane su u odjeljcima UPRAVLJANJE RIZICIMA i KORPORATIVNO UPRAVLJANJE I PRAVILA KORPORATIVNOG UPRAVLJANJA.

ORGANIZACIONA ŠEMA BANKE



UKOVODSTVO BANKE

IZVRŠNI DIREKTORI	Esad Zaimović, glavni izvršni direktor Aleksandar Mitrović, izvršni direktor za poslove podrške poslovanju do 16.06.2017.godine Božo Djurašković, izvršni direktor za poslove podrške poslovanju, od 17.06.2017.godine
ODJELJENJE INTERNE REVIZIJE	Veselin Ivanović
EKSPERTSKA FUNKCIJA ZA PRAĆENJE USKLAĐENOSTI POSLOVANJA SA PROPISIMA (COMPLIANCE)	Danka Dragičević
ODJELJENJE ZA SPREČAVANJE PRANJA NOVCA I FINANSIRANJA TERORIZMA	Mirjana Jovanović
ŠEF SIGURNOSTI INFORMACIONOG SISTEMA(CISO)	Haris Dizdarević
SEKTORI	Ana Golubović, direktor sektora za poslovanje sa pravnim licima Nikola Špadijer, direktor sektora za poslovanje sa fizičkim licima Mirza Vodopić, direktor sektora finansijskih tržišta Jelena Vuletić, direktor sektora za upravljanje kreditnim rizikom Nataša Lakić, direktor sektora platnog prometa Nikola Milović, direktor sektora podrške i organizacije
SAMOSTALNE SLUŽBE	Ana Ristić, direktor službe marketinga Goran Smolović, direktor službe za kontrolu rizika

RAZVOJ, FINANSIJSKI POLOŽAJ I REZULTATI POSLOVANJA BANKE

POSLOVNE OPERACIJE

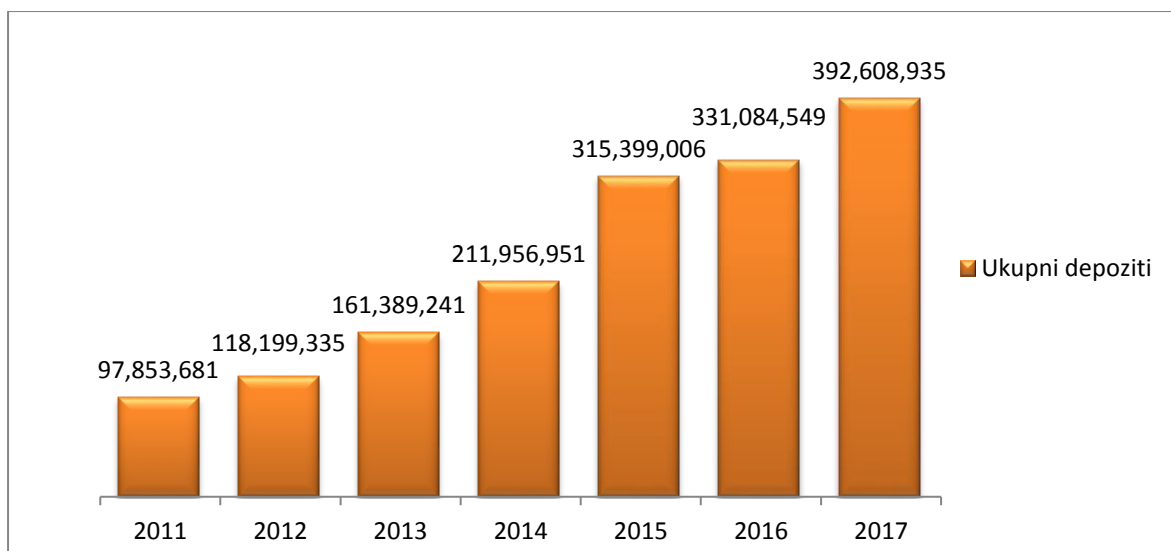
DEPOZITI

U 2017. godini je, u odnosu na 2016.godinu, ostvaren rast depozita od 18,58%, što pokazuje da je povjerenje građana i privrede, i pored visokog nivoa depozita i u prethodnoj godini, u Banku značajno raslo i u 2017. godini, kao i prethodnih godina. Pored stabilnog nivoa svih vrsta depozita, posebno je značajan rast depozita po viđenju koji je iznosio 36,70%.

Banka je održala adekvatnu strukturu depozita sa aspekta učešća oročenih i depozita po viđenju u ukupnim depozitima.

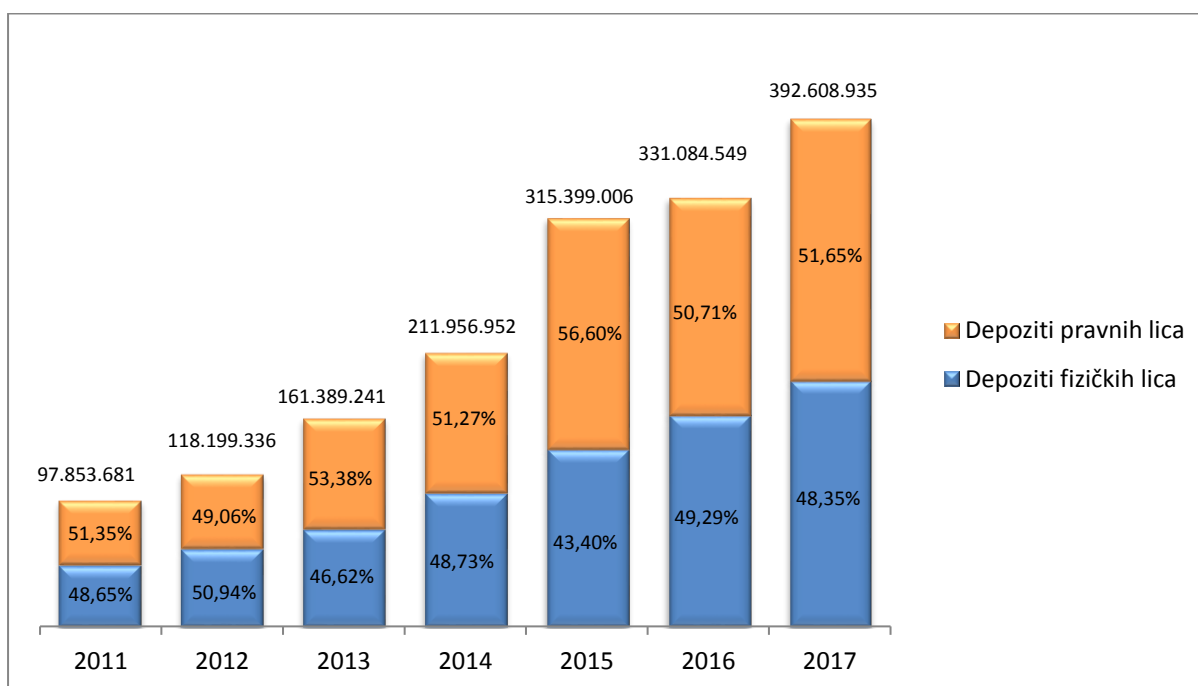
Stanje ukupnih depozita

	Ukupni depoziti	% promjene
2011	97,853,681	15.00%
2012	118,199,335	20.79%
2013	161,389,241	36.54%
2014	211,956,951	31.33%
2015	315,399,006	48.80%
2016	331,084,549	4.97%
2017	392,608,935	18.58%



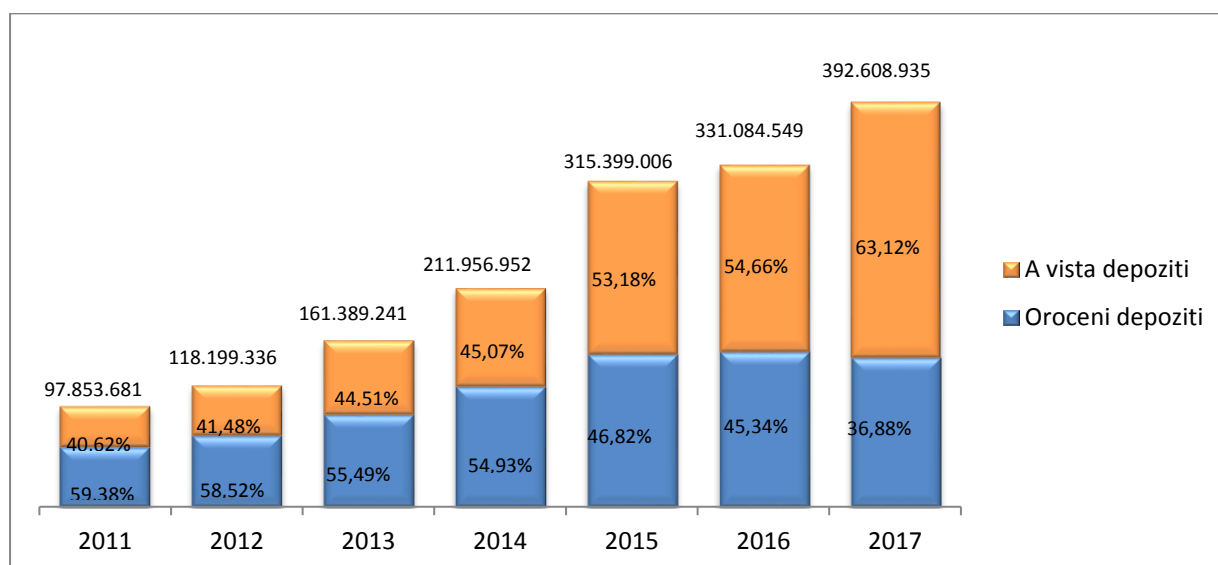
Navedeni porast depozita je rezultat rasta broja klijenata, kao i porasta povjerenja u Banku. Zahvaljujući svim atributima koji karakterišu Banku, a to su prije svega sigurnost, profesionalnost i kvalitet ponude, prepoznati smo kao banka kojoj treba ukazati povjerenje, čime smo nastavili pozitivan trend porasta depozita.

U ukupnim depozitima, učešće depozita pravnih lica je bilo 51,65% dok je učešće depozita fizičkih lica bilo 48,35%, što je prikazano na sledećem grafiku:



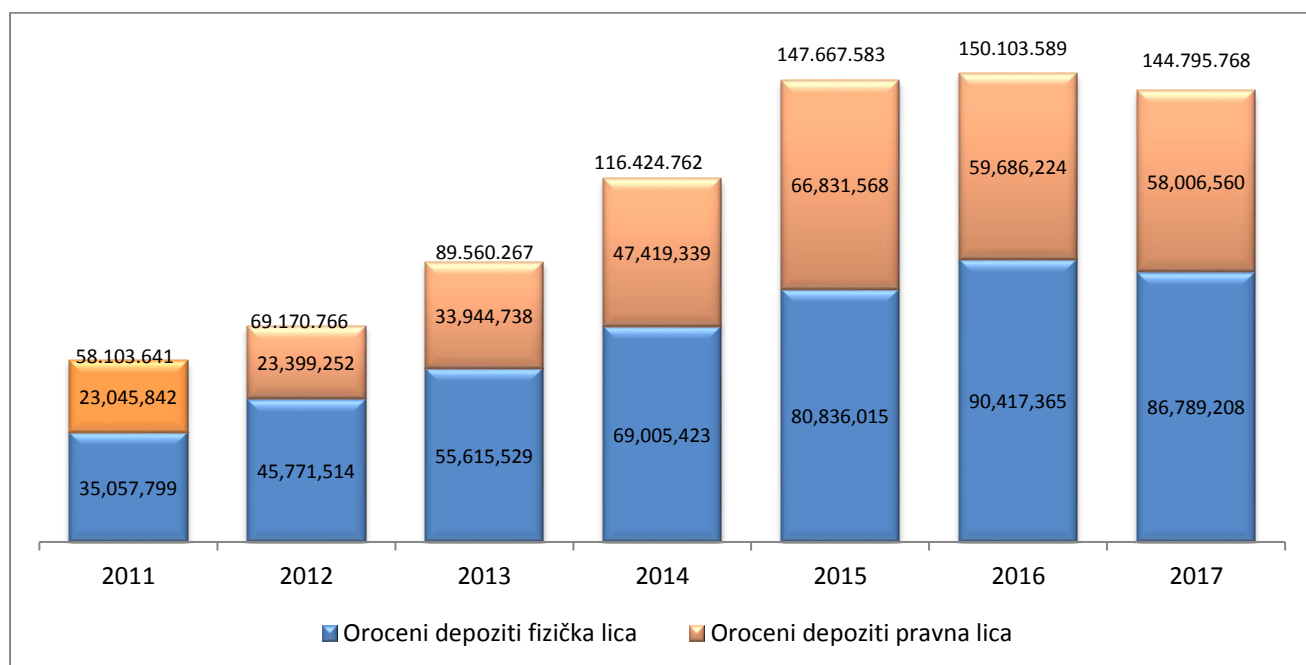
učešće u depozitima	2011	2012	2013	2014	2015	2016	2017
Depoziti fizičkih lica	47,604,421	60,204,983	75,236,948	103,276,531	136,890,858	163,175,605	189,810,140
Depoziti pravnih lica	50,249,260	57,994,353	86,152,293	108,680,421	178,508,148	167,908,944	202,798,795
Ukupno	97,853,681	118,199,336	161,389,241	211,956,952	315,399,006	331,084,549	392,608,935

Učešće oročenih depozita u ukupnim depozitima iznosi 36,88%, dok su *a vista* depoziti zastupljeni sa 63,12%.

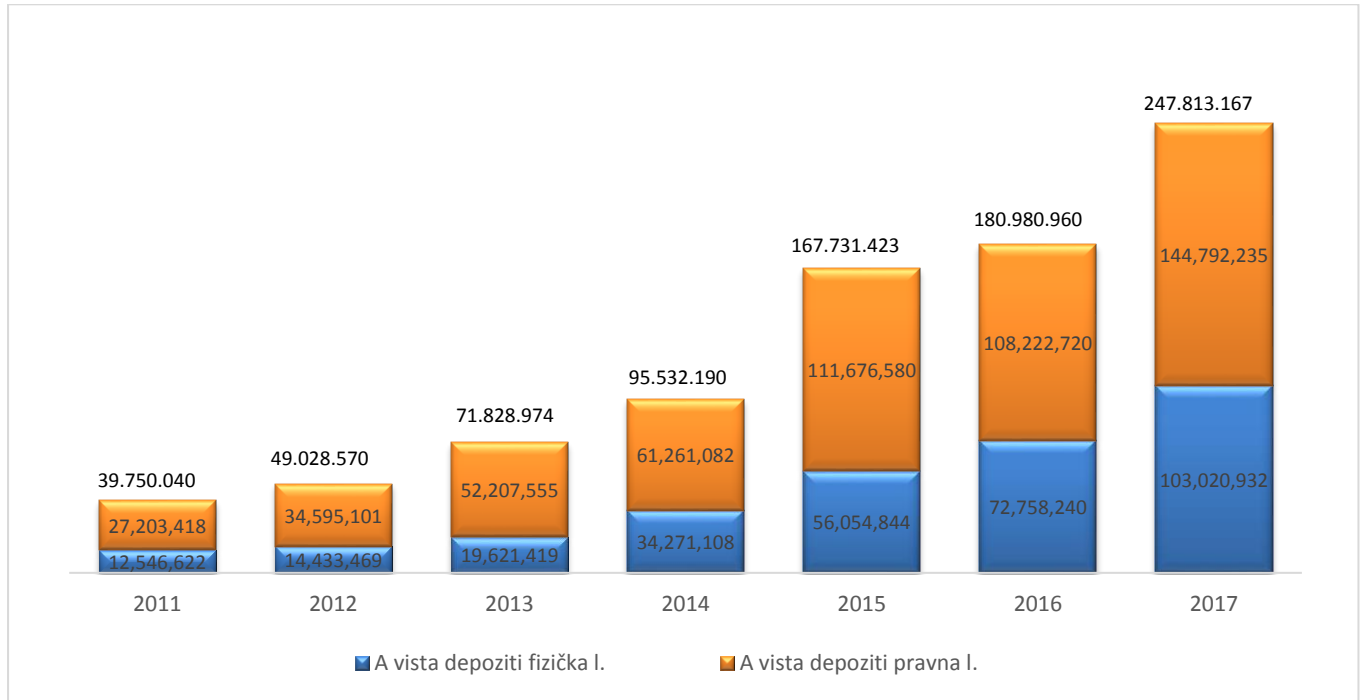


	2011	2012	2013	2014	2015	2016	2017
Oroceni depoziti	58,103,641	69,170,766	89,560,267	116,424,762	147,667,583	150,103,589	144,795,768
A vista depoziti	39,750,040	49,028,570	71,828,974	95,532,190	167,731,423	180,980,960	247,813,167
Ukupno	97,853,681	118,199,336	161,389,241	211,956,952	315,399,006	331,084,549	392,608,935

Slijedeći trend ukupnih depozita, i oročeni i depoziti po viđenju su u 2017. godini, zabilježili rast ili stabilan nivo u odnosu na 2016. godinu, što je prikazano na graficima ispod:



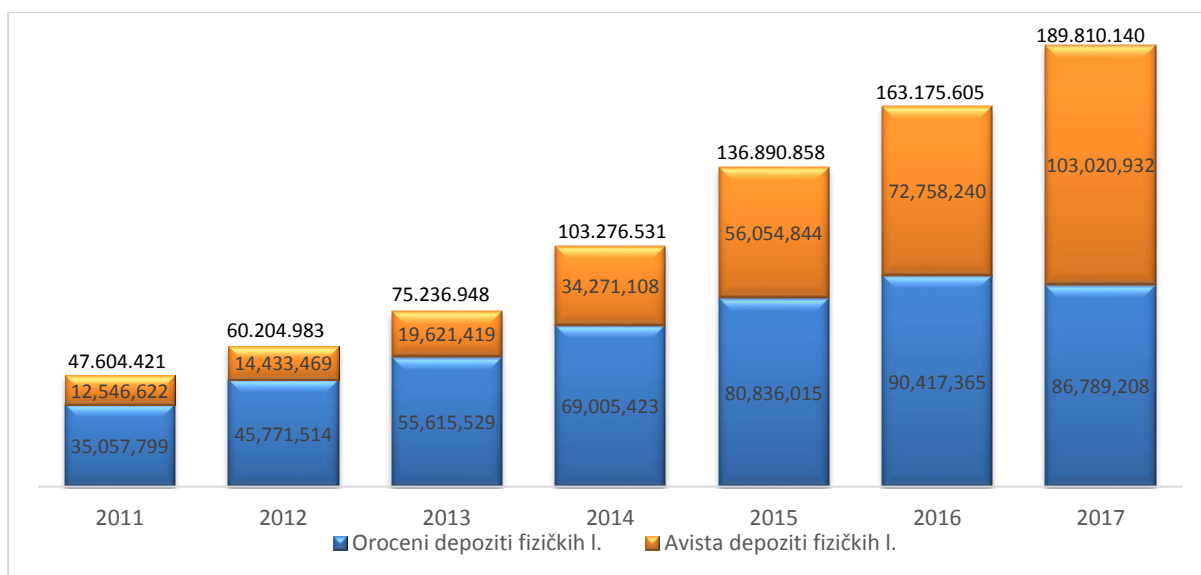
	2011	2012	2013	2014	2015	2016	2017
Oročeni depoziti fizička lica	35,057,799	45,771,514	55,615,529	69,005,423	80,836,015	90,417,365	86,789,208
Oročeni depoziti pravna lica	23,045,842	23,399,252	33,944,738	47,419,339	66,831,568	59,686,224	58,006,560
Ukupno	58,103,641	69,170,766	89,560,267	116,424,762	147,667,583	150,103,589	144,795,768



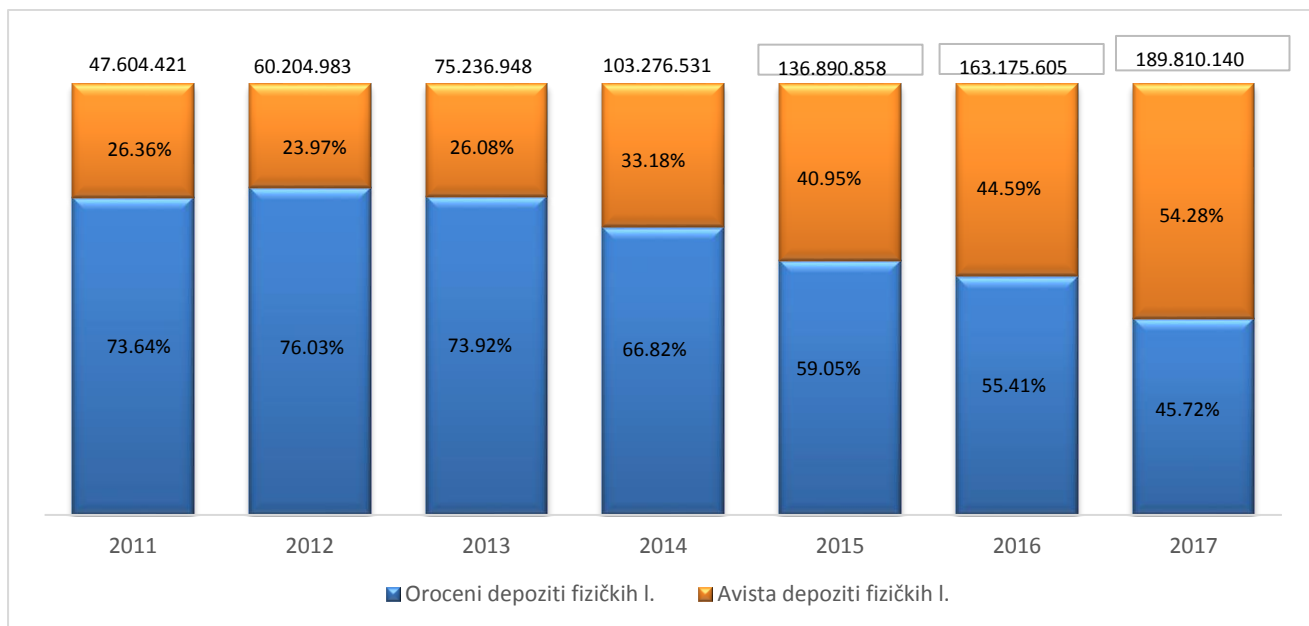
	2011	2012	2013	2014	2015	2016	2017
A vista depoziti fizička lica	12,546,622	14,433,469	19,621,419	34,271,108	56,054,844	72,758,240	103,020,932
A vista depoziti pravna lica	27,203,418	34,595,101	52,207,555	61,261,082	111,676,580	108,222,720	144,792,235
Ukupno	39,750,040	49,028,570	71,828,974	95,532,190	167,731,423	180,980,960	247,813,167

Depoziti fizičkih lica

Ukupni depoziti **fizičkih lica** su na kraju 2017. godine bilježili rast od 16,32% u odnosu na 2016. godinu. Rast a vista depozita iznosio je čak 41,59%.

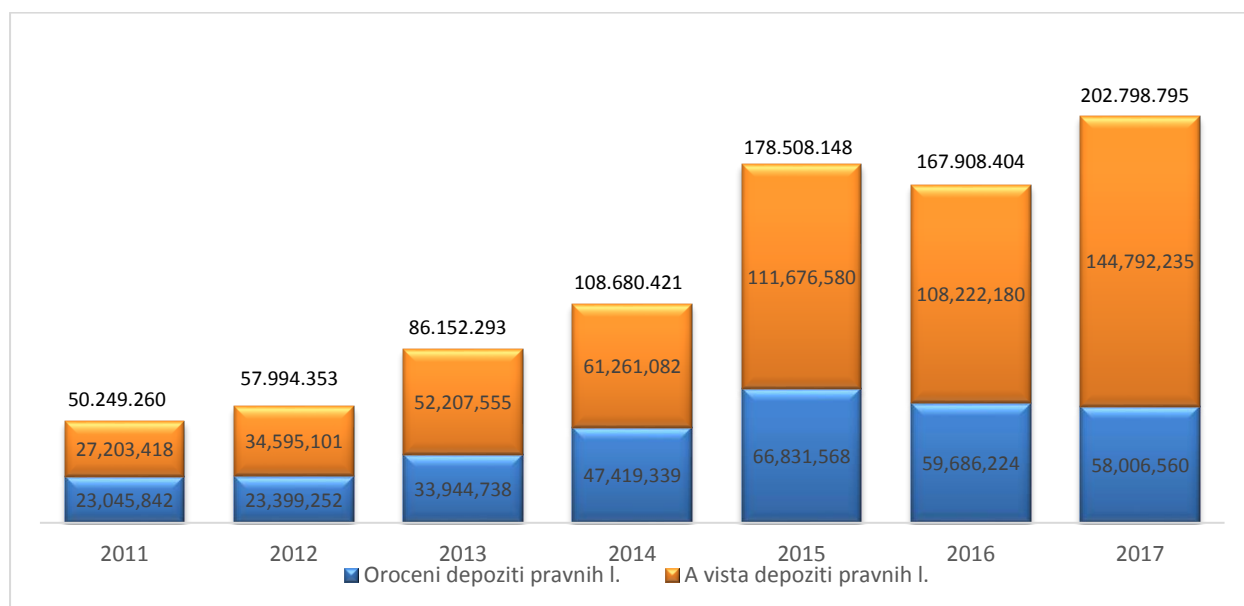


U ukupnoj strukturi depozita fizičkih lica, učešće oročenih depozita je iznosilo 45,72%, dok su a vista depoziti učestvovali sa 54,28%.



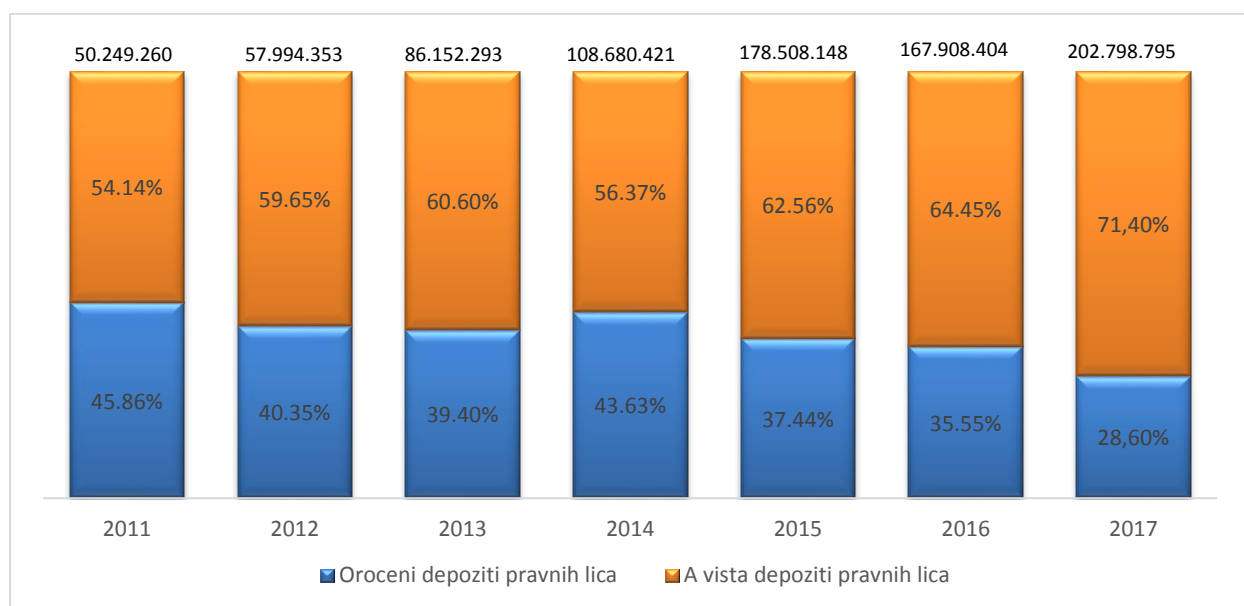
Depoziti pravnih lica

Ukupna štednja pravnih lica na 31.12.2017.godine je iznosila 202.798.795€, što je rast od 20,78% u odnosu na 2016. godinu. Na grafiku je prikazana njihova struktura po osnovu vrste depozita:



	2011	2012	2013	2014	2015	2016	2017
Oroćeni depoziti pravnih lica	23,045,842	23,399,252	33,944,738	47,419,339	66,831,568	59,686,224	58,006,560
A vista depoziti pravnih lica	27,203,418	34,595,101	52,207,555	61,261,082	111,676,580	108,222,180	144,792,235
UKUPNO	50,249,260	57,994,353	86,152,293	108,680,421	178,508,148	167,908,404	202,798,795

U ukupnoj strukturi depozita pravnih lica, učešće oroćenih depozita je iznosilo 28,60%, dok su a vista depoziti učestvovali sa 71,40%.



PLASMANI

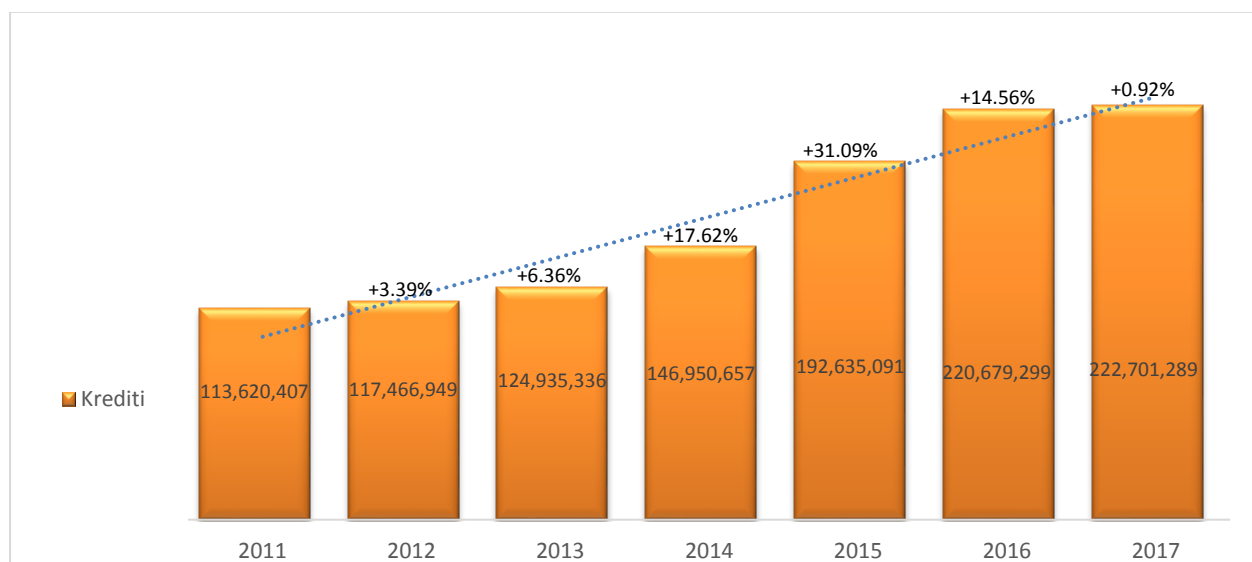
Kao i prethodnih godina, i u 2017. godini, Banka je odobrila plasmane velikom broju novih klijenata. Kontinuirana podrška i dalji razvoj postojećih klijenata, je imeprativ Banke i ključni fokus zaposlenih je uvijek na anticipiranju potreba, optimizaciji strukturiranja aranžmana i tarifa za postojeće klijente.

Jedna od prepoznatljivih karakteristika Banke je što klijentima, osim odobravanja plasmana istovremeno pruža savjetodavne usluge, a sve u cilju unaprijeđenja poslovanja i ostvarivanja boljih poslovnih rezultata kako Banke tako i njenih klijenata.

I pored konzervativne politike koju Banka već tradicionalno vodi pri odobravanju kredita, ukupan iznos kreditnog portfolija se u odnosu na prethodnu godinu povećao za 0,92%.

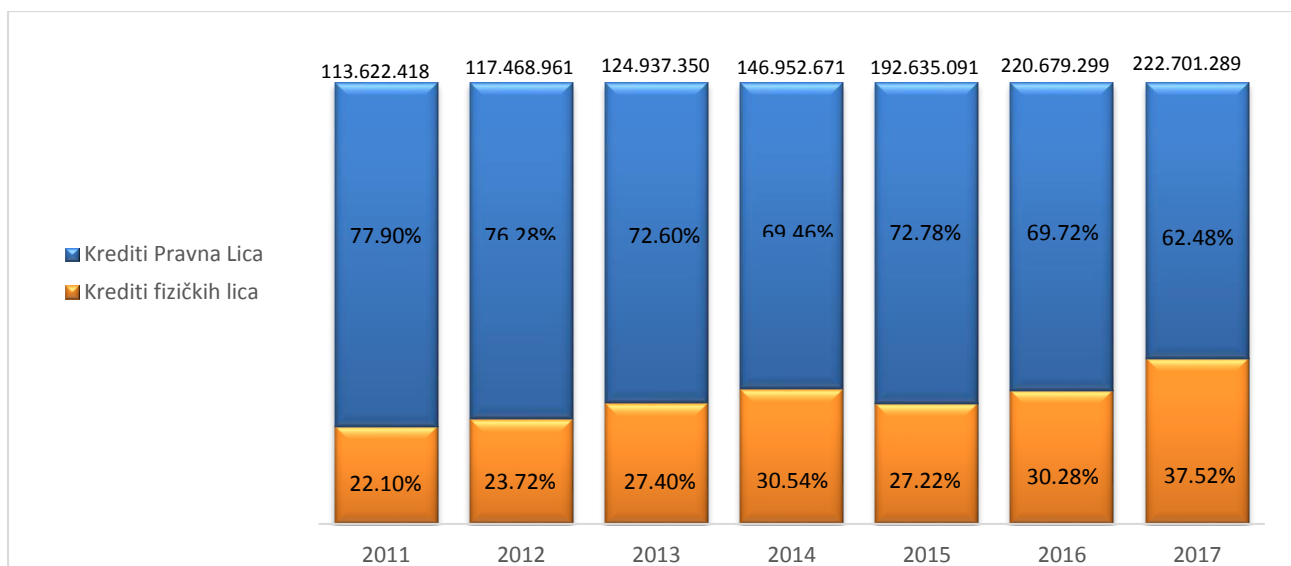
Rast kreditnog portfolija fizičkih lica je iznosio 25,03%.

	Kredit	Promjena u %
2011	113,620,407	0.00%
2012	117,466,949	3.39%
2013	124,935,336	6.36%
2014	146,950,657	17.62%
2015	192,635,091	31.09%
2016	220,679,299	14.56%
2017	222,701,289	0.92%

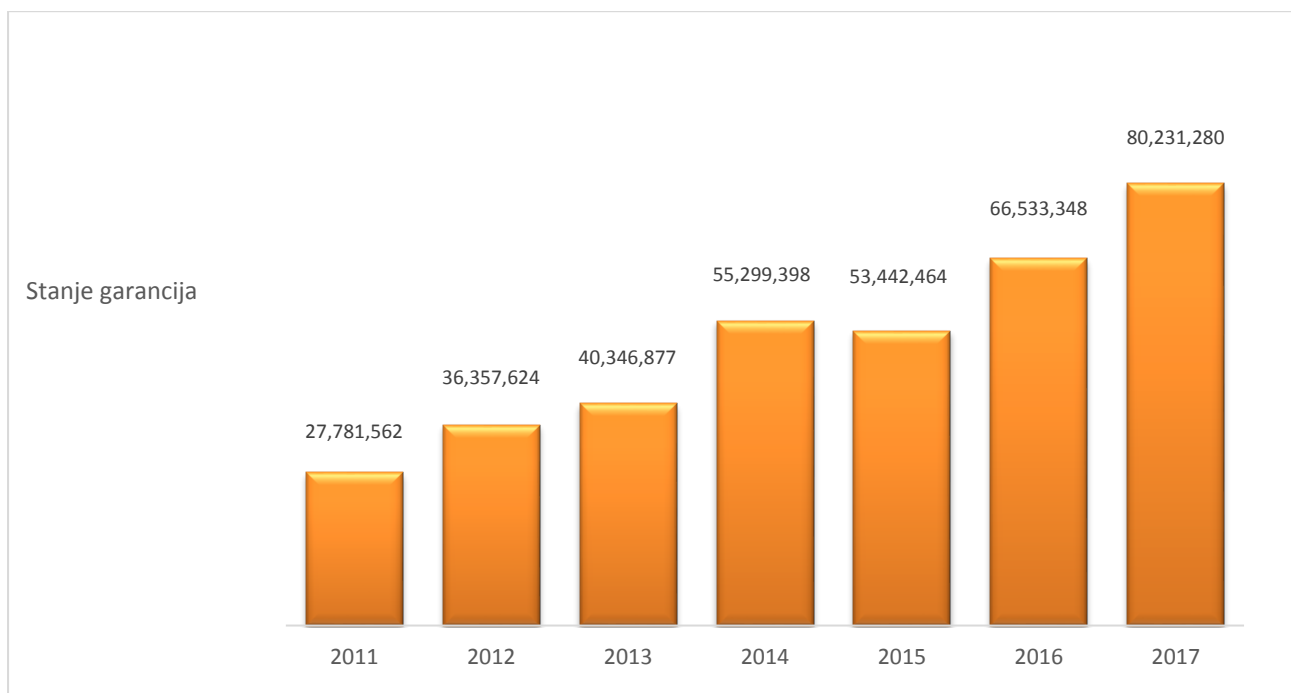


	2011	2012	2013	2014	2015	2016	2017
Kredit							
fizičkih lica	25,110,235	27,867,176	34,227,877	44,875,954	52,436,433	66,825,085	83,550,069
pravna lica	88,510,172	89,599,773	90,707,460	102,074,703	140,198,658	153,854,215	139,151,220
Ukupno	113,620,407	117,466,949	124,935,336	146,950,657	192,635,091	220,679,299	222,701,289

U strukturi ukupnih kredita, krediti stanovništvu čine 37,52%, dok je udio kredita pravnih lica 62,48% ukupnog kreditnog portfolija.



Prikaz stanja garancija u 2017. godini:



Ukupno stanje garancija se u odnosu na prethodnu godinu povećalo za 20,59%.

	2011	2012	2013	2014	2015	2016	2017
Stanje garancija	27,781,562	36,357,624	40,346,877	55,299,398	53,442,464	66,533,348	80,231,280

Banka je nastavila uspješnu saradnju i sa Investiciono razvojnim fondom (IRF) na polju plasiranja kredita pod povoljnim uslovima.

Takođe, vođeni su razgovori sa renomiranim inostranim investitorima (EBRD, EFSA i sl.) sa ciljem pronalaženja izvora i programa kreditne podrške adekvatnih za potrebe naših klijenata.

U svojoj ponudi za pravna lica, Banka ima gotovinske kredite, revolving kredite, kredite za plaćanje obaveza dobavljačima, za kupovinu automobila, za refinansiranje obaveza kod drugih banaka, za finansiranje izvoznih potraživanja, za kupovinu opreme, za adaptaciju poslovnih prostora, za pripremu turističke sezone, overdraft kredite, faktoring, kao i sve vrste garancija.

Banka, takođe, nudi širok spektar kredita za stanovništvo: gotovinske, namjenske, studentske, kredite za kupovinu automobila, za adaptaciju i izgradnju, za pomorce, za razvoj turizma, poljoprivredne kredite, overdraft kredite, limite za kupovinu na rate i dr., kao i sve vrste garancija.

RAZVOJ NOVIH PROIZVODA I USLUGA

Banka je i u 2017. godini održala očekivani kontinuitet u lansiranju inovativnih proizvoda, kako iz savremenog seta bankarskih usluga, tako i na polju tradicionalnih kreditnih proizvoda.

Istakli bi:

Mastercard Premium Gift karticu, prvu karticu na tržištu Crne Gore:

- bez papirologije, bez računa u Banci;
- popusti na preko 1200 lokacija u Crnoj Gori, kod partnera Premium programa;
- za plaćanje u zemlji i inostranstvu, na svim prodajnim mjestima koje imaju oznaku Mastercard;
- idealna za plaćanje na internetu;
- idealan poklon za porodicu i prijatelje.

Super platna kartica:

- Pripada grupi Platinum MasterCard kartica;
- Co brand Contactless platna kartica;
- Period važenja: 3 godine;
- Održavanje kartice: prvih 6 mjeseci bez članarine;
- Plaćanje na POS terminalima i putem interneta,
- Podizanje gotovine na POS terminalima i bankomatima.

PLATNI PROMET

Cjelokupan platni promet Banke u 2017. godini karakteriše rast svih parametara koji definišu poslovanje ovog segmenta Banke. Svi prethodno postavljeni planovi u platnom prometu su postignuti, što pokazuje koliko je Banka bila uspješna i efikasna tokom prethodne godine.

Domaći platni promet

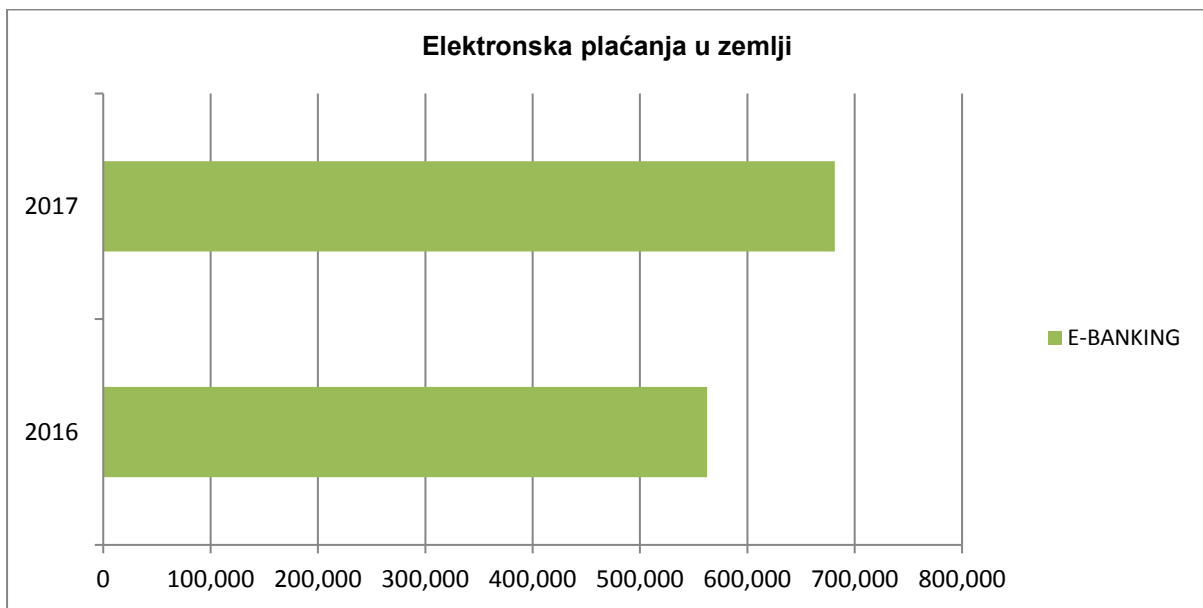
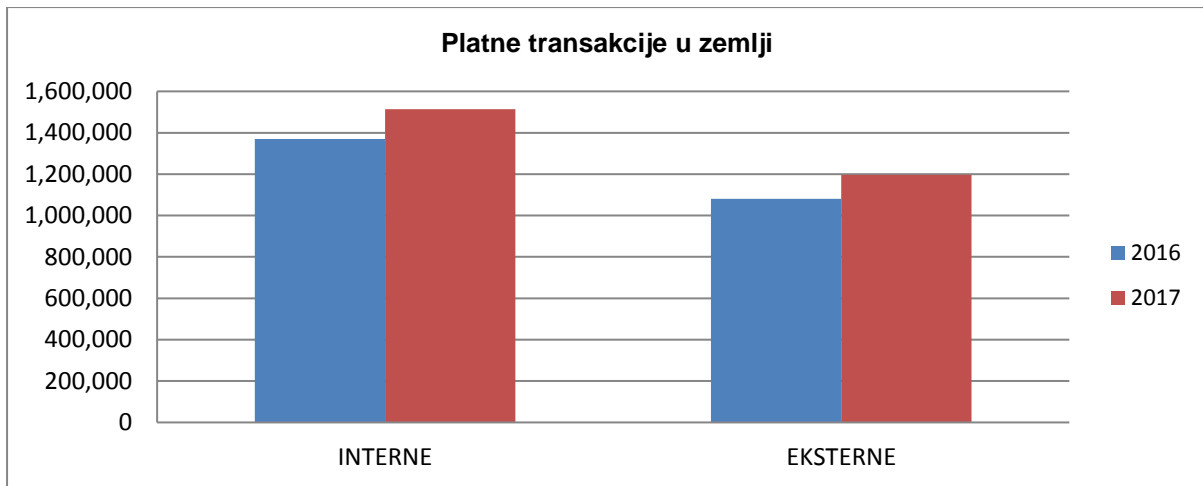
Cjelokupni domaći platni promet Banke bilježi povećanje u 2017. godini.

Ukupan broj transakcija u domaćem platnom prometu povećao se za 11% u odnosu na 2016. godinu. Od toga je ostvaren porast u broju internih transakcija u Banci, koji iznosi 11% u odnosu na prethodnu godinu. Eksterne transakcije su također zabilježile porast od 11% u odnosu na prethodnu godinu.

U strukturi eksternih naloga ostvaren je porast i 'malih' naloga (< EUR1.000 porast 11%) i 'velikih' naloga (> EUR1.000 porast 10%).

Broj priliva od ostalih banaka porastao je u odnosu na prethodnu godinu za 9%.

Značajan porast je ostvaren i u broju elektronskih transakcija (e-banking), što znači da se klijenti sve više okreću elektronskim aplikacijama i vrše plaćanja elektronskim platnim nalogima. Porast broja elektronskih transakcija u domaćem platnom prometu iznosi 21% u odnosu na prošlu godinu.

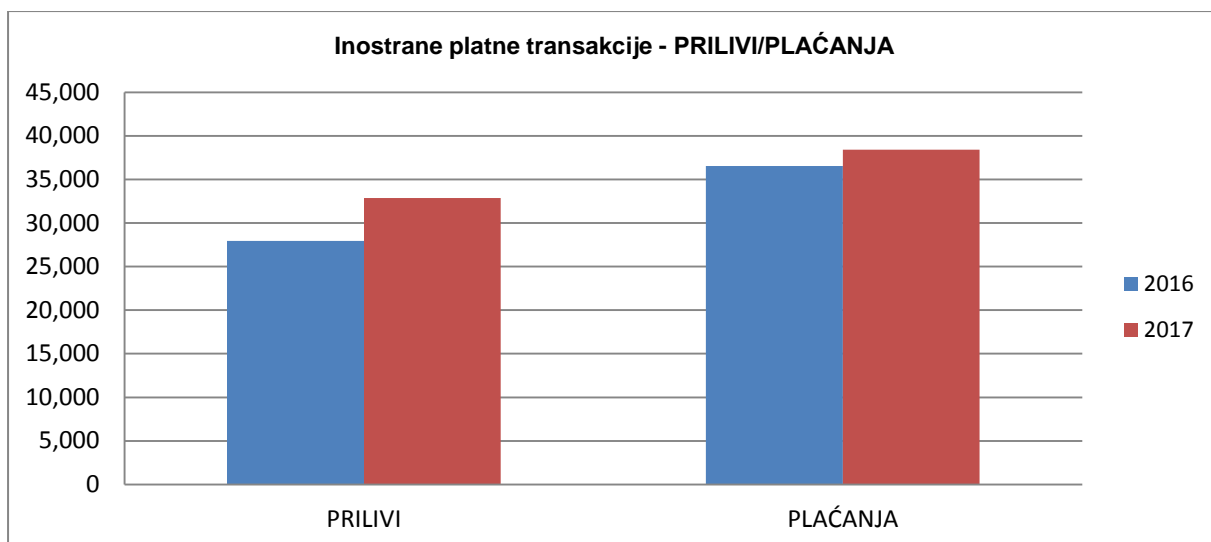


Inostrani platni promet

Ono što karakteriše inostrani platni promet u 2017. godini je održan kontinuitet visokog broja plaćanja, kao i rast dolaznih plaćanja i plaćanja izvršenih putem e-bankinga, te i ostalih poslova koji su sastavni dio inostranog platnog prometa.

Banka je odavno prepoznata kao efikasan i pouzdan partner od strane ino banaka.

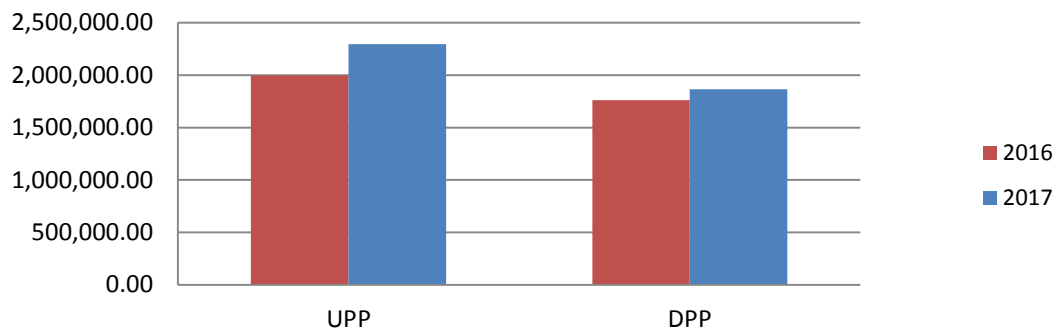
Broj transakcija plaćanja prema inostranstvu se povećao za 5% u odnosu na prethodnu godinu. Broj elektronskih plaćanja prema inostranstvu putem HB-klika (e-banking) porastao je za 12% u odnosu na 2016. godinu. Broj ostvarenih priliva porastao je za 18% u odnosu na prethodnu godinu.



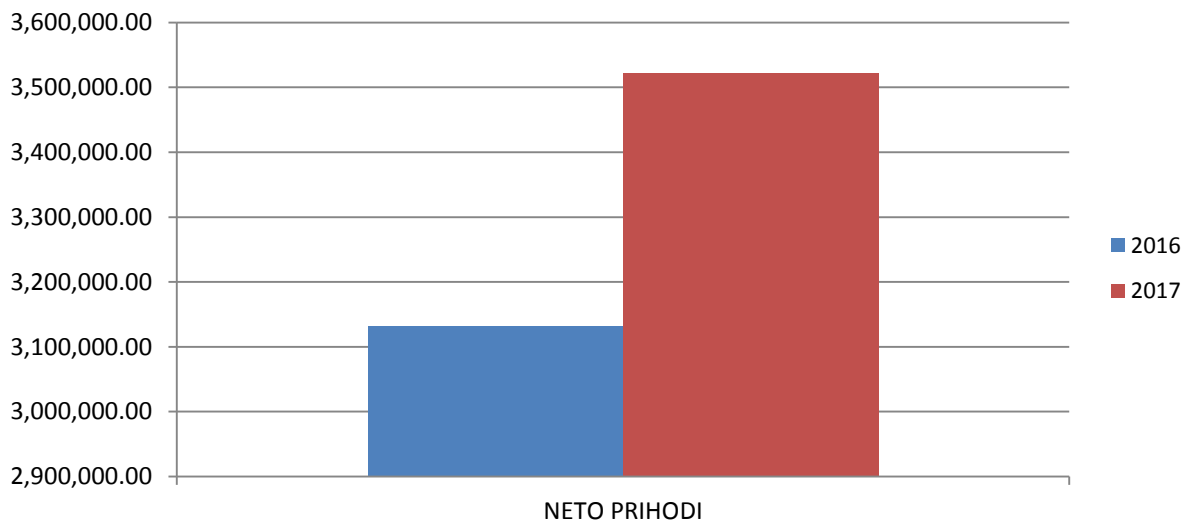
Ukupni prihodi od naknada za usluge platnog prometa porasli su za 11% u odnosu na 2016. godinu. Od toga je porast prihoda od domaćeg platnog prometa iznosio 15%, a od inostranog platnog prometa 6%.

Neto prihodi od ukupnog platnog prometa porasli su za 12% u odnosu na prethodnu godinu.

PRIHODI OD DOMAĆEG I INO PLATNOG PROMETA



NETO PRIHODI PLATNOG PROMETA



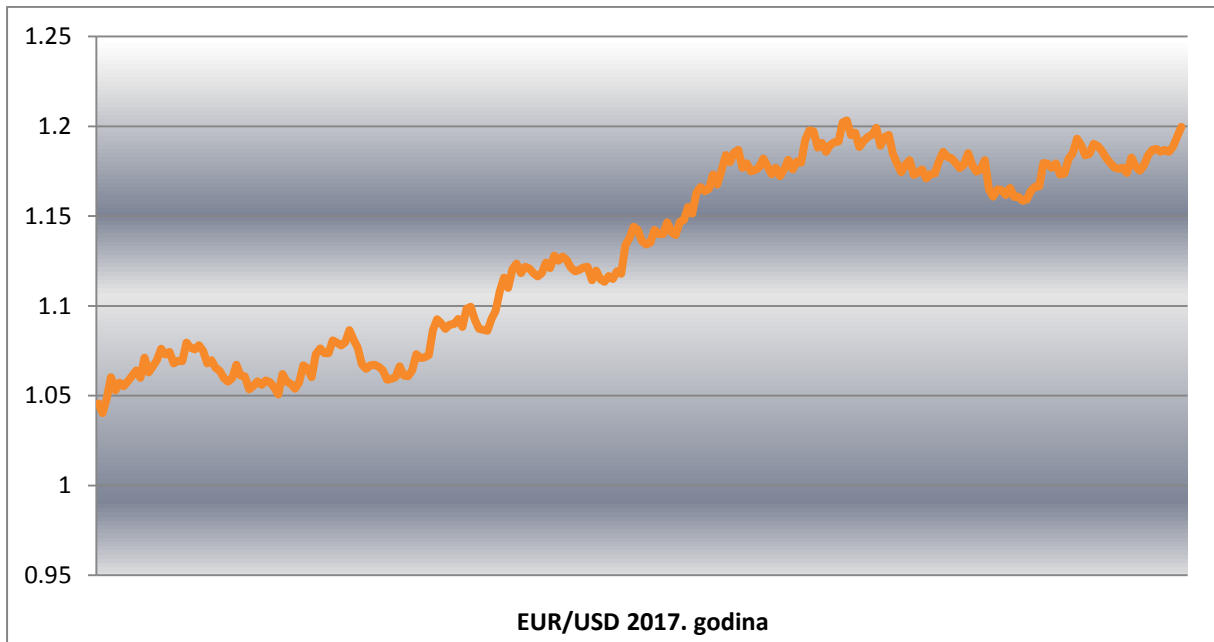
UPRAVLJANJE SREDSTVIMA

Obezbeđivanje optimalne likvidnosti je osnovni uslov za sigurno i efikasno poslovanje svake banke. Banka potrebnu likvidnost treba da obezbjeđi racionalnim upravljanjem sredstvima i obavezama, u cilju održavanja odgovarajućeg srazmjera između likvidne aktive i ukupnih obaveza.

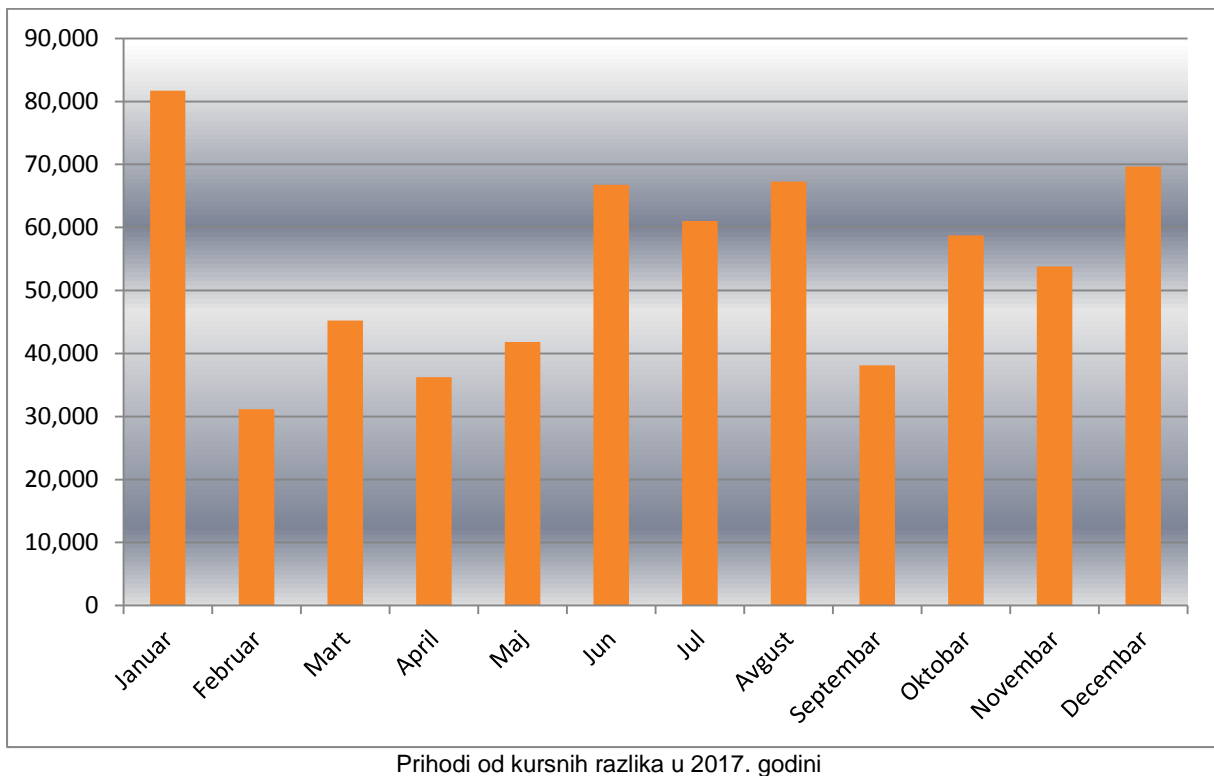
I tokom 2017. godine Banka je stavila akcenat na stabilizaciju domaćih izvora finansiranja, proširenje deponentske baze, smanjivanje kratkoročnih u korist dugoročnih izvora finansiranja i povlačenje novih kreditnih linija od banaka u inostranstvu i međunarodnih finansijskih institucija.

Služba trgovanja u okviru Sektora finansijskih tržišta je u 2017. godini, racionalnim upravljanjem likvidnošću, uspjela da održi nivo likvidnih sredstava kao i ukupnu likvidnu poziciju Banke na zadovoljavajućem nivou. Uz to je dnevnim, sedmičnim, dekadnim i mjesečnim planiranjima raspoloživih likvidnih sredstava vršila usklađivanje izvora sredstava sa plasmanima. Kroz tijesnu saradnju sa ostalim sektorima i službama u Banci, vršena je adekvatna alokacija raspoloživih sredstava. Sve to je Banci omogućilo da redovno izvršava svoje obaveze prema kreditorima, kao i da izađe u susret svim zahtjevima klijenata u najkraćim rokovima.

U 2017. godini zabilježena su velika kolebanja valutnih kurseva, naročito valutnog para EUR/USD koji ima najveći uticaj na izloženost Banke riziku promjene deviznog kursa.



I u tim uslovima Služba trgovanja je uspjela da ostvari izuzetan rezultat po osnovu prihoda od realizovanih kursnih razlika, što je rezultat adekvatnog upravljanja rizikom promjene deviznog kursa. Na kraju 2017. godine ukupan prihod od kursnih razlika iznosio je 652 hiljade EUR, što je imalo značajnog uticaja na konačni finansijski rezultat Banke.



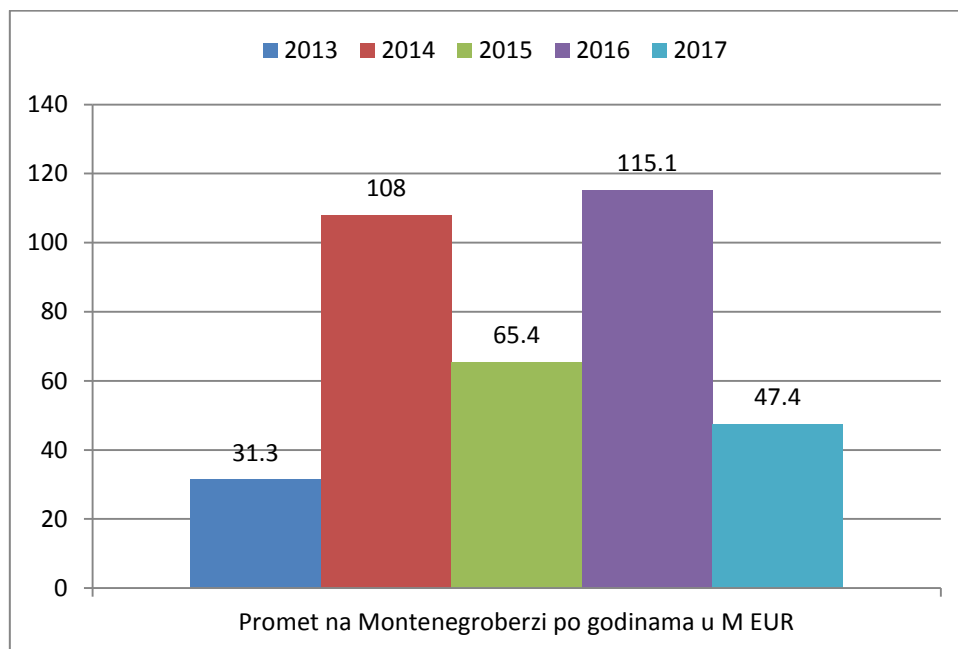
INVESTICIONO BANKARSTVO

Crnogorsko tržište kapitala

Ukupan promet ostvaren na Montenegroberzi u 2017. godini iznosio je 47.445.355 €, što predstavlja pad za 58 % u odnosu na ostvareni promet u 2016. godini. Uzroke pada treba prije svega tražiti u neaktivnom primarnom tržištu na kome nije bilo niti jedne nove emisije akcija i obveznica.

Banka je prethodne godine emitovala novu seriju subordiniranih obveznica HBO2. Emisija je bila zatvorenog tipa unaprijed poznatim kupcima, a vrijednost emisije iznosila je 4 miliona eura. Uz obveznice HBO1, na sekundarnom tržištu korporativne obveznice Hipotekarne banke AD Podgorica pokazale su dobru likvidnost na sekundarnom tržištu sa prometom od 2,1 milion eura.

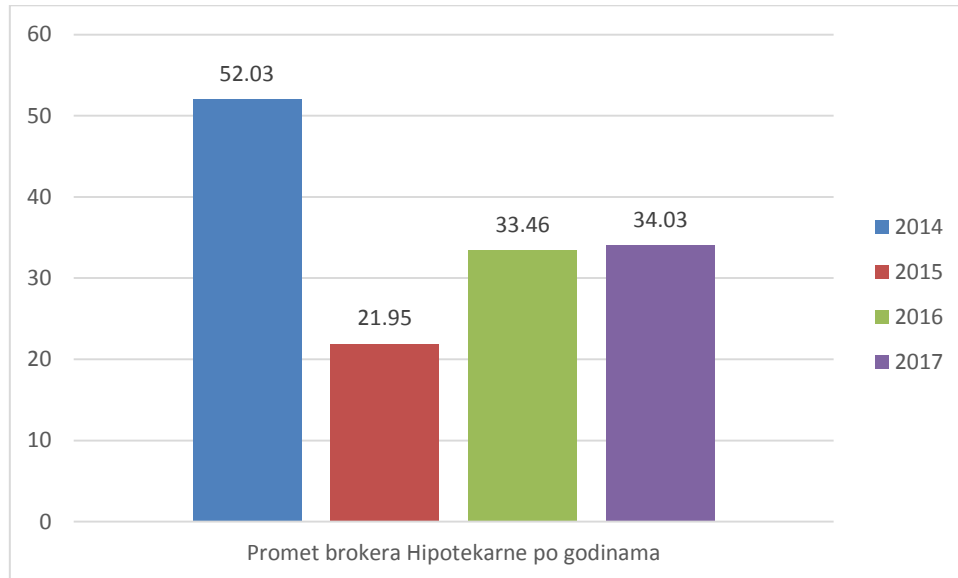
MONEX 10 je u protekloj godini nastavio trend pada i izgubio na vrijednosti 16,61% i posljednjeg trgovačkog dana našao se na vrijednosti od 776,69. Indeks je 31. marta dostigao svoju maksimalnu godišnju vrijednost od 985,98 poena, dok je njegova najniža vrijednost u prethodnoj godini zabilježena 27. decembra i iznosila je 746,97 poena. MONEX je u protekloj godini zabilježio pad od 11,6 % i posljednjeg trgovačkog dana našao se na vrijednosti od 10.175 procentnih poena.



Bokerski poslovi

Odjeljenje brokerskih poslova Hipotekarne banke u 2017. ostvarilo je na Montenegroberzi promet od 12,28 miliona eura. Sa ovim prometom Banka je zadržala poziciju jedne od vodećih kuća na crnogorskom tržištu kapitala.

Promet na inostranom tržištu koji su ostvarili brokери Banke u 2017 godini iznosio je 21,75 miliona eura.



Trgovanje akcijama za račun Banke

U vlasničkim hartijama od vrijednosti na dan 31.12. 2017. godine, Banka je imala uloženo 5,067 miliona eura. Od dividende i realizovane kapitalne dobiti, Banka je u 2017. godini prihodovala 252 hiljade eura.

Kastodi poslovi

Na dan 31.12.2017. godine klijenti Banke držali su na čuvanje hartije od vrijednosti, vrijednosti od 43,89 miliona eura. Time je Banka ostala jedan od lidera u oblasti kastodi poslovanja u Crnoj Gori. Prihodi Odjeljenja za kastodi poslove iznosili su na 211,53 hiljade eura. Kada se sagleda ostvareni poslovni rezultat Odjeljenja, i on je iznosio 87 hiljada eura.

FINANSIJSKI IZVJESTAJI I POKAZATELJI

BILANS USPJEHA

od 1. januara do 31. decembra 2017. godine

Red. br.	OPIS	IZNOS	
		Stanje na dan 31.12.2016.	Stanje na dan 31.12.2017.
1.	Prihodi od kamata i slični prihodi	17,703,610	17,547,192
2.	Rashodi od kamata i slični rashodi	(5,315,334)	(4,684,321)
3.	NETO PRIHODI OD KAMATA (1- 2)	12,388,276	12,862,871
4.	Prihodi od dividendi	71,473	71,561
5.	Troškovi obezvrjeđenja	(2,810,974)	(3,425,635)
6.	Troškovi rezervisanja	(670,303)	206,661
7.	Prihodi od naknada i provizija	10,643,873	12,971,909
8.	Rashodi naknada i provizija	(4,462,721)	(5,880,066)
9.	NETO PRIHODI OD NAKNADA I PROVIZIJA (7- 8)	6,181,152	7,091,843
10.	Neto dobiti / gubici od finansijskih instrumenata koji se drže za trgovinu	-	-
11.	Neto dobiti / gubici od finansijskih instrumenata koji se vode po fer vrijednosti kroz Bilans uspjeha	-	-
12.	Neto dobiti / gubici od investicionih HOV	203,210	299,793
13.	Promjena fer vrijednosti u računovodstvu zaštite od rizika (hedžing)	-	-
14.	Neto gubici/dobici od kursnih razlika	774,976	651,540
15.	Troškovi zaposlenih	(4,622,020)	(4,807,244)
16.	Opšti i administrativni troškovi	(7,008,010)	(8,223,310)
17.	Troškovi amortizacije	(849,248)	(836,094)
18.	Ostali rashodi	(218,347)	(37,983)
19.	Ostali prihodi	545,120	497,402
20.	OPERATIVNI PROFIT (3+4-5-6+9+10+11+12+13+14-15-16-17-18+19)	3,985,304	4,351,405
21.	Porez na prihod	(361,257)	(408,489)
22.	NETO PROFIT/GUBITAK (20 - 21)	3,624,047	3,942,916

BILANS STANJA
na dan 31. decembra 2017. godine

Red. br.	OPIS	IZNOS	
	SREDSTVA	Stanje na dan 31.12.2016.	Stanje na dan 31.12.2017.
1.	Novčana sredstva i računi depozita kod centralnih banaka	99,454,580	131,166,173
2.	Kredit i potraživanja od banaka	15,480,924	50,152,004
3.	Kredit i potraživanja od klijenata	216,048,797	215,438,321
4.	Sredstva namijenjena prodaji	-	-
5.	Finansijska sredstva koja se drže za trgovanje	-	-
6.	Ostala sredstva koja se vode po fer vrijednosti kroz bilans uspjeha	-	-
7.	Derivatna finansijska sredstva kao instrument zaštite	-	-
8.	Investicione hartije od vrijednosti	92,594,733	92,571,458
8.a.	- raspoložive za prodaju	75,809,420	92,571,458
8.b.	- koje se drže do dospjeća	16,785,312	-
9.	Investicije u pridružena preduzeća i zajedničke poduhvate po metodi kapitala	8,473	8,473
10.	Investicije u zavisna preduzeća	-	-
11.	Investicione nekretnine/nepokretnosti	-	-
12.	Nekretnine, postrojenja i oprema	1,500,544	1,436,409
13.	Nematerijalna sredstva	1,498,158	1,658,305
14.	Tekuća poreska sredstva	47,156	-
15.	Odložena poreska sredstva	33,393	37,843
16.	Ostala finansijska potraživanja	841,980	984,318
17.	Ostala poslovna potraživanja	1,281,470	1,081,907
18.	UKUPNA SREDSTVA:	428,790,208	494,535,211
	OBAVEZE		
19.	Depoziti banaka	303,312	3,059,019
20.	Depoziti klijenata	333,349,826	391,656,632
21.	Pozajmljena sredstva od banaka	-	-
22.	Pozajmljena sredstva od ostalih klijenata	35,331,441	29,935,534
23.	Finansijske obaveze koje se drže za trgovanje	-	-
24.	Finansijske obaveze koje se vode po fer vrijednosti kroz bilans uspjeha	-	-
25.	Derivatne finansijske obaveze kao instrument zaštite	-	-
26.	Izdane dužničke hartije od vrijednosti	-	-
27.	Rezerve	2,003,582	1,636,396
28.	Tekuće poreske obaveze	388,901	451,792
29.	Odložene poreske obaveze	113,841	311,154
30.	Ostale obaveze	8,489,632	8,692,345
31.	Subordinisani dug	9,967,186	14,011,879
32.	UKUPNE OBAVEZE:	389,947,720	449,754,751
	KAPITAL		
33.	Akcijski kapital	16,005,933	16,005,933
34.	Emisione premije	7,443,550	7,443,550
35.	Neraspoređena dobit	1,838,901	4,831,169
36.	Dobit/gubitak tekuće godine	3,624,047	3,942,916
37.	Ostale rezerve	9,930,056	12,556,892
38.	Interesi bez kontrolnog uticaja u kapitalu	-	-
39.	UKUPAN KAPITAL: (33. do 38.)	38,842,488	44,780,460
40.	UKUPNI KAPITAL I OBAVEZE: (32. + 39.)	428,790,208	494,535,211

ISKAZ O PROMJENAMA NA KAPITALU

od 1. januara do 31. decembra 2017. godine

		Akcijski kapital	Emisione premije	Rezerve	Neraspoređena dobit	UKUPNO
Stanje na dan 01.01.2016. godine		16,005,933	7,443,550	8,226,099	2,729,160	34,404,743
Promjene u prethodnoj godini	Emisija akcija	-	-	-	-	-
	Emisione premije	-	-	-	-	-
	Efekti promjena od vrijednosti HoV raspoloživih za prodaju	-	-	813,698	-	813,698
	Dobit/gubitak tekućeg perioda	-	-	-	3,624,047	3,624,047
	Dividende	-	-	-	-	-
	Ostalo	-	-	890,259	(890,259)	-
Stanje na dan 31.12.2016. godine		16,005,933	7,443,550	9,930,056	5,462,948	38,842,488
Promjene u tekućoj godini	Emisija akcija	-	-	-	-	-
	Emisione premije	-	-	-	-	-
	Efekti promjena od vrijednosti HoV raspoloživih za prodaju	-	-	1.995,056	-	1.995,056
	Dobit/gubitak tekućeg perioda	-	-	-	3,942,916	3,942,916
	Dividende	-	-	-	-	-
	Ostalo	-	-	631,780	(631,780)	-
Stanje na dan 31.12.2017. godine		16,005,933	7,443,550	12,556,892	8,774,084	44,780,460

VANBILANSNA EVIDENCIJA
na dan 31. decembra 2017. godine

Pozicija	OPIS VANBILANSNA EVIDENCIJA	Iznos	
		Stanje na dan 31.12.2016.	Stanje na dan 31.12.2017.
1.	Neopozive obaveze za davanje kredita	22,707,181	22,803,166
2.	Neopozivi dok. akreditivi izdati za plaćanje u inostranstvu	63,282	50,863
3.	Ostali akreditivi izdati za plaćanje u inostranstvu	986,624	-
4.	Izdate garancije	66,533,348	80,231,280
4.1.	Izdate plative garancije	33,680,763	35,017,568
4.2.	Izdate činidbene garancije	15,356,170	20,586,575
4.3.	Ostale vrste garancija	17,496,415	24,627,137
5.	Izdate mjenice i dati avali	-	-
6.	Strani čekovi poslani na naplatu	-	-
7.	Nostro finansijske aktivnosti vezane za proces naplate	-	-
8.	Tekući ugovori za transakcije sa devizama	-	-
8.1.	Promptna prodaja deviza	-	-
8.2.	Promptna kupovina deviza	-	-
8.3.	Terminska prodaja deviza	-	-
8.4.	Terminska kupovina deviza	-	-
8.a.	Ostali derivatni finansijski instrumenti	-	-
9.	Kolateral po osnovu potraživanja	393,531,038	412,555,642
10.	Ostale stavke vanbilansne izloženosti banke	58,559,678	57,640,790
11.	Ukupno	542,381,151	573,281,741
12.	MEMORANDUM		
12.1.	Evidentna kamata	593,556	1,298,524
12.2.	Ostalo		

ISKAZ O TOKOVIMA GOTOVINE
u periodu od 1. januara do 31. decembra 2017. godine

OPIS	IZNOS	
	Stanje na dan 31.12.2016.	Stanje na dan 31.12.2017.
Tokovi gotovine iz poslovnih aktivnosti		
Prilivi po osnovu kamata i slični prihodi	17,878,177	17,607,981
Odlivi po osnovu kamata i slični prihodi	(4,767,823)	(4,814,470)
Prilivi po osnovu naknada i provizija	10,643,873	12,971,909
Odlivi po osnovu naknada i provizija	(4,462,721)	(5,880,066)
Odlivi po osnovu zarada zaposlenih i troškova za dobavljače	(13,578,972)	(13,503,375)
Povećanje/smanjenje kredita i ostale aktive	(27,976,752)	(1,889,877)
Prilivi/odlivi po osnovu depozita i ostalih obaveza	18,148,289	61,903,157
Plaćeni porezi	(844,637)	(901,856)
Ostali prilivi	(8,644,446)	(14,462,207)
Neto prilivi/odlivi gotovine iz poslovnih aktivnosti	(13,605,012)	51,031,196
Gotovinski tokovi iz aktivnosti investiranja		
Kupovina nekretnina i opreme	(448,706)	(519,150)
Kupovina nematerijalnih ulaganja	(689,103)	(688,129)
Državni zapisi	(12,820,457)	17,421,994
Prilivi od prodaje materijalne i dugotrajne imovine	127,000	2,700
Neto prilivi/odlivi gotovine iz aktivnosti investiranja	(13,831,266)	16,217,414
Tokovi gotovine iz finansijskih aktivnosti		
Povećanje pozajmljenih sredstava	(5,837,097)	(1,372,334)
Emisija običnih akcija	-	-
Odlivi po osnovu isplaćene dividende	-	-
Neto prilivi/odlivi gotovine iz aktivnosti finansiranja	(5,837,097)	(1,372,334)
Efekat kursnih razlika na gotovinu i gotovinske ekvivalente	774,975	651,540
Neto povećanje/smanjenje gotovine i gotovinskih ekvivalenata	(32,498,400)	66,527,817
Gotovina i gotovinski ekvivalenti na početku perioda	148,966,118	116,467,718
Gotovina i gotovinski ekvivalenti na kraju perioda	116,467,718	182,995,535

Kapital

Ukupan kapital Banke na dan 31.12.2017. iznosi 44,780 miliona eura. U odnosu na prethodnu godinu, kapital je povećan za 15,29%.

Na dan 31. decembar 2017. godine nominalna vrijednost akcionarskog kapitala iznosi 16,006 miliona eura.

Akcionarski kapital sastoji se od 31.305 akcija, svaka nominalne vrijednosti 511,29 eura.

U vlasničkoj strukturi Banke strana pravna i fizička lica učestvuju sa 78% akcijskog kapitala, dok je preostali akcijski kapital u vlasništvu domaćih pravnih i fizičkih lica.

Račun dobiti i gubitka

Banka je u 2017. godini ostvarila dobit u iznosu 3,943 miliona eura. Prihodi od kamata u odnosu na prethodnu godinu smanjeni su za 0,88% i iznose 17.547 miliona EUR, što je posljedica smanjenja kreditne aktivnosti i pada kamatnih stopa.

Prihodi od naknada u odnosu na prethodnu godinu povećani su za 21,87% i iznose 12,972 miliona EUR. Neto prihodi od naknada iznose 41,64% neto prihoda iz redovnog poslovanja Banke.

Ostali prihodi u odnosu na prethodnu godinu manji su za 4,67% i iznose 1,520 miliona EUR.

Troškovi redovnog poslovanja, uključujući amortizaciju, iznose 13.905 miliona eura i povećali su se za 9,51% u odnosu na prethodnu godinu. Povećanje troškova posljedica je proširenja poslovne mreže, novog broja zaposlenih, kao i povećanje ostalih troškova koji prate rast i razvoj Banke.

Procjena kreditnih rizika i formiranje rezervi za rizične plasmane i potencijalne obaveze Banke, temelje se na primjeni načela konzervativne politike i primjene važećih Zakonskih propisa.

Ukupno izdvojene rezerve na pozicije aktive i pasive iznose 15,307 miliona EUR sa stanjem na dan 31. decembar 2017. godine.

Raspodjela dobiti

Odbor direktora, uz iniciranje istog od strane menadžmenta Banke, predlaže Skupštini akcionara da se ne vrši raspodjela ostvarene dobiti u 2017. godini u cilju povećanja ukupnog kapitala Banke.

Pokazatelji

Pozicija Banke u crnogorskom bankarskom sistemu na osnovu poslednjih, javno poznatih, podataka o finansijskim izvještajima svih banaka u Crnoj Gori na 31.12.2017.godine:

- Rang po tržišnom učešću: Banka zauzima 2. mjesto, tj. 11,83% tržišnog učešća;
- Rang po kreditnom portfoliju: Banka zauzima 5.mjesto, tj. 9,55% tržišnog učešća;
- Rang po portfoliju investicionih hartija od vrijednosti: Banka zauzima 1.mjesto, tj. 20,24% tržišnog učešća;
- Rang po portfoliju depozita: Banka zauzima 2.mjesto, tj. 11,97% tržišnog učešća;
- Rang po neto profitu: Banka zauzima 5.mjesto.

Finansijski pokazatelji poslovanja na 31.12.2017.godine:

- ROAA – 0,85%
- ROAE – 9,43%
- SSB – 34.982 mil EUR
- Koeficijent solventnosti – 12,36%.

ULAGANJA U CILJU ZAŠTITE ŽIVOTNE SREDINE

Banka, u okviru svojih prava i obaveza, obezbjeđuje zaštitu životne sredine. U tom kontekstu, Banka je privržena sprječavanju ili ograničavanju uticaja na životnu sredinu, koji indirektno proizilazi iz njenih bankarskih aktivnosti, ili direktno iz njenog poslovanja.

Poslovna praksa Banka nije orjentisana ka finansiranju ili učešću u projektima kojima se zagađuje ili degradira životna sredina. Banka, međutim, finansira i aktivno podržava/učestvuje u finansiranju projekata kojima se obezbjeđuje zaštita životne sredine, naročito uvođenjem energetski efikasnijih tehnologija. Takođe, poslovna praksa Banke je i finansiranje projekata/poslovnih ciljeva klijenata, koji predstavljaju najmanji mogući rizik po životnu sredinu.

Prilikom obavljanja svoje djelatnosti, Banka se stara o racionalnom korišćenju prirodnih resursa, odnosno o obezbjeđivanju mjera zaštite životne sredine.

Posebna pažnja ovom segmentu je bila data prilikom korišćenja kreditnih sredstava iz kreditnih linija evropskih institucija, prije svega Evropske banke za obnovu i razvoj (EBRD).

PLANIRANI BUDIĆI RAZVOJ

Prema dostupnim podacima, u 2017. godini, visok nivo likvidnosti i solventnosti, uz rast ključnih bilansnih pokazatelja, karakteriše crnogorski bankarski sektor, te doprinosi njegovom nesmetanom funkcionisanju, time i očuvanju i jačanju finansijske stabilnosti. Stabilan bankarski sektor i pozitivna makroekonomska kretanja u 2017. godini su ohrabrujuće pretpostavke za dalji rast i razvoj u 2018. godini.

Procjenjujemo da će u 2018. godini pravni okvir u kome banke posluju, s jedne strane, i potrebe klijenata, s druge strane, biti još izazovniji.

Budući da su potrebe privrede i stanovništva za modernim finansijskim uslugama evidentne, prije svega uslijed drastičnog pada kamatnih stopa, nastavljamo s poslovnim aktivnostima, koje su zasnovane na kreativnosti i inovativnosti. Stoga, usmjereni smo na generisanje novih finansijskih usluga, kojima namjerava da popunimo taj prostor, a sve u skladu sa primjenljivim pravnim okvirom i najboljom poslovnom praksom. Za klijente spremamo servise koji su vezani za instrumente koje karakteriše likvidnosti i fleksibilnost, u odnosu na tradicionalne bankarske proizvode. Umjesto depozita, kao standardnih proizvoda koje smo nudili građanima i privredi, planiramo da ponudimo klijentima novi vid ulaganja. Profesionalno savjetovanje i upravljanje imovinom klijenata biće sastavni dio naše buduće ponude, s obzirom na dugogodišnja iskustva koja smo stekli u poslovima investiranja, kreiranja i upravljanja finansijskom imovinom Banke i profesionalni kadar sa specijalističkim znanjima stečenim na međunarodnim tržištima.

ISTRAŽIVANJA, RAZVOJ I ULAGANJA U OBRAZOVANJE ZAPOSLENIH

Banka kontinuirano prati i učestvuje u istraživanjima tržišta, kao i analizama koje objavljuju renomirane agencije, tako da pribavljene podatke koristi za pozicioniranje brenda.

Ključni elementi uspješnosti i naše organizacione kulture zasnivaju se na znanjima, vještinama i posvećenosti naših zaposlenih. Stoga, Banka kontinuirano planira razvoj i unapređenje vještina zaposlenih, kako organizovanjem edukacija, uz pomoć iskusnih, kompetentnih zaposlenih, tako i angažovanjem renomiranih inostranih konsultanata/konsultantskih firmi, specijalizovanih za upravljanje ljudskim resursima. Osobito smatramo važnim da naglasimo specijalističke edukativne seminare namijenjeni našem prodajnom osoblju, odnosno zaposlenima koji su na pozicijama gdje se najčešće ostvaruje komunikacija sa klijentima, a s ciljem unapređenja njihovih vještina komunikacije, stilova prilagođenih različitim fazama te komunikacije, kao i dalje razvijanje vještina razumijevanja potreba klijenata, a u najboljem njihovom interesu. Dodatno, Banka je privržena konceptu kontinuiranog razvoja zaposlenih na menadžerskim pozicijama, pa angažuje eksterne konsultantske timove, za unapređenje njihovih vještina, saglasno savremenim standardima.

OTKUP SOPSTVENIH AKCIJA

Tokom 2017. godine Banka nije otkupljivala sopstvene akcije.

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FINANSIJSKI INSTRUMENTI OD ZNAČAJA ZA PROCJENU FINANSIJSKOG POLOŽAJA I USPJEŠNOSTI POSLOVANJA BANKE

Od finansijskih instrumenata koje je Banka koristila, a koje su od značaja za procjenu finansijskog položaja i uspješnosti poslovanja i za utvrđivanje aktive, pasive, finansijskog stanja i dobiti ili gubitaka izdvajaju se dvije serije subordiniranih obveznica koje je Banke izdala 2014. i 2017. godine, a koje su pozitivno uticale na povećanje dugoročnih izvora finansiranja i učvršćenja pokazatelja kapitalne adekvatnosti Banke.

UPRAVLJANJE RIZICIMA

Služba za kontrolu rizika upravlja rizicima na nivou Banke.

Upravljanje rizicima podrazumijeva: identifikovanje, mjerenje, praćenje i izvještavanje o rizicima. Služba razvija politike i procedure za upravljanje rizicima, kao i metodologije i postupke za njihovo mjerenje.

Služba za kontrolu rizika putem mjesečnog izvještaja informiše ALCO komitet o nivou rizika preuzetog od strane Banke. Na osnovu tih informacija, Komitet vrši evaluaciju performansi menadžmenta u procesu upravljanja rizicima.

Služba za kontrolu rizika kreira izvještaje o osjetljivosti Banke na razne vrste rizika na bazi kojih Odbor direktora postavlja limite.

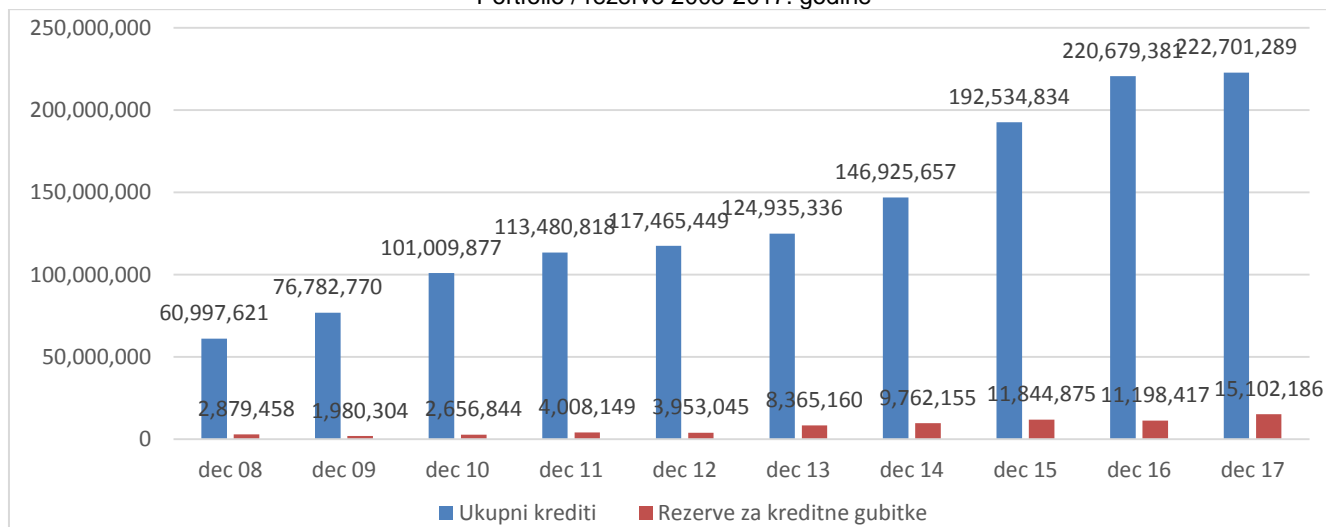
Kreditni rizik

Kreditnim rizikom u Banci upravlja se na pojedinačnom nivou i na portfolio nivou.

Portfolio Hipotekarne banke na 31.12.2017. godine iznosio je 222.701.289€, što je za 2.021.908€, tj. 0,9% veći iznos u odnosu na kraj 2016. godine.

Rezerve za kreditne gubitke na 31.12.2017. godine bile su u iznosu od 15.102.186€ tj. 6,78% portfolija. U odnosu na kraj 2016. godine, rezerve su se povećale za 1.091.968€ ili 34,86%.

Portfolio / rezerve 2008-2017. godine



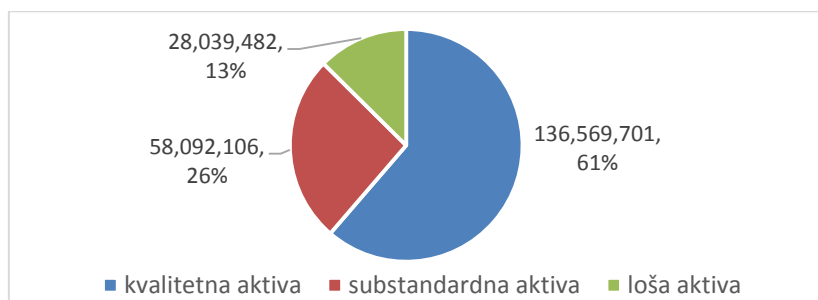
Ispravka vrijednosti kredita na 31.12.2017. godine bile su u iznosu od 8.924.774€ tj. 4,01% portfolija. U odnosu na kraj 2016. godine, rezerve su se povećale za 2.375.093€, ili 38%.

Kretanje rezervi prema internom modelu tokom 2017. godine

MODEL	mar.17	jun.17	sep.17	dec.17
Portfolio	218.398.833	220.513.852	221.466.727	222.701.289
Rezervacije	7.610.760	8.261.824	8.108.659	8.924.774
	3,48%	3,75%	3,66%	4,01%

Od ukupnog portfolija Banke, na kvalitetnu aktivnu (A i B1) odnosi se 61,32%, na substandardnu (B2) 26,09% i na lošu aktivnu (C, D i E) 12,59%.

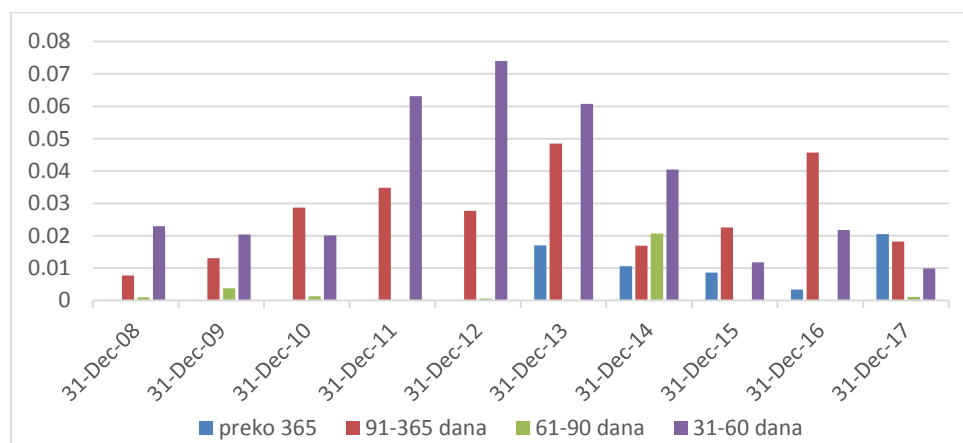
Aktiva po kvalitetu – dec. 17.



Iznos kredita sa kašnjenjem u otplati preko 30 dana, na 31.12.2017. godine iznosio je 11.055.208€, tj. 4,96% ukupnog portfolija Banke dok su na 31.12.2016. godine iznosili 15.650.190€ tj 7,09% ukupnog portfolija Banke.

Iznos kredita sa kašnjenjem u otplati preko 90 dana na 31.12.2017. godine iznosili su 8.610.333 EUR tj. 3,87% portfolija Banke dok su na 31.12.2016. godine iznosili 10.838.052€ tj 4,91% ukupnog portfolija Banke.

Potraživanja po partijama koje kasne / ukupni krediti



Migraciona kretanja klijenata u decembru 2017. godine (%)

	A	B1	B2	C	D	E	(zatvorene /interna)
A	94,46%	0,35%	0,03%	0,00%	0,00%	0,00%	0,00%
B1	1,27%	92,29%	1,05%	0,47%	0,00%	0,00%	0,00%
B2	0,09%	0,11%	70,03%	14,54%	0,00%	0,00%	0,00%
C	0,20%	0,01%	0,17%	96,02%	3,56%	0,00%	0,00%
D	1,25%	0,90%	0,00%	2,16%	91,64%	3,87%	0,00%
E	1,58%	0,00%	0,00%	0,00%	22,65%	67,80%	7,90%

HOV – u sklopu kreditnog rizika

Bankarsku knjigu Banke su 31. decembra 2017. činili vlasnički i dužnički finansijski instrumenti. Sve pozicije u bankarskoj knjizi bile su u decembru u okviru zakonski i interno definisanih limita. Ukupna vrijednost HOV u vlasništvu Banke na 31.12.2017. godine iznosila je 92,572 miliona € i čitav iznos se odnosi na hartije od vrijednosti raspoložive za prodaju.

Tržišni rizik

U okviru tržišnih rizika, Banka analizira sledeće rizike: rizik kamatne stope, valutni rizik i pozicijski rizik.

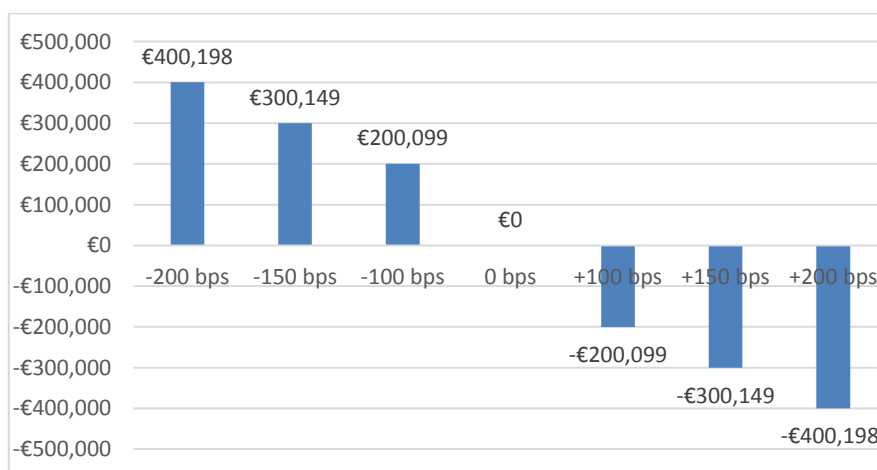
Rizik kamatne stope

Rizik kamatne stope analiziran je iz dvije komplementarne perspektive: uticaj na ekonomsku vrijednost kapitala Banke, kao i na neto kamatni prihod.

Analiza uticaja kamatnog rizika iz bankarske knjige na ekonomsku vrijednost Banke, izvršena je primjenom „gap-a trajanja“. Svrha ovog metoda je da prikaže potencijalnu promjenu vrijednosti svih budućih aktivnih i pasivnih gotovinskih tokova Banke osjetljivih na kamatni rizik, čija razlika predstavlja „ekonomsku vrijednost kapitala“ Banke (EVE). Za razliku od kamatnog gap-a koji mjeri uticaj kamatnog rizika na neto kamatni prihod uzimajući u obzir aktivne i pasivne gotovinske tokove do jedne godine, gap trajanja u obzir uzima sve gotovinske tokove.

U slučaju porasta nivoa kamatnih stopa za 200 bps, vrijednost EVE na 31.12.2017. od 65,761 miliona EUR povećala bi se za 400.198 EUR ili 0,61%. Izračunati iznos gap-a trajanja (ili „rizikom ponderisane pozicije bankarske knjige“) činio je 31. decembra 2017. godine 1,15% sopstvenih sredstava Banke što je u okviru zakonski propisanog limita od 20%.

Promjena EVE za razne vrijednosti promjena kamatnih stopa



Projekcija povlačenja "a vista" depozita:

1-30 dana	31-90 dana	91-180 dana	181-365 dana	preko 1 god
21%	15%	15%	21%	28%

OSJETLJIVOST AKTIVE I PASIVE NA PROMJENU KAMATNE STOPE (u hiljadama EUR) - agregatno 31. decembar 2017.

OSJETLJIVA AKTIVA	1-30 dana	31-90 dana	91-180 dana	181-365 dana	preko 1 god	UKUPNO
Kamatonosni depoziti u ostalim institucijama	13.505	-	-	-	-	13.505
Kamatonosne hartije od vrijednosti	86.970	-	-	-	-	86.970
Kredit i ostala potraživanja	11.530	10.906	22.878	55.525	123.502	224.340
Ostala osjetljiva aktiva	-	-	-	-	-	-
UKUPNO	112.005	10.906	22.878	55.525	123.502	324.815
% od ukupne kamatonosne aktive	34%	3%	7%	17%	38%	100%
OSJETLJIVA PASIVA	1-30 dana	31-90 dana	91-180 dana	181-365 dana	preko 1 god	UKUPNO
Kamatonosni depoziti	51.106	43.827	60.255	88.721	100.879	344.788
Kamatonosne pozajmice	1.153	134	779	1.213	26.589	29.868
Subordinisani dug i obveznice	-	-	-	-	14.000	14.000
Ostale osjetljive obaveze	889	0	0	0	0	889
UKUPNO	53.148	43.961	61.034	89.934	141.468	389.545
% od ukupnih kamatonosnih obaveza	14%	11%	16%	23%	36%	100%
RAZLIKA (GAP)	1-30 dana	31-90 dana	91-180 dana	181-365 dana	preko 1 god	UKUPNO
IZNOS GAP-a	58.857	-33.055	-38.156	-34.409	-17.966	-64.730
Dio godine tokom kojeg postoji izloženost GAP-u	0,96	0,84	0,63	0,26		
Kumulativan Gap	58.857	25.802	-12.354	-46.763	-64.730	-129.487
Uticaj na neto prihode od kamata	-1.128	552	481	179		
Godišnja promjena prihoda od kam. (st.kam. šok)	84					
Kumulativan Gap / Ukupna aktiva	12%	5%	-3%	-9%	-13%	-26%
Propisani limiti	54%					

Ukoliko kamate padnu za 2 procentna poena, očekivani godišnji neto prihod od kamata će se povećati za 84 hiljade EUR.

Valutni rizik

Valutni rizik nema značajnijeg uticaja na ukupan rizični profil banke.

Devizna pozicija – 31. decembar 2017. (konvertovano u EUR)

Sopstvena sredstva				€34.763.000	
Deviza	Aktiva	Obaveze	Neto pozicija	Limit (% osnovnog kapitala)	Ostvareno
AUD	26.682	-20.641	6.041	15%	0%
CAD	171.464	-169.850	1.614	15%	0%
DKK	4.455	0	4.455	15%	0%
JPY	15	-79	-64	15%	0%
KWD	0	0	0	15%	0%
NOK	24.412	-23.978	434	15%	0%
SEK	15.727	-5.115	10.613	15%	0%
CHF	583.020	-524.668	58.352	15%	0%
GBP	1.747.575	-1.749.082	-1.507	15%	0%
USD	24.877.762	-24.439.172	438.590	15%	1,26%
	27.451.112	-26.932.585	518.527	20%	1,49%

Operativni rizik

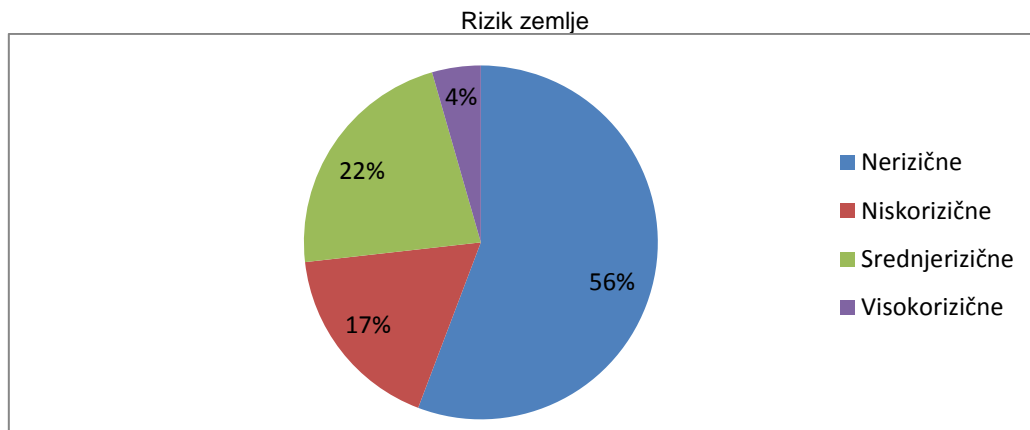
Upravljanje operativnim rizicima regulisano je internim aktima Banke, kao i aktima CBCG. Banka mjesečno identifikuje događaje koji su nastali usled izloženosti operativnim rizicima. O identifikovanim rizicima, nastalim gubicima, kao i mjerama koje je potrebno preduzeti u cilju rešavanja identifikovanih problema, Odbor direktora se izvještava kvartalno.

Rizik zemlje

Politika upravljanja rizikom zemlje kreirana je u skladu sa zakonskim i podzakonskim aktima CBCG, kao i internim aktima Banke (Procedura i Politika upravljanja rizikom zemlje). Internim aktima definisano je sledeće:

- dozvoljeni limiti izloženosti riziku zemlje, pojedinačno po zemljama i zbirno;
- periodično preispitivanje adekvatnosti sistema upravljanja rizikom zemlje;
- način identifikacije, mjerenja, praćenja i kontrolisanja rizika zemlje;
- ovlašćenja i odgovornosti lica vezanih za preuzimanje i upravljanje rizikom zemlje;
- obaveze vezane za periodično izvještavanje o izloženosti Banke riziku zemlje;
- klasifikacija aktive izložene riziku zemlje i kriterijumi za utvrđivanje rejtinga zemalja.

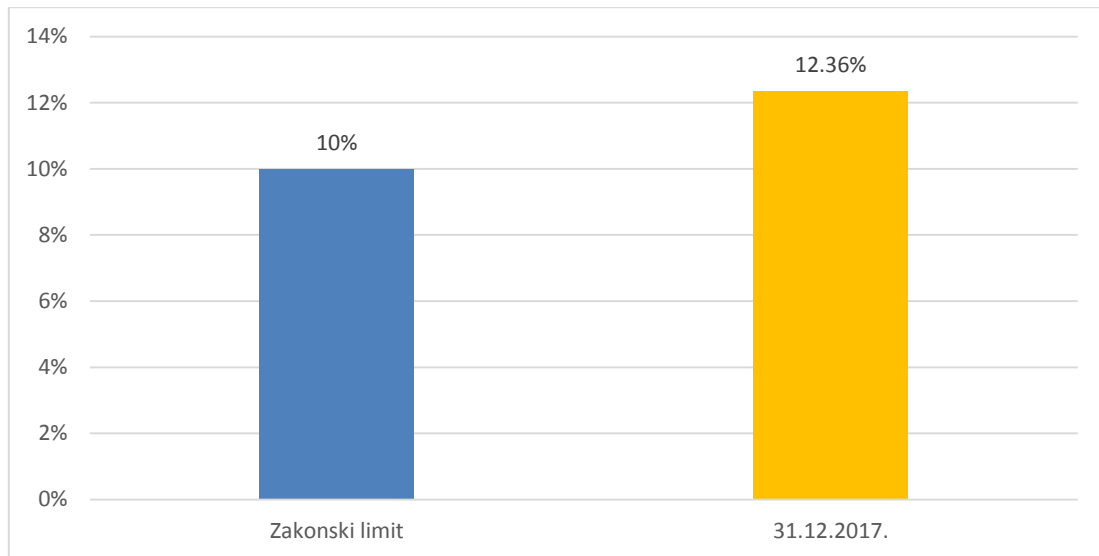
Na grafikonu ispod se vidi da se 56% izloženosti Banke odnosi na izloženost prema zemljama koje su klasifikovane kao nerizične, 17% na niskorizične, 22% na srednjerizične, a samo 4% na visokorizične zemlje iz čega se zaključuje da Banka dobro upravlja rizikom zemlje.



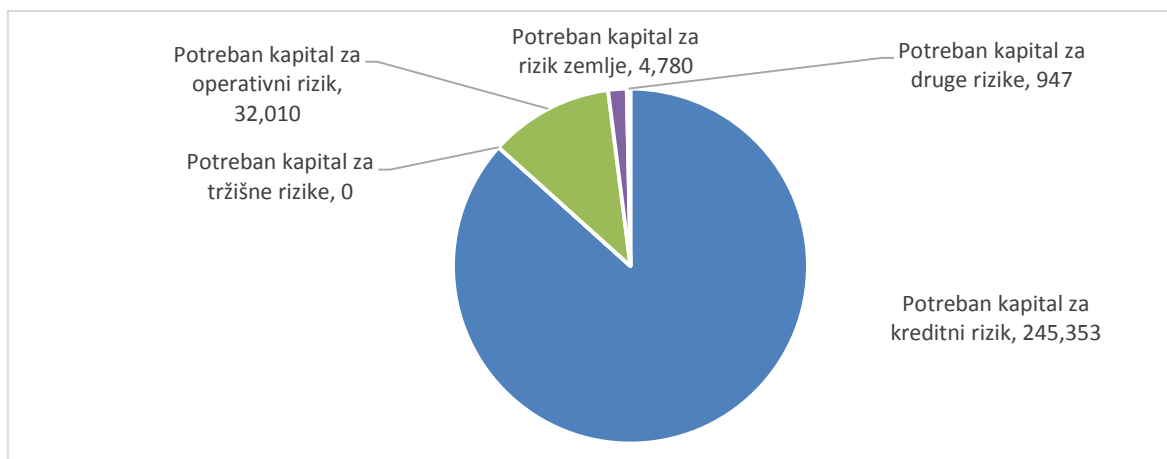
Koeficijent solventnosti

Na 31.12.2017. godine koeficijent solventnosti je bio iznad zakonom propisanog limita (10%), i iznosio je 12,36%. Koeficijent solventnosti je najznačajniji pokazatelj povjerenja u Banku, i zaštitnik je deponentima, povjericima i poslovnim partnerima Banke.

Koeficijent solventnosti za 2017. godine



Struktura potrebnog kapitala za sve rizike



NAČINI ZAŠTITE OD RIZIKA

Zaštita od rizika plasmana se radi proaktivnom i preliminarnom analizom na osnovu odnosa prinosa i rizika (klasifikacije po rejting agencijama i CBCG i očekivanih prinosa/kamata), poredjenja sličnih investicija i alternativa. Banka se bavi predanalizama prije investiranja (pregledom javno publikovanih rejtinga, koriscenjem eksternih rejtinga...). Faktori kreditnog rizika se mogu mijenjati i tokom trajanja plasmana, pa se donose odluke o zadržavanju, redukovanju, prodaji ili reprogramiranju plasmana.

Kreditni rizik se definiše kao default ili sniženje kreditnog rejtinga. Default je kada klijent ne može da vrši plaćanja dospjelih obaveza, npr. nemogućnost plaćanja kamate ili nepoštovanje drugih ugovoreni klauzula. Kako se istorijski mogu raditi kalkulacije PD ("probability of default"), Banka nastoji da izbjegne klase koje su imale lošu klasifikaciju u istoriji.

Zaštita od rizika na nivou računa i portfolia se vrši na način što se plasmani kolateralizuju, pored procjene cash flow-a (primarnog izvora naplate), kao sekundarni izvori naplate: depoziti, garancije, jemsta, sudužnici, žiranti, hipoteke, cesije.

Prate se i nekolike klase rizika koje uključuju: 1. Promjene kamatnih stopa, 2. Rizik reinvestiranja, 3. Rizik prijevremenog vraćanja i opcije opoziva (call risk), 4. Rizik likvidnosti, 5. Rizik deviznih kurseva, 6. Rizik inflacije, 7. Makroekonomski i eksterni rizici.

Zaštita od istih se vrši na sledeći način:

Kako se rizik od kamatne stope sastoji od serije cash flow-a, rizik kod fiksnih stopa od kamatne stope se uvećava kako raste kamatna stopa. Kako raste kamatna stopa na trzistu, postojeći ugovori imaju fiksne prihode od kamata, postojeći plasmani vrijede manje i manje su atraktivni (da je novac bio na računu mogao bi se plasirati po većim stopama i ostvariti veći prihod, oportuni trošak). Kako su prinosi manji od potencijalnih, mogućnost prodaje tih plasmana se smanjuje, tj snižava se vrijednost plasmana.

Suprotno se dešava ukoliko kamatna stopa opada. Možemo definisati da imamo premiju ako kamatne stope padaju na tržištu, a diskont ako kamatna stopa raste na tržištu.

Pravac kretanja u kamatnoj stopi i veličina promjene ima efekta na vrijednost postojećih plasmana. Dva su ključna faktora: 1. Ročnost, dugoročni plasmani su više osjetljivi na promjenu cijena nego kratkoročni plasmani; 2. Promjena kamatne stope (delta) ima veći uticaj ako su ugovorene stope niže.

Banka prati promjene kamatnih stopa i proaktivno se uskladjuje pokušajem da ima horizontalnu ili ročnu uskladjenost, samim tim i manje ročne gap-ove. Novi plasmani prate tržište i periodična uskladjivanja pasivnih i aktivnih kamatnih stopa kako bi kamatni spread ostao na istom nivou i omogućio Banci bolju profitabilnost.

Reinvesticioni rizik je vezan za ročnost. Što je kraći rok to je manji rizik. Manji je rizik da će novi plasmani imati značajnije promjene u kamatnim stopama i uslovima po kojima će biti plasirani u odnosu na tekuće. Banka vrši dominantno kratkoročne plasmane. U Banci dominantno učešće imaju plasmani pravnim licima, manji dio su plasmani fizičkim licima i mahom dominiraju potrošački, gotovinski krediti i kartice, a minimalno stambeni krediti. Prosječan ponderisani rok plasmana je oko 4 godine.

Rizik od prijevremenog vraćanja je rizik od nemogućnosti predviđanja cash flow-a, planiranja i praćenja. Ovaj rizik, Banka smanjuje ugovaranjem klauzula o naknadi za prijevremeno vraćanje plasmana, a koje su uskladjene sa zakonom o potrošačkim kreditima. Naknada ima isključivu svrhu kompenzacije za troškove na osnovu plaćanja kamata za depozite i kreditne linije iz kojih se finansira i prati ročnu uskladjenost plasmana sa izvorima (pasivom, depozitima i pozajmicama).

Rizik likvidnosti se ogleda u nemogućnosti Banke da se obezbijede sredstva na tržištu za finansiranje aktivnosti pod istim ili sličnim uslovima, kao i da proda plasmane pod istim ili sličnim uslovima. Banka se štiti od toga, nastojanjem maksimalnog uskladjivanja pozicija plasmana sa izvorima i smanjenjem ročnih gap-ova. Novi plasmani prate spread-om nove cijene izvora. Transakcioni troškovi nabavke kreditnih linija, depozita i prodaje plasmana se kompenzuju naknadama i praćenjem istih na aktivnoj strani bilansa Banke.

Zaštita od deviznog kursa se vrši valutnom uskladjenošću plasmana sa izvorima i pokušajem da Banka ima neto otvorenu deviznu poziciju na što manjem nivou. Na taj način promjene deviznog kursa se ne odražavaju na bilans uspjeha, imaju neutralnu poziciju jer plus na strani aktive je minus na strani pasive i obrnuto. Takodje, Banka sagledava valutu klijenta u kojoj posluje i ima cash flow, pa takvim klijentima odobrava valutne plasmane ili vrši investiranja.

Inflacioni rizik takodje utiče na realnu vrijednost novca i narušava povrat na kapital i očekivanja vlasnika Banke. Banka u svojim projekcijama kalkuliše vrijednost novčanih tokova prateći i projekcije inflatornih očekivanja u Crnoj Gori i valuti EUR. Banka dominantan dio posla obavlja u EUR.

Postoje mnogi eksterni faktori i makroekonomski činioci koji se ne mogu predvidjeti i vidjeti u sadašnjem trenutku. Ovdje su uključeni i politički rizik da dužnici neće biti u mogućnosti da redovno servisiraju svoje obaveze, tu su i regulatorni rizik, transferi kapitala, prirodne katastrofe, korporativna restrukturiranja, kupovine, spajanja, akvizicije, itd. Banka prati rejtinge zemalja i raspoložive informacije i pokušava da drži rizik koncentracije na pojedine zemlje, proizvode, klijente, itd., u okviru limita koji ne mogu ugroziti opstanak i poslovanje Banke.

Operativne rizike, Banka smanjuje što većim stepenom automatizacije, procedura, duplih kontrola, internih revizija kao cjelokupnim sistemom internih kontrola.

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Podgorica, 3. maj 2018. godine

Izvršni direktor za poslove podrške poslovanju

BOŽO ĐURAŠKOVIĆ

Glavni izvršni direktor

ESAD ZAIMOVIĆ
