"CROWE MNE" d.o.o.
Broj 98/20
Podgorica, 15.05. 2020.god.

**HIPOTEKARNA BANKA A.D., PODGORICA**

**FINANCIAL STATEMENTS**
**31 DECEMBER 2019**

## CONTENTS

Crowe

**Društvo za reviziju Crowe MNE d.o.o. Podgorica**

**Žiro račun**: 520-34559-91; **Reg. broj**: 5-0803037/1 **PIB**: 03152324; **PDV**: 30/31-17725-0
Vučedolska 7, 81 000 Podgorica

# INDEPENDENT AUDITOR'S REPORT

## To the Shareholders of Hipotekarna banka AD Podgorica

### *Opinion*

We have audited the accompanying financial statements of Hipotekarna Banka AD, Podgorica (hereinafter: "the Bank"), which comprise the balance sheet as at 31 December 2019, income statement, statement of other comprehensive income, 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 (hereinafter 'financial statements'.)

In our opinion, the accompanying financial statements present truly and objectively, in all material respects, the Bank's financial position as of December 31, 2019, as well as its operating results and cash flows for the year ended that day, in accordance with the accounting regulations applicable in Montenegro and the regulations of the Central Bank of Montenegro governing the financial reporting of banks.

### *Basis for opinion*

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

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

### *Key Audit Matters*

Key audit questions are those matters that, in our professional judgment, were of paramount importance for auditing the financial statements of the current period. We have addressed these issues in the context of our audit of the financial statements as a whole and in forming our opinion on them, and we do not give a separate opinion on these issues.

| *Key Audit Matters* | Appropriate audit procedure |
|---|---|
| *Impairment of given loans and receivables from clients and provisions for off-balance sheet items* | |
| As at December 31 2019, the gross value of given loans and receivables from clients amounted EUR 243,316 thousand (31 December 2018: EUR 243,045 thousand), while the total amount of impairment of given loans and receivables from clients amounted EUR 14,404 thousand as od December 31 2019 (31 December 2018: EUR 12,732 thousand). | Based on our risk assessment and industry knowledge we examined the cost of impairment of given loans, receivables from clients and provisions for off-balance sheet items and evaluated the applied methodology as well as used assumptions and in accordance with the key audit matter. |

## INDEPENDENT AUDITOR'S REPORT (continued)

***Key Audit Matters*** **(continued)**

| *Key Audit Matters* | Appropriate audit procedure |
|---|---|
| *Impairment of given loans and receivables from clients and provisions for off-balance sheet items* | |
| The measurement of the cost of impairment of given loans and receivables from clients and provision for off-balance sheet items is considered key audit matter considering that the determination of the amount of provision for impairment requires the significant assessment by the management to determine the moment when the impairment is recognized as well as the impairment amount.<br><br>The most significant consideration relate to:<br><br>• Assumption that are used in the model of expected credit loss for the assessment od credit risk related to exposure and expected credit losses for future cash flow of the client.<br>• Timely identification of the exposure with significant increase of exposure to the credit risk and credit impairment.<br>• Valuation of collateral and assumptions of the future cash flow on individually estimated credit exposures.<br><br>The management disclosed the additional information about the impairment cost of the given loans and receivables from clients for off-balance sheet items in Notes 3.8, 5.2, 7, 17.2 and 23 of the financial statements. | Our audit procedures included:<br>• The assessment of key controls over assumptions which are used in expected credit loss model for the assessment of the credit risk related to exposure and future expected cash flows of the client.<br>• Collection and detailed testing of the evidence which support the assumptions used in the expected credit loss model which are applied in stage allocation, the assumptions which are applied to obtain the twelve-month lifelong probability of default and methods applied to obtain the probability of default based on inability to collect receivables.<br>• Assessment of key controls over the timely identification of exposure with significant increase of the credit risk and exposure identification of the impairment.<br>• Collection and detailed testing of the evidence about identification of exposure with significant increase of the credit risk and identification of exposure based on impairment od loans.<br>• Collection and detailed testing which support the appropriate determination of the impairment cost of the loans and receivables including valuation of collateral and assumptions of future cash flow for individually assessed exposure of the loan impairment.<br>• Assessment of key development of high-risk portfolio from the previous period with regard to industry standards and historical data.<br>• Evaluation of applied methodologies using our knowledge and industry experience.<br>• We included our IT experts and experts for credit risk in the areas that required specific expertise.<br>• Assessment of the accuracy and completeness of disclosure in financial statements. |

## INDEPENDENT AUDITOR'S REPORT (continued)

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Law of Montenegro and other regulations of Central Bank of Montenegro governing the financial reporting of the banks, as well as for those internal controls that management considers it necessary to prepare financial statements that are free from material misstatement, whether due to fraud or error.

When preparing financial statements, management is responsible for assessing the Bank's ability to continue operating in accordance with the going concern principle, disclosing, if necessary, issues relating to going concern principle and applying the principle of going concern as an accounting basis, unless management intends to liquidate The bank either discontinues its business or has no other realistic option other than the above.
The persons responsible for management are responsible for managing the financial reporting process that is established by the Bank.

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

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

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

As part of an audit in accordance with the Law on Audit of Montenegro, Law on Accounting in Montenegro and ISAs applicable in Montenegro, we apply professional judgment and maintain professional scepticism throughout the audit. We also:

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

## INDEPENDENT AUDITOR'S REPORT (continued)

### *Auditor's Responsibilities for the Audit of the Financial Statements* (continued)

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

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

We also provide those charged for managing with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be expected to affect on our independence, and where applicable, related protection measures.

From the matters communicated with those charged with managing, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation excludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be included in our report because it is reasonable to expect the adverse consequences to be greater than benefits of such communication.

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

***Report on other legal and law requirements***

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

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

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

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

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

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

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

The auditing partner on the basis of which this independent auditor's report was prepared is Đorđe Dimić.

Crowe MNE d.o.o. Podgorica

DRUŠTVO ZA REVIZIJU "CROWE MNE" PODGORICA

Đorđe Dimić, Certified Auditor

May 15, 2020. godine

(License no. 072 issued 9 March 2017)

*This is a translation of the original Independent Auditor's Report issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail. We assume no responsibility for the correctness of the English translation of the Bank's financial statements.*

**INCOME STATEMENT**

**For the period from January 1 to December 31, 2019**
**(in thousand EUR)**

| | Notes | 2019. | (in thousand EUR) 2018. |
|---|---|---|---|
| Interest income | 3.1, 6 | 19,741 | 18,768 |
| Interest expenses | 3.1, 6 | (3,091) | (3,679) |
| **Net interest income** | | **16,650** | **15,089** |
| Fee income | 3.2, 9 | 16,989 | 14,489 |
| Fee expenses | 3.2, 9 | (10,775) | (7,328) |
| **Net fee income** | | **6,214** | **7,161** |
| Net profit/loss from derecognition of financial instruments not measured at fair value through income statement. | | 150 | 105 |
| Net foreign exchange gains | | 788 | 698 |
| Net income/(expenses) based on derecognition of other assets | | 311 | 78 |
| Other income | 13 | 246 | 278 |
| Staff costs | 10 | (5,486) | (5,173) |
| Depreciation/amortization cost | 12 | (1,077) | (955) |
| General and administrative costs | 11 | (7,802) | (8,761) |
| Net income/(expenses) based on impairment of financial instruments not valued at fair value through income statement | 3.8.8, 7 | (3,723) | (3,563) |
| Provision cost | 3.14, 8 | (96) | (62) |
| Other expenses | 14 | (786) | (174) |
| **OPERATING PROFIT** | | **5,389** | **4,721** |
| Income tax | 3.6, 15 | (526) | (411) |
| **NET PROFIT** | | **4,863** | **4,310** |
| Earnings per share | 32 | 155.34 | 137.68 |

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

These financial statements are approved on behalf of Board of Directors of Hipotekarna banka A.D., Podgorica, as at 3. February 2020 in Podgorica.

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

Esad Zaimović
Chief executive officer

Ana Golubović
Executive Director for Corporate

Jelena Vuletić
Executive Director for Risks

Nikola Špadijer
Executive director for retail

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## STATEMENT OF OTHER COMPREHENSIVE INCOME
**For the period from January 1 to December 31, 2019**

(In thousand EUR)

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Net profit** | | **4,863** | **4,310** |
| **Other comprehensive income** | | | |
| The effects of changes in the value of securities not measured at fair value through other comprehensive income | | 1.459 | (1,321) |
| **Total other result for current year** | | **1,459** | **(1,321)** |
| **TOTAL OTHER RESULT** | | **6,322** | **2,989** |

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**BALANCE SHEET**
**As of December 31, 2019**

(In thousand EUR)

| | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and deposit accounts held with Central Banks | 3.7, 16 | **137,133** | **129,048** |
| **Financial assets at amortized cost** | | **251,741** | **257,272** |
| Loans and receivables from banks | 3.8.3, 17.1 | 20,864 | 25,110 |
| Loans and receivables from clients | 3.8.3, 17.2 | 228,912 | 230,313 |
| Other financial receivables | | 1,965 | 1,849 |
| **Financial assets at fair value through other comprehensive income** | | **134,758** | **114,467** |
| Securities | 18.1 | 134,758 | 114,467 |
| **Investments in associates and joint ventures at equity method** | | **5** | **5** |
| **Property, Plants and Equipment** | 3.10, 19 | **2,352** | **2,062** |
| **Intangible assets** | 3.10, 20 | **2,037** | **1,766** |
| **Deferred tax assets** | 15c | **24** | **30** |
| **Other assets** | 21 | **2,428** | **2,188** |
| **TOTAL ASSETS** | | **530,478** | **506,838** |
| **LIABILITIES** | | | |
| **Financial liabilities at amortized cost** | | **443,122** | **436,956** |
| Deposits due to banks and Central banks | 22.1 | 1,148 | 1,410 |
| Deposits due to clients | 22.2 | 419,592 | 410,316 |
| Borrowings from clients which are not banks | 22.3 | 22,335 | 25,230 |
| Other financial liabilities | | 47 | - |
| **Reserves** | 23 | **1,535** | **1,831** |
| **Current tax liabilities** | | **514** | **417** |
| **Deferred tax liabilities** | 15c | **209** | **43** |
| **Other liabilities** | 24 | **11,148** | **7,970** |
| **Subordinated debt** | 26 | **22,050** | **14,039** |
| **TOTAL LIABILITIES** | | **478,578** | **461,256** |
| **EQUITY** | | | |
| Share equity | 25 | 16,006 | 16,006 |
| Share issue premium | | 7,444 | 7,444 |
| Retained earnings | | 20,541 | 16,235 |
| Current year Profit/(Loss) | | 4,863 | 4,310 |
| Other reserves | | 3,046 | 1,587 |
| **TOTAL EQUITY** | | **51,900** | **45,582** |
| **TOTAL EQUITY AND LIABILITIES** | | **530,478** | **506,838** |
| **OFF – BALANCE SHEET** | 28 | **766,334** | **661,802** |

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These financial statements are approved on behalf of Board of Directors of Hipotekarna banka A.D., Podgorica, as at 3. February 2020 in Podgorica.

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## STATEMENT OF CHANGES IN EQUITY
**For the period from January 1 to December 31, 2019**
**(in thousand EUR)**

| In thousand EUR | Share capital | Share issue premium | Profit of the year | Other reserves | Total |
|---|---|---|---|---|---|
| **Balance as of January 1, 2018** | 16,006 | 7,444 | 6,860 | 12,286 | 42,596 |
| Effect on the fair value of financial assets through other comprehensive income | - | - | - | (1,321) | (1,321) |
| Other effects of securities on equity | - | - | (3) | - | (3) |
| Transfer of the profit | - | - | 9,378 | (9,378) | - |
| Profit of the current year | - | - | 4,310 | - | 4,310 |
| **Balance as at 31 December 2018** | 16,006 | 7,444 | 20,545 | 1,587 | 45,582 |
| **Balance as of January 1, 2019** | 16,006 | 7,444 | 20,545 | 1,587 | 45,582 |
| Effect on the fair value of financial assets through other comprehensive income | - | - | - | 1,459 | 1,459 |
| Other impact of securities to the Equity | - | - | (4) | - | (4) |
| Transfer of the profit | - | - | 4,863 | - | 4,863 |
| **Balance as at 31 December 2019** | 16,006 | 7,444 | 25,404 | 3,046 | 51,900 |

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

| DESCRIPTION | NOTE | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Inflows from interest and similar income | | 19,829 | 18,178 |
| Outflows from interest and similar expense | | (2,993) | (3,423) |
| Inflows from fees and commissions | | 16,988 | 15,966 |
| Outflows from fees and commissions | | (10,775) | (7,328) |
| Outflows based on earnings of the employees and costs for suppliers | | (22,664) | (20,693) |
| Increase/decrease of the loans and other assets | | (52) | (24,577) |
| Inflow/outflow based on deposits and other liabilities | | 18,995 | 15,837 |
| Paid tax | | (1,052) | (961) |
| Other income | | (46,039) | (36,689) |
| **Net cash inflow / outflow from operating activities** | | **(27,763)** | **(43,690)** |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | | (1,176) | (1,326) |
| Purchase of intangible assets | | (768) | (430) |
| Treasury bills | | 35,616 | 15,534 |
| Income from sale of tangible and fixed assets | | 26 | 67 |
| **Net cash inflow / outflow from investing activities** | | **33,698** | **13,845** |
| **Cash flows from financing activities** | | | |
| Increase in borrowings | | (2,887) | (4,680) |
| **Net cash (outflow)/inflow from financing activities** | | **(2,887)** | **(4,680)** |
| Effects of foreign exchange in cash and cash equivalents | | 788 | 698 |
| **Net (decrease)/increase in cash and cash equivalents** | | **3,836** | **(33,827)** |
| **Cash and cash equivalents, beginning of year** | | **149,169** | **182,996** |
| **Cash and cash equivalents, end of year** | | **153,005** | **149,169** |

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## 1. BANK'S FOUNDATION AND ACTIVITY

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

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

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

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

The Bank is headquartered in Podgorica, at no. 67, Josipa Broza Tita Street. As at December 31, 2018, the Bank had 218 employees of which 25 are provided by the employment agencies (December 31, 2018: 203 employees of which 20 were provided by the employment agencies).

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

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

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

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

In the preparation of the accompanying financial statements, the Bank has applied the accounting policies which are based- with the accounting, banking and tax regulations prevailing in Montenegro.

Banka je u sastavljanju ovih finansijskih izvještaja primjenjivala računovodstvene politike koje su zasnovane na računovodstvenim, bankarskim i poreskim propisima Crne Gore.

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

U skladu sa Zakonom o računovodstvu Crne Gore, Međunarodni računovodstveni standardi („MRS") i Međunarodni standardi finansijskog izvještavanja („MSFI") objavljeni od strane Odbora za međunarodne računovodstvene standarde, moraju biti usvojeni i objavljeni od strane odgovarajućeg nadležnog organa Crne Gore koji je od odgovarajućeg organa Međunarodne federacije računovođa (IFAC) dobio pravo na prevod i objavljivanje. Dakle, samo MSFI i MRS zvanično usvojeni i objavljeni od strane odgovarajućeg nadležnog organa Crne Gore mogu biti u primjeni. Posljednji MSFI i MRS koji su zvanično prevedeni su iz 2009. godine (osim MSFI 7), kao i novodonijeti MSFI 10, 11, 12, i 13 koji se primjenjuju od 2013. godine. In the Decision on Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro, Nos. 22/12, 55/12, 57/13, 44/17 and 82/17), the Central Bank of Montenegro prescribed the mandatory application of IFRS 9 for banks starting from January 1, 2018.

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

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

### 2.2. Rules of estimate

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

- Financial instruments at fair values in income statement,
- Financial instruments at fair value in other total result
- Financial liabilities at fair value through income statement.

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

### 2.3. Official currency of the reports

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

### 2.4. Use of estimates

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

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

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

### 2.5. Going concern

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

### 2.6. Reconciliation of receivables and liabilities

In accordance with the applicable legal regulations the Bank has performed reconciliation of receivables and liabilities with creditors and debtors of the Bank as at 31, December 2019.

### 2.7. Long term employee provision

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

### 2.8. Consolidation

The Bank has no control over any entity.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank consistently applies the adopted accounting policies in all the periods presented in financial statements, except for the deviation which are conditions with the initial application of IFRS 9. The basic accounting policies applicable when compiling the financial statements for 2019. are listed below.

### 3.1. Income and Expenses on the basis of Interests

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

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

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

Amortized cost of the financial asset or financial liability represents the amount by which the financial asset or financial liability are valuated in the moment of initial recognition less for repayment of principal and increased or decreased for cumulative depreciation calculated using effective interest rate, the difference between initial amount and the amount of the maturity and for financial assets, corrected for expected credit loss.

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

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

For financial assets which became credit – impaired after initial recognition the interest rate is calculated by applying effective interest rate method at amortized value of the financial asset. If the financial assets are no longer credit – impaired the calculation of the income is calculated again on a gross basis i.e. the interest is calculated applying effective interest rate on gross carrying amount of the financial asset.

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

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

### 3.2. Fee and commission income and expenses

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

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

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

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

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

### 3.4. Foreign exchange translation

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

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

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

### 3.5. Leases

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

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

### 3.6. Taxes and Contributions

**Income Taxes**

***Current Income Taxes***

Income taxes are calculated and paid in conformity with the Law on Corporate Income Tax article 28 (Official Gazette of Montenegro, No.65/01, 12/02, 80/04, 40/08, 86/09, 73/10, 40/11, 14/12, 61/13 and 55/16). The profit tax rate is proportional and amounts to 9% of the tax base.

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

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

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

*Deferred income taxes*

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

Taxes, contributions and other duties not related to operating results

Taxes, contributions and other duties that are not related to the bank's operating result, include property taxes and other various taxes, fees and contributions paid pursuant to republic and municipal regulations.

### 3.7. Cash and cash equivalents

Cash and cash equivalents comprise cash (EUR and foreign currencies), balances with the Central Bank of Montenegro and other banks.

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

### 3.8 Financial instruments

#### *3.8.1. Recognition*

The purchase or sale of a financial asset or liability is recorded using accounting coverage at the settlement date of the transaction.

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

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

### 3.8 Financial instruments (continued)

### *3.8.2. Classification*

The Bank classifies all its financial assets on the basis of a business model for property management and contractual asset provisions.

The Bank classifies financial assets into the following four categories:

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

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

### *3.8.3. Financial assets and liabilities*

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

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

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

*3.8.3.2* Business model assessment

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

Poslovni model Banke se ne ocjenjuje na osnovu svakog pojedinačnog instrumenta, već na višem nivou grupisanih portfolia i zasniva se na posmatranim faktorima kao što su:

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

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

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

### 3.8 Financial instruments (continued)

### *3.8.3. Financial assets and liabilities (continued)*

*3.8.3.3 SPPI test*

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

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

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

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

*3.8.3.4* Debt instruments valued at FVOCI

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

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

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

*3.8.3.5* Equity instruments at FVOCI

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

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

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 3.8 Financial instruments (continued)

### *3.8.3. Financial assets and liabilities (continued)*

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

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

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

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

### *3.8.4.* Reclassification of financial assets and liabilities

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

### *3.8.5.* Derecognition of financial assets and liabilities

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognize a loan to a customer, amongst others, the Bank considers the following factors:

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

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Recognition of financial liability terminates when the liability is met i.e. when the debt is paid, cancelled or expired.

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

### 3.8. Financial instruments (continued)

#### *3.8.6. Write off*

The financial assets are written off partly or in total only if the Bank withdraws from collection. If the amount that should be written off is greater than accumulated provision for credit losses the difference is initially calculated as additional provision which conflicts with gross carrying amount. Any other additional collection reduces the costs for credit losses.

#### *3.8.7.* Forborne and modified loans

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

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

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

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

#### *3.8.8 Impairment of financial assets and provision*

***Impairment of financial assets***

The Bank's valuation procedure defines a framework for adequately measuring impairment due to credit losses in accordance with International Financial Reporting Standards 9 ("IFRS 9") and the Decision of the Central Bank of Montenegro on Minimum Standards for Credit Risk Management in Banks.

It specifically defines:

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

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

### 3.8 Financial instruments (continued)

#### *3.8.8 Impairment of financial assets and provision (continued)*

The total portfolio is divided into three stages:

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

At stage 2 there are clients with the days of delay 31-90 days with a worsen qualification at Central Bank of Montenegro between two quarters and watch list. At collective assessment at Stage 2 the expected credit loss is calculated for the duration period of financial asset. Note: The watch list is independent of who is on the collective and who is on the individual assessment, i.e. the clients who are monitored with special attention.

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

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

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

I) Individual assessment (IA) is performed for all debt instruments (government or corporate bonds) for which there is no rating of an internationally recognized rating agency, as well as for all funds / deposits given to banks or other financial institutions for which there is no rating of an internationally recognized rating agency.

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

The assessment on an individual basis for clients whose exposure (EAD) is greater than EUR 50 thousand is performed in three steps:

a Client analysis on an individual basis (Mandatory IA) is performed for all clients who meet one of the mandatory 4 criteria:
- CBCG classification - C, D and E (if at least one party is classified in category C, D or E),
- Delays over 90 days (if at least one party has a delay of more than 90 days),
- PRK status, (if at least one party has the status of restructured loans (PRK)),
- Number of blocked days (internal or judicial) for more than 90 days (if the client's account is blocked for more than 90 days).

a. Analysis of clients (preferably IA - Assessment Form) who do not meet any of the 4 mandatory criteria, but meet at least one additional criterion.
Additional criteria for a group of clients - Preferred IA for legal entities are:
- Net profit / loss less than 0 (from the last financial statements),
- Total liabilities / total assets greater than 70% (from the last financial statements),
- Current assets - short-term liabilities - deferred tax liabilities less than 0 (from the last financial statements).

Additional criteria for a group of clients - Preferred IA for individuals:
•The client has not received a salary through an account in the Bank in the last 12 months.
a. Analysis of clients (Soft facts - Assessment Form) who do not meet any of the mandatory 4 criteria, but also none of the additional criteria.
For these clients, the competent commercialist is obliged to state in the Assessment Form in the form of comments some information that he holds (so-called soft facts), which is why he believes that this client should still be viewed on an individual basis.

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 3.8 Financial instruments (continued)

### *3.8.8 Impairment of financial assets and provision (continued)*

The collective assessment is made based on:

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

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

Within the collective assessment we have a division and subdivision:

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

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

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

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

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

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

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

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

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

### 3.8 Financial instruments (continued)

#### *3.8.8 Impairment of financial assets and provision (continued)*

**Reprogrammed loans**

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

### 3.9. Provisions and impairment of loans and receivables

***Calculation of Provisions for Potential Losses***

The Bank is required to classify balance sheet and off-balance sheet exposures to credit risk in the appropriate classification group as well as to calculate the provisions for potential losses in accordance with the applicable Decision on Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro no. 22/12, 55/12, 57/13, 44/17, 82/17 and 86/18). In accordance with the above-mentioned Decision, the Bank implemented the following percentages and numbers of days in default per risk category in calculation of potential losses:

| | As at 31 December 20189 | |
|---|---|---|
| Risk Category | % Provision | Days of delay |
| A | 0.5 | <30 |
| B1 | 2 | 31-60 |
| B2 | 7 | 61-90 |
| C1 | 20 | 91-150 |
| C2 | 40 | 151-270 |
| D | 70 | 271-365 |
| E | 100 | >365 |

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

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

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

### 3.10. Property, Plant, Equipment and Intangible Assets

**Property, Plant and Equipment**

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

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

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

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

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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.11. The Bank's Equity

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

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

### 3.12. Employee benefits

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

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

**Retirement Benefits or Other Long-Term Employee Benefits**

In accordance with the Report of the Actuary, the Bank has calculated obligation to pay retirement benefits to an employee upon his/her regular retirement in the amount of 3 net average salaries.

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

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

### 3.13. Fair Value

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

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

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

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

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

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

### 3.13. Fair Value (continued)

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

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

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

### 3.14. Provisions

Provisions are recognized when:

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

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

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

### 3.15. Financial guarantees

Financial guarantees are contracts by which the Bank is obligated to make payments to its users for losses incurred due to non-fulfillment of the obligation to pay a certain debtor upon maturity, in accordance with the terms of the debt instrument. Liabilities under financial guarantees are initially recognized at fair value, and the initial fair value is amortized over the lifetime of the financial guarantee. The liability under the guarantee is subsequently measured in the amount higher than amortized cost and the present value of the expected future payment (when payment under the guarantee is probable). Financial guarantees are recorded under off-balance sheet items.
The fee received is recognized in the income statement.

## 4. ACCOUNTING POLICIES AND ASSUMPTIONS

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

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

**Losses from impairment of the financial assets**

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

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

**Fair Value**

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

Contingent liabilities

Contingent liabilities include provisions for severance pay and litigations. For purpose of the calculation and valuation of contingent liabilities the management of the Bank defines assumptions about probability and amount of the outflow of the resources i.e. contingent outcome and the amount of liabilities based on litigations. The management of the Bank assesses the amount of provision for outflow of the assets based on litigations on the basis of assessment by the Banks legal representatives, the probability that the outflow of the assets will occur according to contractual or legal obligation from previous period.

**Lifetime of intangible assets, properties, plants and equipment**

Determining the lifetime of intangible assets, properties, plants and equipment is based on previous experience with similar assets as well as anticipated technical development and changes that are influenced by a large number of economic and industrial factors. The adequacy of a certain useful lifetime is reconsidered at an annual level or whenever there is an indication that there has been a significant change of the factors which presented the basis for determining the lifetime. The Bank reviews the useful lives of intangible assets, property, plant and equipment in each annual reporting period.

# 5. RISK MANAGEMENT

## 5.1 Risk management - introduction

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

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

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

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

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

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

## 5. RISK MANAGEMENT (CONTINUED)

### 5.2. 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, 82/17 and 86/18), which was implemented as at January 1, 2013, and which involves the use of International financial reporting standards on measurement and disclosure of off-balance sheet items of assets and off-balance sheet items. Pursuant to the above decision, the Bank has established a methodology for assessment of impairment of balance sheet assets and probable losses on off- balance sheet items. The Bank has consistently applied the methodology, reviewed at least annually and, if necessary, adjusted the results of the review, and adjusted the assumptions upon which the methodology is based.

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

### 5.2.1. Credit risk management

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

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

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

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

#### Irrevocable and contingent commitments based on loan

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

## 5. RISK MANAGEMENT (CONTINUED)

### 5.2. Credit risk (continued)

### 5.2.2. Provision for impairment losses

As of the date of preparation of the financial statements, the Bank assesses whether there is any objective evidence that a financial asset or a group of financial assets are impaired in accordance with IFRS 9. 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 and/or PRK status
- number of days in blockade (internal or judicial);
- Central Bank of Montenegro classification (if at least one party is classified in category C, D or E);kršenje ugovora, finansijske teškoće dužnika;
- 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
- • as well as a set of additional criteria that may indicate a potential impairment of the financial asset in the future, and these are for legal entities:

  - Net profit / loss less than 0 (from the last financial statements);
  - Total liabilities / total assets greater than 70% (from the last financial statements);
  - Current assets - short-term liabilities - deferred tax liabilities less than 0 (from the last financial statements);

and for individuals:

  - The client does not receive a salary through an account in the Bank in the last 12 months.

In accordance with the adopted methodology, the Bank performs individual assessment as to whether there is objective evidence of impairment of individually significant financial assets. By calculating the present value of estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from excluding reduction of costs for obtaining and selling the collateral, regardless of whether the exclusion is probable or not.

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

# 5. RISK MANAGEMENT (CONTINUED)

## 5.2. Credit risk (continued)

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

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

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Gross | Net | Gross | Net |
| **I. Review of the assets** | | | | |
| *Financial assets at amortized value* | | | | |
| Loans and receivables from banks | 20,871 | 20,864 | 25,119 | 25,110 |
| Loans and receivables from clients | 243,316 | 228,912 | 243,045 | 230,313 |
| *Financial assets at fair value through other comprehensive income* | | | | |
| Securities | 134,758 | 134,758 | 114,467 | 114,467 |
| | **398,945** | **384,534** | **382,631** | **369,890** |
| **II. Off-balance sheet items** | | | | |
| Payable guarantees | 36,488 | 36,201 | 38,972 | 38,478 |
| Performance guarantees | 25,097 | 25,039 | 25,603 | 25,510 |
| Irrevocable commitments | 35,665 | 34,989 | 29,846 | 29,184 |
| Other | 21,296 | 21,225 | 24,863 | 24,685 |
| | **118,546** | **117,454** | **119,284** | **117,857** |
| **Total (I+II)** | **517,491** | **501,988** | **501,915** | **487,747** |

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

Financial assets at fair value through other comprehensive income - securities are classified in Stage 1, considering that within them no delays in settling receivables were recorded.

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 value, by which is meant the market value less any costs relating to the realization of collateral.

Types of collaterals are as follows:

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

## 5. RISK MANAGEMENT (CONTINUED)

### 5.2. Credit risk (continued)

### 5.2.4. Quality of financial placements

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

**LOANS AND RECEIVABLES FROM CLIENTS, BANKS AND OTHER FINANCIAL ORGANIZATIONS**

In thousand EUR

| 31 December 2019 | S1 | S2 | S3 | Total | Impairment S1 | Impairment S2 | Impairment S3 | Total Impairment | Net |
|---|---|---|---|---|---|---|---|---|---|
| Housing loans | 798 | 77 | 87 | 962 | (18) | (1) | (19) | (38) | 924 |
| Cash loans | 81,795 | 10,930 | 2,416 | 95,141 | (1,326) | (927) | (954) | (3,207) | 91,934 |
| Vehicle purchase | 527 | 38 | - | 565 | (4) | (4) | - | (8) | 557 |
| Adaptation of residential or business premises | - | - | 1 | 1 | - | - | - | - | 1 |
| Other | 4,932 | 652 | 268 | 5,852 | (53) | (25) | (114) | (192) | 5,660 |
| **Total retail** | **88,052** | **11,697** | **2,772** | **102,521** | **(1,401)** | **(957)** | **(1,087)** | **(3,445)** | **99,076** |
| Large enterprises | 11,360 | - | 10,578 | 21,938 | (302) | - | (2,702) | (3,004) | 18,934 |
| Medium enterprises | 21,178 | 809 | 7,678 | 29,665 | (1,515) | (79) | (1,326) | (2,920) | 26,745 |
| Small enterprises | 65,578 | 12,316 | 4,295 | 82,189 | (2,371) | (666) | (1,996) | (5,033) | 77,156 |
| State | 7,003 | - | - | 7,003 | (2) | - | - | (2) | 7,001 |
| **Corporate clients** | **105,119** | **13,125** | **22,551** | **140,795** | **(4,190)** | **(745)** | **(6,024)** | **(10,959)** | **129,836** |
| **Total** | **193,171** | **24,822** | **25,323** | **243,316** | **(5,591)** | **(1,702)** | **(7,111)** | **(14,404)** | **228,912** |
| **Banks** | **20,871** | **-** | **-** | **20,871** | **(7)** | **-** | **-** | **(7)** | **20,864** |

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## 5. RISK MANAGEMENT (CONTINUED)

### 5.2. Credit risk (continued)

### 5.2.4. Quality of financial placements (continued)

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

In thousand EUR

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

## 5. RISK MANAGEMENT (CONTINUED)

### 5.2. Credit risk (continued)

#### 5.2.4. Quality of financial placements (continued)

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

In thousand EUR

| 31 December 2019 | Not in delay | Delay up to 30 days | From 31-60 days | From 61-90 days | Total |
|---|---|---|---|---|---|
| Housing loans | 798 | - | - | - | 798 |
| Cash loans | 81,378 | 417 | - | - | 81,795 |
| Vehicle purchase | 527 | - | - | - | 527 |
| Other | 4,506 | 426 | - | - | 4,932 |
| **Total retail** | **87,209** | **843** | **-** | **-** | **88,052** |
| Large enterprises | 11,360 | - | - | - | 11,360 |
| Medium enterprises | 21,178 | - | - | - | 21,178 |
| Small enterprises | 65,471 | 107 | - | - | 65,578 |
| State | 7,003 | - | - | - | 7,003 |
| **Corporate clients** | **105,012** | **107** | **-** | **-** | **105,119** |
| **Total** | **192,221** | **950** | **-** | **-** | **193,171** |
| **Restructured** | **18,702** | **-** | **-** | **-** | **18,702** |
| **Receivables from Banks** | **20,871** | **-** | **-** | **-** | **20,871** |

In thousand EUR

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

## 5. RISK MANAGEMENT (CONTINUED)

### 5.2. Credit risk (continued)

### 5.2.4. Quality of financial placements (continued)

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

In thousand EUR

| 31 December 2019 | Not in delay | Delay up to 30 days | From 31-60 days | From 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|---|
| Housing loans | - | 28 | 49 | - | - | 77 |
| Cash loans | 6,952 | 2,469 | 1,456 | 53 | - | 10,930 |
| Vehicle purchase | 19 | - | 19 | - | - | 38 |
| Other | 338 | 199 | 91 | 24 | - | 652 |
| **Total retail** | **7,309** | **2,696** | **1,615** | **77** | **-** | **11,697** |
| Medium enterprises | 711 | 37 | 61 | - | - | 809 |
| Small enterprises | 8,769 | 1,136 | 2,279 | 132 | - | 12,316 |
| **Corporate clients** | **9,480** | **1,173** | **2,340** | **132** | **-** | **13,125** |
| **Total** | **16,789** | **3,869** | **3,955** | **209** | **-** | **24,822** |
| **Restructured** | **1,204** | **380** | **240** | **-** | **-** | **1,824** |
| **Receivables from Banks** | **-** | **-** | **-** | **-** | **-** | **-** |

In thousand EUR

| 31 December 2018 | Not in delay | Delay up to 30 days | From 31-60 days | From 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|---|
| Housing loans | 70 | 64 | 30 | - | - | 164 |
| Cash loans | 3,595 | 4,621 | 1,236 | 41 | - | 9,493 |
| Vehicle purchase | 25 | - | - | - | - | 25 |
| Adaptation of residential or business premises | - | - | 5 | - | - | 5 |
| Other | 203 | 382 | 102 | 42 | - | 729 |
| **Total retail** | **3,893** | **5,067** | **1,373** | **83** | **-** | **10,416** |
| Large enterprises | 6,132 | - | 1,568 | - | - | 7,700 |
| Medium enterprises | 8,454 | - | - | - | - | 8,454 |
| Small enterprises | 4,173 | 3,620 | 859 | - | - | 8,652 |
| **Corporate clients** | **18,759** | **3,620** | **2,427** | **-** | **-** | **24,806** |
| **Total** | **22,652** | **8,687** | **3,800** | **83** | **-** | **35,222** |
| **Restructured** | **6,072** | **1,071** | **483** | **-** | **-** | **7,626** |
| **Receivables from Banks** | **-** | **-** | **-** | **-** | **-** | **-** |

## 5. RISK MANAGEMENT (CONTINUED)

### 5.2. Credit risk (continued)

#### 5.2.4. Quality of financial placements (continued)

Receivables from clients at Stage 3 as follows:

In thousand EUR

| 31 December 2019 | Not in delay | Delay up to 30 days | From 31-60 days | From 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|---|
| Housing loans | - | - | - | - | 87 | 87 |
| Cash loans | 93 | 37 | 150 | 11 | 2,125 | 2,416 |
| Adaptation of residential or business premises | - | - | - | - | 1 | 1 |
| Other | 54 | 34 | 13 | 10 | 157 | 268 |
| **Total retail** | **147** | **71** | **163** | **21** | **2,370** | **2,772** |
| Large enterprises | 6,141 | - | 1,881 | - | 2,556 | 10,578 |
| Medium enterprises | 7,678 | - | - | - | - | 7,678 |
| Small enterprises | 1,087 | 528 | 687 | - | 1,993 | 4,295 |
| **Corporate clients** | **14,906** | **528** | **2,568** | **-** | **4,549** | **22,551** |
| **Total** | **15,053** | **599** | **2,731** | **21** | **6,919** | **25,323** |
| **Restructured** | **7,678** | **114** | **2,568** | **-** | **2,349** | **12,709** |
| **Receivables from Banks** | **-** | **-** | **-** | **-** | **-** | **-** |

In thousand EUR

| 31 December 2019 | Not in delay | Delay up to 30 days | From 31-60 days | From 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|---|
| Housing loans | - | - | 8 | - | 99 | 107 |
| Cash loans | 62 | 60 | 152 | 3 | 1,304 | 1,581 |
| Adaptation of residential or business premises | - | - | - | - | 2 | 2 |
| Other | 45 | 28 | 10 | 5 | 136 | 224 |
| **Total retail** | **107** | **88** | **170** | **8** | **1,541** | **1,914** |
| Large enterprises | - | - | - | - | 1,933 | 1,933 |
| Small enterprises | 1,013 | 259 | 3 | 1,228 | 5,714 | 8,217 |
| **Corporate clients** | **1,013** | **259** | **3** | **1,228** | **7,647** | **10,150** |
| **Total** | **1,120** | **347** | **173** | **1,236** | **9,188** | **12,064** |
| **Restructured** | **817** | **-** | **-** | **1,228** | **5,706** | **7,751** |
| **Receivables from Banks** | **-** | **-** | **-** | **-** | **-** | **-** |

## 5. RISK MANAGEMENT (CONTINUED)

### 5.2. Credit risk (continued)

#### 5.2.4. Quality of financial placements (continued)

Receivables from clients at Stage 3 as follows:

In thousand EUR

| 31 December 2019 | Gross exposure | Impairment | S 3 receivables | Restructured S3 receivables | Impairment S3 | Percentage of S3 receivables in gross exposures | Amount of collateral for S3 |
|---|---|---|---|---|---|---|---|
| **Retail** | **102,521** | **(3,445)** | **2,772** | **42** | **(1,087)** | **2,70%** | **4,991** |
| Housing loans | 962 | (38) | 87 | 29 | (19) | 9,04% | 423 |
| Cash loans | 95,141 | (3,207) | 2,416 | 13 | (954) | 2,54% | 4,420 |
| Vehicle purchase | 565 | (8) | - | - | - | 0,00% | - |
| Adaptation of residential or business premises | 1 | - | 1 | - | - | 100,00% | 104 |
| Other | 5,852 | (192) | 268 | - | (114) | 4,58% | 44 |
| **Corporate** | **140,795** | **(10,959)** | **22,551** | **12,667** | **(6,024)** | **16,02%** | **45,657** |
| Agriculture | 3,393 | (69) | 33 | - | (13) | 0,97% | 58 |
| Manufacturing industry | 8,969 | (155) | 177 | 7 | (41) | 1,97% | 372 |
| Electricity | 1,505 | (109) | - | - | - | 0,00% | - |
| Construction | 24,270 | (2,142) | 1,254 | - | (353) | 5,17% | 2,997 |
| Wholesale and retail trade | 37,612 | (1,590) | 766 | 268 | (451) | 2,04% | 3,733 |
| Service activities | 914 | (26) | 19 | - | (11) | 2,08% | - |
| Activates related to real estate | 3,569 | (480) | 687 | 687 | (405) | 19,25% | 3,288 |
| Other | 60,563 | (6,388) | 19,615 | 11,705 | (4,750) | 32,39% | 35,209 |
| **Total** | **243,316** | **(14,404)** | **25,323** | **12,709** | **(7,111)** | **10,41%** | **50,648** |
| **Receivables from Banks** | **20,871** | **(7)** | **-** | **-** | **-** | **0,00%** | **-** |

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## 5. RISK MANAGEMENT (CONTINUED)

### 5.2. Credit risk (continued)

#### 5.2.4. Quality of financial placements (continued)

Receivables from clients at Stage 3 as follows:
:

| 31 December 2018 | Gross exposure | Impairment | S 3 receivables | Restructured S3 receivables | Impairment S3 | Percentage of S3 receivables in gross exposures | In thousand EUR Amount of collateral for S3 |
|---|---|---|---|---|---|---|---|
| **Retail** | **91,215** | **(2,863)** | **1,914** | **53** | **(805)** | **2%** | **4,136** |
| Housing loans | 1,292 | (69) | 107 | 38 | (57) | 8% | 775 |
| Cash loans | 83,426 | (2,588) | 1,581 | 15 | (653) | 2% | 3,208 |
| Vehicle purchase | 453 | (5) | - | - | - | 0% | - |
| Adaptation of residential or business premises | 7 | (1) | 2 | - | (1) | 29% | 134 |
| Other | 6,037 | (200) | 224 | - | (94) | 4% | 19 |
| **Corporate** | **151,830** | **(9,869)** | **10,150** | **7,698** | **(5,733)** | **7%** | **25,097** |
| Agriculture | 459 | (152) | 268 | - | (149) | 58% | 464 |
| Manufacturing industry | 11,113 | (2,091) | 2,094 | 1,946 | (1,953) | 19% | 893 |
| Electricity | 301 | (12) | - | - | - | 0% | - |
| Construction | 25,398 | (1,288) | 475 | - | (300) | 2% | 931 |
| Wholesale and retail trade | 49,455 | (2,711) | 1,612 | 963 | (1,421) | 3% | 3,782 |
| Service activities | 826 | (8) | - | - | - | 0% | - |
| Activates related to real estate | 3,598 | (431) | 1,228 | 1,228 | (386) | 34% | 3,288 |
| Other | 60,680 | (3,176) | 4,473 | 3,561 | (1,524) | 7% | 15,739 |
| **Total** | **243,045** | **(12,732)** | **12,064** | **7,751** | **(6,538)** | **5%** | **29,233** |
| **Receivables from Banks** | **25,119** | **(9)** | - | - | - | **0%** | - |

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## 5. RISK MANAGEMENT (CONTINUED)

### 5.2. Credit risk (continued)

### 5.2.4. Quality of financial placements (continued)

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

| | Gross 31 December 2018. | New S3 clients | Reduction of existing S3 clients | Increasement of existing S3 clients | Closed S3 clients | Gross 31 December 2019 |
|---|---|---|---|---|---|---|
| Housing loans | 107 | - | (10) | - | (10) | 87 |
| Cash loans | 1,581 | 1,477 | (170) | 1 | (473) | 2,416 |
| Adaptation of residential or business premises | 2 | - | - | - | (1) | 1 |
| Other | 224 | 185 | (24) | 9 | (126) | 268 |
| **Retail** | **1,914** | **1,662** | **(204)** | **10** | **(610)** | **2,772** |
| Large enterprises | 1,933 | 8,645 | - | - | - | 10,578 |
| Medium enterprises | - | 7,678 | - | - | - | 7,678 |
| Small enterprises | 8,217 | 2,100 | (1,278) | - | (4,744) | 4,295 |
| **Corporate clients** | **10,150** | **18,423** | **(1,278)** | **-** | **(4,744)** | **22,551** |
| **Total** | **12,064** | **20,085** | **(1,482)** | **10** | **(5,354)** | **25,323** |
| **Receivables from banks** | **-** | **-** | **-** | **-** | **-** | **-** |

## 5. RISK MANAGEMENT (CONTINUED)

### 5.2. Credit risk (continued)

#### 5.2.4. Quality of financial placements (continued)

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

| | Gross 31 December 2018. | New S3 clients | Reduction of existing S3 clients | Increasement of existing S3 clients | Closed S3 clients | Gross 31 December 2019 |
|---|---|---|---|---|---|---|
| Housing loans | (57) | - | 38 | - | - | (19) |
| Cash loans | (653) | (437) | 73 | (131) | 194 | (954) |
| Adaptation of residential or business premises | (1) | - | - | - | 1 | - |
| Other | (94) | (65) | 15 | (11) | 41 | (114) |
| **Retail** | **(805)** | **(502)** | **126** | **(142)** | **236** | **(1,087)** |
| Large enterprises | (1,933) | (769) | - | - | - | (2,702) |
| Medium enterprises | - | (1,326) | - | - | - | (1,326) |
| Small enterprises | (3,800) | (398) | 77 | (170) | 2,295 | (1,996) |
| **Corporate clients** | **(5,733)** | **(2,493)** | **77** | **(170)** | **2,295** | **(6,024)** |
| **Total** | **(6,538)** | **(2,995)** | **203** | **(312)** | **2,531** | **(7,111)** |
| **Receivables from banks** | - | - | - | - | - | - |

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## 5. RISK MANAGEMENT (CONTINUED)

## 5.2. Credit risk (continued)

### 5.2.4. Quality of financial placements (continued)

### 5.2.4.1. Restructured loans and placements

The table below gives an overview of the restructured receivables:

In thousand EUR

| 31 December 2019 | Restructured receivables – gross exposure | S1 restructured receivables | S2 restructured receivables | S3 restructured receivables | Impairment of restructured receivables | Impairment of S1 restructured receivables | Impairment of S2 restructured receivables | Impairment of S3 restructured receivables | Percentage of restructured receivables in gross exposure | Amount of collateral for restructured receivables |
|---|---|---|---|---|---|---|---|---|---|---|
| **Retail** | **1,097** | **999** | **56** | **42** | **57** | **40** | **-** | **17** | **1%** | **3,426** |
| Housing loans | 54 | 25 | - | 29 | 16 | - | - | 16 | 6% | 572 |
| Cash loans | 1,043 | 974 | 56 | 13 | 41 | 40 | - | 1 | 1% | 2,854 |
| **Corporate** | **32,138** | **17,703** | **1,768** | **12,667** | **5,605** | **674** | **85** | **4,846** | **23%** | **60,502** |
| Agriculture | - | 302 | - | - | 9 | 9 | - | - | 0% | 199 |
| Manufacturing industry | 585 | - | 578 | 7 | - | - | - | - | 7% | 1,271 |
| Construction | 4,731 | 4,482 | 249 | - | 383 | 364 | 19 | - | 19% | 13,182 |
| Wholesale and retail | 1,869 | 1,373 | 228 | 268 | 269 | 51 | 14 | 204 | 5% | 10,899 |
| Real estate activities | 1,308 | 73 | 548 | 687 | 458 | 6 | 47 | 405 | 37% | 3,408 |
| Other | 23,343 | 11,473 | 165 | 11,705 | 4,486 | 244 | 5 | 4,237 | 39% | 31,543 |
| **Total** | **33,235** | **18,702** | **1,824** | **12,709** | **5,662** | **714** | **85** | **4,863** | **14%** | **63,928** |
| **Receivables from banks** | - | - | - | - | - | - | - | - | **0%** | - |

# 5. RISK MANAGEMENT (CONTINUED)

## 5.2. Credit risk (continued)

### 5.2.4. Quality of financial placements (continued)

### 5.2.4.1. Restructured loans and placements

The table below gives an overview of the restructured receivables:

In thousand EUR

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

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## 5. RISK MANAGEMENT (CONTINUED)

### 5.2. Credit risk (continued)

#### 5.2.4. Quality of financial placements (continued)

#### 5.2.4.1. Restructured loans and placements

The table below gives an overview of the restructured receivables:

**CHANGES OF S1 RESTRUCTURED RECEIVABLES**

| | Gross 31 December 2018 | New restructured S1 receivables | Reduction of S1 restructured receivables | Impact of the course | Other changes | Gross December 31, 2019 | Net December 31, 2019 |
|---|---|---|---|---|---|---|---|
| Housing loans | 47 | - | (7) | - | (15) | 25 | 25 |
| Cash loans | 712 | 47 | (172) | - | 387 | 974 | 934 |
| **Retail** | **759** | **47** | **(179)** | **-** | **372** | **999** | **959** |
| Medium enterprises | 1,005 | 1,592 | - | - | (524) | 2,073 | 1,941 |
| Small enterprises | 1,850 | 7,249 | - | - | (472) | 8,627 | 8,089 |
| State | - | 7,003 | - | - | - | 7,003 | 7,001 |
| **Corporate** | **2,855** | **15,844** | **-** | **-** | **(996)** | **17,703** | **17,031** |
| **Total** | **3,614** | **15,891** | **(179)** | **-** | **(624)** | **18,702** | **17,990** |
| **Receivables from banks** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

## 5. RISK MANAGEMENT (CONTINUED)

### 5.2. Credit risk (continued)

#### 5.2.4. Quality of financial placements (continued)

#### 5.2.4.1. Restructured loans and placements (continued)

The table below gives an overview of the restructured receivables:

**CHANGES OF S2 RESTRUCTURED RECEIVABLES**

| | Gross 31 december 2018 | New restructured S2 receivables | Reduction of S2 restructured receivables | Impact of the course | Other changes | Gross December 31, 2019 | Net December 31, 2019 |
|---|---|---|---|---|---|---|---|
| Cash loans | - | 56 | - | - | - | 56 | 56 |
| **Retail** | **-** | **56** | **-** | **-** | **-** | **56** | **56** |
| Large enterprises | 259 | - | - | - | (259) | - | - |
| Medium enterprises | 5,387 | 548 | - | - | (5,377) | 558 | 501 |
| Small enterprises | 1,980 | 375 | - | - | (1,145) | 1,210 | 1,183 |
| **Corporate** | **7,626** | **923** | **-** | **-** | **(6,781)** | **1,768** | **1,684** |
| **Total** | **7,626** | **979** | **-** | **-** | **(6,781)** | **1,824** | **1,740** |
| **Receivables from banks** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

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## 5. RISK MANAGEMENT (CONTINUED)

### 5.2. Credit risk (continued)

#### 5.2.4. Quality of financial placements (continued)

#### 5.2.4.1. Restructured loans and placements (continued)

The table below gives an overview of the restructured receivables:

**CHANGES OF S3 RESTRUCTURED RECEIVABLES**

| - | Gross 31 December 2018 | New restructured S3 receivables | Reduction of S3 restructured receivables | Impact of the course | Other changes | Gross December 31, 2019 | Net December 31, 2019 |
|---|---|---|---|---|---|---|---|
| Housing loans | 38 | - | (9) | - | - | 29 | 13 |
| Cash loans | 14 | - | - | - | (1) | 13 | 12 |
| **Retail** | **52** | **-** | **(9)** | **-** | **(1)** | **42** | **25** |
| Large enterprises | 1,934 | 1,881 | - | - | (1) | 3,814 | 1,117 |
| Medium enterprises | - | 7,678 | - | - | - | 7,678 | 6,352 |
| Small enterprises | 5,765 | 153 | - | - | (4,743) | 1,175 | 353 |
| **Corporate** | **7,699** | **9,712** | **-** | **-** | **(4,744)** | **12,667** | **7,822** |
| **Total** | **7,751** | **9,712** | **(9)** | **-** | **(4,745)** | **12,709** | **7,847** |
| **Receivables from banks** | - | - | - | - | - | - | - |

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# 5. RISK MANAGEMENT (CONTINIUED)

## 5.2. Credit risk (continued)

### 5.2.4. Quality of financial placement (continued)

#### 5.2.4.2. Loans and receivables from customers covered by collateral

| December 31, 2019 | S 1 clients | | | | | S 2 clients | | | | | S 3 clients | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Properties | Deposits | Guarantee | Other collateral | Total | Properties | Deposits | Guarantee | Other collateral | Total | Properties | Deposits | Guarantee | Other collateral | Total |
| Housing loans | 798 | - | - | - | 798 | 77 | - | - | - | 77 | 87 | - | - | - | 87 |
| Cash loans | 19,735 | 3,276 | - | 58,784 | 81,795 | 4,314 | 96 | - | 6,520 | 10,930 | 946 | 18 | - | 1,452 | 2,416 |
| Vehicle loans | 19 | - | - | 508 | 527 | - | - | - | 38 | 38 | - | - | - | - | - |
| Adaptation of residential or business premises | - | - | - | - | - | - | - | - | - | - | 1 | - | - | - | 1 |
| Other | 534 | 247 | - | 4,151 | 4,932 | 6 | 71 | - | 575 | 652 | - | 15 | - | 253 | 268 |
| Retail | 21,086 | 3,523 | - | 63,443 | 88,052 | 4,397 | 167 | - | 7,133 | 11,697 | 1,034 | 33 | - | 1,705 | 2,772 |
| Large enterprises | 2,051 | 4 | | 9,305 | 11,360 | - | - | - | - | - | 1,881 | 6,141 | 623 | 1,933 | 10,578 |
| Medium enterprises | 16,329 | 93 | - | 4,756 | 21,178 | 72 | - | - | 737 | 809 | 7,678 | - | - | - | 7,678 |
| Small enterprises | 48,368 | 1,657 | 1 | 15,552 | 65,578 | 11,037 | 410 | - | 869 | 12,316 | 3,673 | - | - | 622 | 4,295 |
| State | - | - | - | 7,003 | 7,003 | - | - | - | - | - | - | - | - | - | - |
| Corporate | 66,748 | 1,754 | 1 | 36,616 | 105,119 | 11,109 | 410 | - | 1,606 | 13,125 | 13,232 | 6,141 | 623 | 2,555 | 22,551 |
| Total | 87,834 | 5,277 | 1 | 100,059 | 193,171 | 15,506 | 577 | - | 8,739 | 24,822 | 14,266 | 6,174 | 623 | 4,260 | 25,323 |
| Receivables from banks | - | - | 4 | 20,867 | 20,871 | - | - | - | - | - | - | - | - | - | - |

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## 5. RISK MANAGEMENT (CONTINIUED)

## 5.2. Credit risk (continued)

### 5.2.4. Quality of financial placement (continued)

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

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

## 5. RISK MANAGEMENT (CONTINIUED)

### 5.2. Credit risk (continued)

### 5.2.4. Quality of financial placement (continued)

#### 5.2.4.3. Geographic concentration

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

| December 31, 2019 | Receivables from S1 and S2 clients | | | Receivables from S3 clients | | |
|---|---|---|---|---|---|---|
| | Montenegro | EU | Other | Montenegro | EU | Other |
| **Retail** | **92,927** | **4,021** | **2,801** | **2,734** | **3** | **35** |
| Housing loans | 875 | | | 87 | - | |
| Cash loans | 86,039 | 3,980 | 2,706 | 2,381 | - | 35 |
| Vehicle loans | 565 | - | - | - | - | - |
| Adaptation of residential or business premises | - | - | - | 1 | - | - |
| Other | 5,448 | 41 | 95 | 265 | 3 | - |
| **Corporate** | **116,400** | **1,844** | **-** | **20,618** | **1,933** | **-** |
| Agriculture | 3,360 | - | | 33 | - | - |
| Manufacturing industry | 8,792 | - | | 177 | - | - |
| Electricity | 1,505 | - | | - | - | - |
| Construction | 23,016 | - | | 1,254 | - | - |
| Wholesale and retail | 36,846 | - | | 766 | - | - |
| Service activities | 10,663 | - | | 8,611 | - | - |
| Real estate activities | 2,882 | - | | 687 | - | - |
| Other | 29,336 | 1,844 | | 9,090 | 1,933 | - |
| **Total** | **209,327** | **5,865** | **2,801** | **23,352** | **1,936** | **35** |
| **Receivables from banks** | **5,002** | **15,351** | **518** | **-** | **-** | **-** |

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## 5. RISK MANAGEMENT (CONTINIUED)

### 5.2. Credit risk (continued)

### 5.2.4. Quality of financial placement (continued)

### 5.2.4.3. Geographic concentration (continued)

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

| December 31, 2019 | Receivables from S1 and S2 clients | | | | Receivables from S3 clients | | |
|---|---|---|---|---|---|---|---|
| | Montenegro | EU | SAD and Canada | Other | Montenegro | EU | Other |
| **Retail** | **85,695** | **725** | **1** | **2,880** | **1,869** | **-** | **45** |
| Housing loans | 1,185 | - | - | - | 107 | - | - |
| Cash loans | 78,365 | 692 | - | 2,788 | 1,537 | - | 44 |
| Vehicle loans | 453 | - | - | - | - | - | - |
| Adaptation of residential or business premises | 5 | - | - | - | 2 | - | - |
| Other | 5,687 | 33 | 1 | 92 | 223 | - | 1 |
| **Corporate** | **138,244** | **3,436** | **-** | **-** | **8,216** | **1,934** | **-** |
| Agriculture | 191 | - | - | - | 268 | - | - |
| Manufacturing industry | 9,020 | - | - | - | 160 | 1,934 | - |
| Electricity | 301 | - | - | - | - | - | - |
| Construction | 24,923 | - | - | - | 475 | - | - |
| Wholesale and retail | 44,527 | 3,316 | - | - | 1,612 | - | - |
| Service activities | 825 | - | - | - | - | - | - |
| Real estate activities | 2,370 | - | - | - | 1,228 | - | - |
| Other | 56,087 | 120 | - | - | 4,473 | - | - |
| **Total** | **223,939** | **4,161** | **1** | **2,880** | **10,085** | **1,934** | **45** |
| **Receivables from banks** | **5,000** | **18,219** | | **1,900** | **-** | **-** | **-** |

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## 5. RISK MANAGEMENT (CONTINIUED)

## 5.2. Credit risk (continued)

### 5.2.4. Quality of financial placement (continued)

#### 5.2.4.4. Industry concentration

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

In thousand EUR

| | Finance | Transportation, traffic and telecommunication | Services, tourism and catering | Wholesale and retail trade and repair of motor vehicles and motorcycles | Construction | Energetics | Mining | Administration and service activities | Real estate trade | Agriculture, forestry and fishing | Production | Other | Individuals | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Financial assets at amortized value* | | | | | | | | | | | | | | |
| Loans and receivables from banks | 5,000 | - | - | - | - | - | - | - | - | - | - | 15,864 | - | **20,864** |
| Loans and receivables from clients | 1,974 | 11,552 | 18,661 | 36,022 | 22,128 | 1,396 | 4,817 | 2,709 | 3,089 | 3,324 | 8,813 | 15,351 | 99,076 | **228,912** |
| *Financial asset at fair value through other result* | | | | | | | | | | | | | | |
| Securities | 96,514 | - | 24 | 58 | - | - | - | - | 95 | - | - | 38,067 | - | **134,758** |
| **December 31, 2019** | **103,488** | **11,552** | **18,685** | **36,080** | **22,128** | **1,396** | **4,817** | **2,709** | **3,184** | **3,324** | **8,813** | **69,282** | **99,076** | **384,534** |
| **December 31, 2018** | **99,217** | **14,907** | **19,746** | **46,827** | **24,110** | **289** | **3,997** | **2,152** | **3,262** | **307** | **8,997** | **57,726** | **88,353** | **369,890** |

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# 5. RISK MANAGEMENT (CONTINIUED)

## 5.2. Credit risk (continued)

### 5.2.4. Quality of financial placement (continued)

#### 5.2.4.5. Off balance sheet items

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

In thousand EUR

| | Undrawn credit lines | Guarantee | Letters of credit | Total |
|---|---|---|---|---|
| **December 31, 2019** | | | | |
| Up to 1 year | 29,406 | 65,729 | 533 | **95,668** |
| From 1 to 5 years | 5,672 | 15,194 | - | **20,866** |
| Over 5 years | 587 | 1,425 | - | **2,012** |
| | **35,665** | **82,348** | **533** | **118,546** |

In thousand EUR

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

## 5.3. 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.

### 5.3.1. 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.

## 5. RISK MANAGEMENT (CONTINIUED)

### 5.3. Market risk (continued)

### 5.3.1. Foreign exchange Currency Risk (continued)

The exposure to exchange rate risk as at 31 December 2019 is shown in the following table:

| In thousand EUR | USD | GBP | CHF | Other | Total |
|---|---|---|---|---|---|
| Foreign currency assets | 18,327 | 1,454 | 472 | 287 | 20,540 |
| Liabilities in foreign currencies | 18,063 | 1,452 | 475 | 237 | 20,227 |
| **Net open position** | | | | | |
| **- December 31, 2019** | **264** | **2** | **(3)** | **50** | **313** |
| **- December 31, 2018** | **(1,608)** | **11** | **23** | **34** | **(1,540)** |
| **% core capital:** | | | | | |
| **- December 31, 2019** | **1%** | **0%** | **0%** | **0%** | |
| **- December 31, 2018** | **(5%)** | **0%** | **0%** | **0%** | |

| | |
|---|---|
| **Aggregate open position** | |
| **- December 31, 2019** | 313 |
| **- December 31, 2018** | (1,540) |
| **% core capital:** | |
| **- December 31, 2019** | 0,86% |
| **- December 31, 2018** | (5,16%) |

## 5. RISK MANAGEMENT (CONTINIUED)

### 5.3. Market risk (continued)

### 5.3.1. Foreign exchange Currency Risk (continued)

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

**In thousand EUR**
**Change of course**

| | Total | Amount in foreign currency | 10% | -10% |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and deposit accounts with central banks | 137,133 | 1,389 | 139 | (139) |
| *Financial assets at amortized value* | | | | |
| Loans and receivables from banks | 20,864 | 3,899 | 390 | (390) |
| Loans and receivables from clients | 228,912 | - | - | - |
| Other financial assets | 1,965 | 1,963 | 196 | (196) |
| *Financial assets at amortized value through other result* | | | | |
| Securities | 134,758 | 13,289 | 1,329 | (1,329) |
| Other operating receivables | 2,428 | - | - | - |
| **Total assets** | **526,060** | **20,540** | **2,054** | **(2,054)** |
| **Liabilities** | | | | |
| *Financial liabilities at amortized value* | | | | |
| Deposits from banks | 1,148 | - | - | - |
| Deposits from clients | 419,592 | 17,107 | 1,711 | (1,711) |
| Provisions | 1,535 | - | - | - |
| Other liabilities- balance | 11,148 | 3,120 | 312 | (312) |
| **Total liabilities** | **433,423** | **20,227** | **2,023** | **(2,023)** |
| Other liabilities (guarantees and credentials) – off balance | 82,881 | 259 | 26 | (26) |
| **Net exposure to foreign exchange currency risk** | | | | |
| **December 31, 2019** | | | 5 | (5) |
| **December 31, 2018** | | | (135) | 135 |

As at December 31, 2019, assuming that all other parameters remained unchanged by the change in the EUR exchange rate against other currencies by + 10% and -10%, the Bank's profit would have increased or decreased by EUR 5 thousand (December 31, 2018: profit would increase or decrease by EUR 136 thousand). The cause of the Bank's low exposure to the exchange rate change is the fact that the majority of the Bank's receivables and liabilities are expressed in EUR.

## 5. RISK MANAGEMENT (CONTINIUED)

### 5.3. Market risk (continued)

### 5.3.2. Interest rate risk

The following table presents the Bank's interest bearing and non-interest-bearing assets and liabilities as of December 31, 2019:

In thousand EUR

| | Interest bearing | Non-interest bearing | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and deposit accounts with central banks | 15,910 | 121,223 | 137,133 |
| *Financial assets at amortized value* | | | |
| Loans and receivables from banks | 5,000 | 15,864 | 20,864 |
| Loans and receivables from clients and other financial assets | 228,912 | - | 228,912 |
| Other financial assets | 1,965 | - | 1,965 |
| *Financial assets at amortized value through other result* | | | |
| Securities | 125,633 | 9,125 | 134,758 |
| Other operating receivables | - | 2,428 | 2,428 |
| **Total assets** | **377,420** | **148,640** | **526,060** |
| **LIABILITIES** | | | |
| *Financial liabilities at amortized value* | | | |
| Deposits from banks | - | 1,148 | 1,148 |
| Deposits from clients | 384,852 | 34,740 | 419,592 |
| Borrowed funds from other clients | 22,335 | - | 22,335 |
| Subordinated debt | 22,050 | - | 22,050 |
| **Total liabilities** | **429,237** | **35,888** | **465,125** |
| **Exposure to interest rate risk:** | | | |
| **December 31, 2019** | **(51,817)** | **112,752** | **60,935** |
| **December 31, 2018** | **(49,441)** | **101,421** | **51,980** |

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## 5. RISK MANAGEMENT (CONTINIUED)

### 5.3. Market risk (continued)

### 5.3.2. Interest rate risk (continued)

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

| **Type of loan** | **Interest rate** |
|---|---|
| Corporate | |
| - short-term loans from the Bank's assets | 0.6% p.m.-11.50%p.a. |
| - long-term loans from the Bank's assets | 3% p.a.-11.5%p.a. |
| - long-term loans from other sources | 4.5%p.a. |
| - loans to small and medium enterprises up to 24 months | approved at rates from the bank's assets |
| - loans to small and medium enterprises over 24 months | approved at rates from the bank's assets |
| - loans for entrepreneurs up to 24 months | 9.25%p.a. |
| - loans for entrepreneurs over 24 months | 6.50%p.a.-9.25%p.a. |

The active interest rates applied to approved loans to individuals during 2019 are as follows:

| **Type of loan** | **Interest rate** |
|---|---|
| Retail | |
| - cash loans | 0.6%p.m.-12%p.a. |
| - consumer loans | 0% - 8%p.a. |
| - vehicle loans | 4.99%p.a. |

## 5. RISK MANAGEMENT (CONTINIUED)

### 5.3. Market risk (continued)

### 5.3.2. Interest rate risk (continued)

The passive interest rates applied to the receivables of legal entities in 2019 are as follows:

| Type of deposits | Interest rate |
|---|---|
| Deposits at demand | - |
| Short-term deposits | 0-1.25%p.a. |
| Long-term deposits | 0-1.6%p.a. |

The passive interest rates applied to the received deposits of individuals during 2019 are as follows:

| Type of deposits | Interest rate |
|---|---|
| Deposits at demand | |
| Savings demand deposits: | |
| - EUR | 0.01%p.a. |
| - other currencies | - |
| Term deposits in EUR placed: | |
| - for a month | 0.01%p.a. |
| - for 3 months | 0%p.a.-0.08%p.a. |
| - for 6 months | 0%p.a.-0.35%p.a. |
| - for 12 months | 0%p.a.-2.5%p.a. |
| - for 24 months | 1%p.a.-3.7%p.a. |
| - for 36 months | 0%p.a.-2.5%p.a. |
| Term deposits in foreign currencies (USD): | |
| - for 3 months | - |
| - for 6 months | 0.05%p.a. |
| - for 12 months | 0.25%p.a-0.9%p.a. |

## 5. RISK MANAGEMENT (CONTINIUED)

### 5.3. Market risk (continued)

### 5.3.2. Interest rate risk (continued)

Exposure to interest rate risk as at December 31, 2019 is presented in the following table:

In thousand EUR

| **Sensitive assets** | **Up to one month** | **From 1 to 3 months** | **From 3 to 6 months** | **From 6 to 12 months** | **Over 1 year** | **Total** |
|---|---|---|---|---|---|---|
| Cash and deposits accounts with central banks | 15,910 | - | - | - | - | 15,910 |
| *Financial assets at amortized value* | | | | | | |
| Loans and receivables from clients | - | - | - | 5,000 | - | 5,000 |
| Loans and receivables from banks | 22,115 | 19,983 | 13,575 | 61,244 | 111,995 | 228,912 |
| Other financial assets | 1,965 | - | - | - | - | 1,965 |
| *Financial asset at fair value through other result* | | | | | | |
| Securities | 1,339 | 34,037 | 1,526 | 6,427 | 82,303 | 125,633 |
| **Total** | **41,329** | **54,020** | **15,102** | **72,671** | **194,298** | **377,420** |
| % from total interest-bearing assets | 11% | 14% | 4% | 19% | 51% | 100% |
| **Sensitive equity and liabilities** | | | | | | |
| *Financial liabilities at amortized value* | | | | | | |
| Interest bearing deposits from banks | - | - | - | - | - | - |
| Interest bearing deposits from clients | 59,067 | 52,036 | 57,296 | 102,264 | 114,189 | 384,852 |
| Interest bearing clients borrowings | 121 | - | 20 | 60 | 22,134 | 22,335 |
| Subordinated debt | - | - | - | - | 22,050 | 22,050 |
| **Total** | **59,188** | **52,036** | **57,316** | **102,324** | **158,373** | **429,237** |
| % interest bearing liabilities | 14% | 12% | 13% | 24% | 37% | 100% |
| **Interest rate risk exposure:** | | | | | | |
| **- December 31,2019** | **(17,859)** | **1,984** | **(42,214)** | **(29,653)** | **35,925** | **(51,817)** |
| **- December 31,2018** | **(16,022)** | **(3,929)** | **2,482** | **(24,395)** | **(7,577)** | **(49,441)** |
| **Cumulative GAP:** | | | | | | |
| **- December 31,2019** | **(17,859)** | **(15,874)** | **(58,089)** | **(87,742)** | **(51,817)** | |
| **- December 31,2018** | **(16,022)** | **(19,951)** | **(17,469)** | **(41,864)** | **(49,441)** | |

## 5. RISK MANAGEMENT (CONTINIUED)

### 5.3. Market risk (continued)

### 5.3.2. Interest rate risk (continued)

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

| | 2019. | +0.4 b.p. EUR KS +0.3 b.p. FX KS | -0.4 b.p. EUR KS -0.3 b.p. FX KS |
|---|---|---|---|
| **Assets** | | | |
| **Cash and deposits accounts with central banks** | **15,910** | - | - |
| With a fixed interest rate | - | - | - |
| With a variable interest rate | 15,910 | 64 | (64) |
| *Financial assets at amortized value* | | | - |
| **Loans and receivables from banks** | **5,000** | - | - |
| **Loans and receivables from clients** | **228,912** | - | - |
| With a fixed interest rate | 228,912 | - | - |
| With a variable interest rate | - | - | - |
| *Financial assets at fair value through other result* | | | |
| **Securities** | **125,633** | - | - |
| With a fixed interest rate | 125,633 | - | - |
| With a variable interest rate | - | - | - |
| | **375,455** | **64** | **(64)** |
| **Liabilities** | | | |
| *Financial liabilities at amortized value* | | | |
| **Deposits from banks** | - | - | - |
| **Deposits from clients** | **384,852** | - | - |
| **Borrowings from other clients** | **22,335** | - | - |
| With a fixed interest rate | 22,335 | - | - |
| With a variable interest rate | - | - | - |
| **Subordinated debt** | **22,050** | - | - |
| | **429,237** | - | - |
| **Interest rate risk net exposure:** | | | |
| **- December 31,2019** | **(53,782)** | **64** | **(64)** |

Assuming that all other parameters are unchanged by increasing or decreasing the variable interest rate for receivables and liabilities in EUR by 0.4 pp. i.e. for foreign currency receivables and liabilities by 0.3 percentage points, the Bank's profit would have increased or decreased by EUR 64 thousand.

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

## 5. RISK MANAGEMENT (CONTINIUED)

### 5.3. Market risk (continued)

### 5.3.2. Interest rate risk (continued)

The following table shows the effect of changes in interest rates on securities denominated in EUR in the range of 50 b.p. up to 200 b.p .:

***In thousand EUR***

| Securities – fixed rate | Amount | Change in interest rate | Average weighted bp | Change in EUR | Sign |
|---|---|---|---|---|---|
| Short-term | 43,331 | 50 b.p. | 17 | 217 | +/- |
| Medium-term | 4,846 | 100 b.p. | 4 | 48 | +/- |
| Long-term | 77,456 | 200 b.p. | 123 | 1,549 | +/- |
| **Total** | **125,633** | | **144** | **1,814** | **+/-** |

### 5.4. 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.

## 5. RISK MANAGEMENT (CONTINIUED)

### 5.4. Liquidity risk (continued)

The maturity compliance of financial assets and financial liabilities with the expected maturity date as of December 31, 2019 is shown in the review which follows:

In thousand EUR

| | Up to one month | From 1 to 2 months | From 3 to 6 months | From 6 to 12 months | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and deposits accounts with central banks | 121,223 | - | - | - | - | 15,910 | **137,133** |
| *Financial assets at amortized value* | | | | | | | |
| Loans and receivables from banks | 15,864 | - | - | 5,000 | - | - | **20,864** |
| Loans and receivables from clients | 22,115 | 19,983 | 13,575 | 61,244 | 81,289 | 30,706 | **228,912** |
| Other financial assets | 1,965 | - | - | - | - | - | **1,965** |
| Financial asset at fair value through other comprehensive income | | | | | | | |
| Securities | 7,743 | 34,037 | 1,526 | 6,427 | 35,039 | 49,986 | **134,758** |
| Other business receivables | - | - | - | - | - | 2,428 | **2,428** |
| **Total** | **168,910** | **54,020** | **15,101** | **72,671** | **116,328** | **99,030** | **526,060** |
| **Financial liabilities** | | | | | | | |
| *Financial liabilities at amortized value* | | | | | | | |
| Deposits from banks | 1,148 | - | - | - | - | - | **1,148** |
| Deposits from clients | 58,762 | 46,483 | 47,321 | 74,862 | 144,875 | 47,289 | **419,592** |
| Borrowed fund from other clients | 121 | - | 20 | 60 | 9,150 | 12,984 | **22,335** |
| Subordinated debt | (105) | - | - | - | 14,155 | 8,000 | **22,050** |
| **Total** | **59,926** | **46,483** | **47,341** | **74,922** | **168,180** | **68,273** | **465,125** |
| **Maturity incompatibility** | | | | | | | |
| **- December 31, 2019** | **108,984** | **7,537** | **(32,240)** | **(2,251)** | **(51,852)** | **30,757** | **60,935** |
| **- December 31, 2018** | **209,085** | **(17,377)** | **(20,883)** | **(21,730)** | **(101,379)** | **4,264** | **51,980** |
| **Cumulative GAP:** | | | | | | | |
| **- December 31, 2019** | **108,984** | **116,521** | **84,281** | **82,030** | **30,178** | **60,935** | |
| **- December 31, 2018** | **209,085** | **191,708** | **170,825** | **149,095** | **47,716** | **51,980** | |
| **% from total source of assets** | | | | | | | |
| **- December 31, 2019** | **20.72%** | **1.43%** | **(6.13%)** | **(0.43%)** | **(9.86%)** | **5.85%** | |
| **- December 31, 2018** | **41.57%** | **(3.45%)** | **(4.15%)** | **(4.32%)** | **(20.16%)** | **0.85%** | |

## 5. RISK MANAGEMENT (CONTINIUED)

### 5.4. Liquidity risk (continued)

The structure of assets and liabilities as of December 31, 2018 indicates the existence of maturity mismatch of the remaining maturity of assets and liabilities for 1-3 months, 3-6 months, 6-12 months and 1-5 years. The Bank's liquidity, which is its ability to settle its liabilities as due, depends on one hand on the balance sheet structure, and on the other hand, on the matching between cash inflows and outflows. In the cumulative gap there is no maturity mismatching in maturity of assets and liabilities. As at December 31, 2019 demand deposits in the table above are presented by the expected maturity using the model based on the Bank's historical data. The Bank applies this approach to liquidity management as of December 31, 2012.

The maturity compliance of financial assets and financial liabilities with the remaining contractual maturity date as of December 31, 2019 is shown in the review that follows:

In thousand EUR

| - December 31, 2019 | At demand | Up to 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | | |
| Liabilities to banks | 1,148 | - | - | - | - | - | **1,148** |
| Liabilities to clients | 299,076 | 3,321 | 12,261 | 70,002 | 31,374 | 3,558 | **419,592** |
| Borrowed funds from other clients | 121 | - | - | 80 | 9,150 | 12,984 | **22,335** |
| Subordinated debt | (105) | - | - | - | 14,155 | 8,000 | **22,050** |
| | **300,240** | **3,321** | **12,261** | **70,082** | **54,679** | **24,542** | **465,125** |

In thousand EUR

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

## 5. UPRAVLJANJE RIZICIMA (NASTAVAK)

### 5.5. Fer vrijednost finansijskih sredstava i obaveza

In thousand EUR

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | 2019. | 2018. | 2019. | 2018. |
| **Financial assets** | | | | |
| Cash and deposits accounts with central banks | 137,133 | 129,048 | 137,133 | 129,048 |
| *Financial assets at amortized value* | | | | |
| Loans and receivables from banks | 20,864 | 25,110 | 20,864 | 25,110 |
| Loans and receivables from clients | 228,912 | 230,313 | 228,912 | 230,313 |
| Other financial assets | 1,965 | 1,849 | 1,965 | 1,849 |
| *Financial asset at fair value through other result* | | | | |
| Securities | 134,758 | 114,467 | 134,758 | 114,467 |
| Investments in associates and joint ventures by capital method | 5 | 5 | 5 | 5 |
| Other assets | 2,428 | 2,188 | 2,428 | 2,188 |
| | **526,065** | **502,980** | **526,065** | **502,980** |
| **Financial liabilities** | | | | |
| *Financial liabilities at amortized value* | | | | |
| Deposits from banks and central bank | 1,148 | 1,410 | 1,148 | 1,410 |
| Deposits from clients | 419,592 | 410,316 | 419,592 | 410,316 |
| Borrowed funds from other clients | 22,335 | 25,230 | 22,335 | 25,230 |
| Subordinated debt | 22,050 | 14,039 | 22,050 | 14,039 |
| | **465,125** | **450,995** | **465,125** | **450,995** |

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

In thousand EUR

| **December 31, 2019** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| -at fair value through other result | 124,265 | 5,983 | 4,509 | 134,758 |
| **Total** | **124,265** | **5,983** | **4,509** | **134,758** |

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

## 5. RISK MANAGEMENT (CONTINIUED)

### 5.6. Capital management

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

The Bank's management controls capital adequacy by applying the methodology and limits prescribed by the Central Bank of Montenegro (based on Decision on capital adequacy of banks Gazette of Montenegro, 38/11, 55/12, 82/17 and 86/18). The Bank submits quarterly reports on the balance and structure of capital to the Central Bank of Montenegro.

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

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

a) the minimum cash part of the principal amount of EUR 5 million, as prescribed by the Law on banks,

b) the total amount of capital required for all risks.

In accordance with the regulations of the Central Bank of Montenegro, the Bank is obliged to maintain a minimum degree of capital adequacy, expressed as a solvency ratio of 10%. The Bank is obliged to align its business with the prescribed indicators, i.e. to align the scope and structure of its risk placements with the Law on banks and the regulations of the Central Bank of Montenegro. As of December 31, 2019, the solvency ratio calculated by the Bank in financial statements is 16.29% (December 31,2018: 12.50%).

## 6. INTEREST INCOME AND EXPENSES AND SIMILAR INCOME AND EXPENSES

### Interest income

| In thousand EUR | 2019. | 2018. |
|---|---|---|
| **Deposits:** | | |
| - Foreign banks | 57 | 26 |
| - Central bank | 38 | 28 |
| | **95** | **54** |
| **Loans:** | | |
| - Banks | 80 | 79 |
| - State institutions | 211 | 164 |
| - Government of Montenegro | 233 | 338 |
| - Legal entities | 7,502 | 6,671 |
| - Individuals | 7,440 | 7,161 |
| Fee income recognized in interest income: | 1,333 | 1,477 |
| | **16,799** | **15,890** |
| **Securities:** | **2,797** | **2,815** |
| **Purchase operations:** | **22** | **7** |
| **Other interest income** | **28** | **2** |
| **Total interest income** | **19,741** | **18,768** |

### Interest expense

| In thousand EUR | 2019. | 2018. |
|---|---|---|
| **Deposits:** | | |
| - Banks | 74 | 56 |
| - Financial institutions | 40 | 38 |
| - State institutions | 78 | 117 |
| - Legal entities | 244 | 324 |
| - Individuals | 1,262 | 1,609 |
| | **1,698** | **2,144** |
| **Loans and other borrowings** | **512** | **672** |
| **Subordinated debt:** | **881** | **863** |
| **Total interest expense** | **3,091** | **3,679** |

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

| In thousand EUR | 2019. | 2018. |
|---|---|---|
| Net provisions/ (reversal of provisions) based on: | | |
| - loans | 3,821 | 2,810 |
| - deposits at banks | (3) | (38) |
| - securities | (207) | 331 |
| - off balance items | (335) | 442 |
| - other | 447 | 18 |
| | **3,723** | **3,563** |

### 7.1. Changes at impairment accounts

| | December 31,2018 | New placements-increase of impairment | Existing - reduction of impairment | Existing placements - increase of impairment | Closed placements – reversal of impairment | December 31,2019 |
|---|---|---|---|---|---|---|
| Retail | 2,863 | 1,296 | (805) | 784 | (693) | 3,445 |
| Corporate | 9,869 | 5,314 | (761) | 1,008 | (4,470) | 10,959 |
| **Total** | **12,732** | **6,610** | **(1,566)** | **1,792** | **(5,163)** | **14,404** |
| **Receivables** | **9** | **-** | **(4)** | **2** | **-** | **7** |

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## 7.2. Changes on provisions

Changes in the impairment accounts of uncollectible receivables and provisions

**December 31, 2019**

| In thousand EUR | Loans and leases (Note 17.2) | Interest (Note 17.2) | Acquired assets (Note 21) | Reserves for operational risk, country risk and court disputes (Note 23) | Other receivables (Note 21) | Provisions for off balance sheet records (Note 23) | Impairment of securities (Note 18.1) | Impairment of deposits | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance at the beginning of the year | 12,485 | 210 | 1,517 | 392 | 710 | 1,427 | 1,116 | 10 | 17,867 |
| Impairment over the year, net | 3,821 | (4) | - | 96 | 451 | (335) | (207) | (3) | 3,819 |
| Reversal/ impairment that did not affect impairment and provision costs | (2,147) | (9) | (850) | (62) | 3 | - | (15) | - | (3,080) |
| **Balance at the end of year** | **14,159** | **197** | **667** | **426** | **1,164** | **1,092** | **894** | **7** | **18,606** |

**December 31, 2018**

| In thousand EUR | Loans and leases (Note 17.2) | Interest (Note 17.2) | Acquired assets (Note 21) | Reserves for operational risk, country risk and court disputes (Note 23) | Other receivables (Note 21) | Provisions for off balance sheet records (Note 23) | Impairment of securities (Note 18.1) | Impairment of deposits | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance at the beginning of the year | 8,925 | 208 | 1,651 | 330 | 667 | 1,293 | 2,200 | 33 | 15,307 |
| Effects of applying IFRS 9 without affecting income statement | 1,640 | 14 | - | - | 3 | (305) | 785 | 48 | 2,185 |
| Impairment over the year, net | 2,810 | (7) | 11 | 62 | 14 | 442 | 331 | (38) | 3,625 |
| Reversal/ impairment that did not affect income statement | (890) | (5) | (145) | - | 26 | (3) | (2,200) | (33) | (3,250) |
| **Balance at the end of year** | **12,485** | **210** | **1,517** | **392** | **710** | **1,427** | **1,116** | **10** | **17,867** |

## 8. PROVISION COSTS

| In thousand EUR | 2019. | 2018. |
|---|---|---|
| Net provisions based on: | | |
| - litigations | 58 | 67 |
| - other | 38 | (5) |
| | **96** | **62** |

## 9. FEE INCOME AND EXPENSES

**Fee income**

**In thousand EUR**

| | 2019. | 2018. |
|---|---|---|
| Loan fees | 411 | 463 |
| Fees from off-balance-sheet operations | 1,130 | 1,077 |
| Fees from payment transactions and e-banking | 3,021 | 2,652 |
| Fees for foreign payments | 2,086 | 1,971 |
| Fees on credit card operations | 9,168 | 7,376 |
| Other fees and commissions | 1,173 | 950 |
| | **16,989** | **14,489** |

**Fee expenses**

**In thousand EUR**

| | 2019. | 2018. |
|---|---|---|
| Fees payable to the Central Bank | 739 | 591 |
| Fees for foreign payment transactions | 357 | 335 |
| Deposit insurance premium fees | 2,049 | 1,919 |
| Fees paid for borrowings and guarantees | 43 | 52 |
| Fess based on card and ATMs operations | 7,177 | 3,949 |
| Other fees and commissions | 410 | 482 |
| | **10,775** | **7,328** |

During 2019, the reclassification of expenses on the basis of card and ATM operations was performed, which as at 31 December 2018 were recognized under the item General and administrative expenses in the amount of EUR 1,755 thousand.

## 10. PERSONAL EXPENSES

| In thousand EUR | 2019. | 2018. |
|---|---|---|
| Net salaries | 2,597 | 2,579 |
| Taxes and contributions on salaries | 1,895 | 1,866 |
| Other employee benefits, net | 217 | 65 |
| Retirement benefits | - | 12 |
| Remunerations to members of the Board of Directors | 124 | 124 |
| Remunerations to members of the Development committee | 72 | 72 |
| Remunerations to members of the Credit risk committee | 35 | 35 |
| Remunerations to members of the Investment Committee | 7 | 2 |
| Remuneration of members for auditing | 42 | - |
| Employee transportation allowance, net | 35 | 35 |
| Business travel costs and per diems | 382 | 307 |
| Employee training costs | 24 | 22 |
| Net provisions for severance pay and jubilee awards (Note 23) | 10 | (1) |
| Aid to employees | 11 | 14 |
| Other costs | 35 | 41 |
| | **5,486** | **5,173** |

## 11. GENERAL AND ADMINISTRATIVE EXPENSES

| In thousand EUR | 2019. | 2018. |
|---|---|---|
| Rental costs | 1.153 | 1.140 |
| Security services | 550 | 565 |
| Electricity and fuel bills | 153 | 107 |
| Cleaning services | 121 | 110 |
| Computer and other equipment maintenance | 249 | 202 |
| Premises-related taxes | 12 | 8 |
| Vehicle maintenance | 48 | 52 |
| Insurance costs | 554 | 492 |
| Audit expense | 317 | 305 |
| Court expenses | 6 | 1 |
| Other professional fees | 50 | 53 |
| Lawyer fees | 58 | 13 |
| Consultant services | 431 | 350 |
| Intellectual services | 88 | 92 |
| Telecommunication costs | 101 | 105 |
| Communication network costs | 121 | 122 |
| Postage | 27 | 22 |
| Office supplies | 188 | 182 |
| Utilities | 21 | 19 |
| Representation expenses | 637 | 368 |
| Advertising and marketing | 497 | 487 |
| Subscriptions and donations | 243 | 191 |
| Software maintenance | 418 | 391 |
| Equipment rentals | 546 | 494 |
| Data processing services | 500 | 405 |
| Payment card operations | 130 | 1.934 |
| Other expenses | 583 | 551 |
| | **7,802** | **8,761** |

## 12. DEPRECIATION COST

| In thousand EUR | 2019. | 2018. |
|---|---|---|
| Property plant and equipment (Note 19) | 685 | 633 |
| Intangible assets (Note 20) | 392 | 322 |
| | **1,077** | **955** |

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## 13. OTHER INCOME

| In thousand EUR | 2019. | 2018. |
|---|---|---|
| Dividend income | 58 | 59 |
| Other operating income | - | 45 |
| Collected receivables previously written off | 20 | 48 |
| Other income | 168 | 126 |
| | **246** | **278** |

## 14. OSTALI RASHODI

| In thousand EUR | 2019. | 2018. |
|---|---|---|
| Direct write off of receivables | 701 | 117 |
| Other charges | 34 | 19 |
| Extraordinary expenses | 51 | 38 |
| | **786** | **174** |

## 15. INCOME TAXES

**a) Components of Income Taxes**

| In thousand EUR | 2019. | 2018. |
|---|---|---|
| Calculated current income tax | 520 | 403 |
| Calculated deferred income tax | 6 | 8 |
| | **526** | **411** |

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

| In thousand EUR | 2019. | 2018. |
|---|---|---|
| Profit before taxes | 5,389 | 4,721 |
| Income tax at statutory rate of 9% | 456 | 396 |
| Tax effects of expenses not recognized for tax purposes | 64 | 7 |
| Other | 6 | 8 |
| Current Income tax | **526** | **411** |

The tax rate used in 2019 and 2018 equals 9% and is applied to the taxable profit of legal entities in Montenegro as in accordance with the Corporate Income Tax Law.

## 15. INCOME TAXES (CONTINUED)

**c) Deferred tax liabilities**

| In thousand EUR | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Deferred tax based on unrealized gains on AFS securities | (209) | (43) |
| Differed tax based on temporary differences between book and tax value for property plant and equipment | 24 | 30 |
| | **(185)** | **(13)** |

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

**In thousand EUR**

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Cash on hand: | **17,184** | **13,081** |
| - in EUR | 15,795 | 12,124 |
| - in foreign currencies | 1,389 | 957 |
| Gyro account | 85,910 | 85,138 |
| Obligatory reserves held with the Central Bank of Montenegro | 31,819 | 29,302 |
| Other | 2,220 | 1,527 |
| | **137,133** | **129,048** |

As at December 31, 2019 the Bank's obligatory reserves were set aside in accordance with the Regulation of the Central Bank of Montenegro on Bank which refers on Reserve Requirement to Be Held with the Central Bank of Montenegro (Official Gazette of Montenegro no. 88/17). In accordance with the above, banks calculate the reserve requirement on demand deposits and term deposits.

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

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

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

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

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

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

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

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

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

## 17. FINANCIAL ASSETS AT AMORTIZED VALUE

### 17.1. Loans and receivables from banks

| In thousand EUR | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Correspondent accounts with foreign banks | 15,871 | 20,120 |
| Loans to banks | 5,000 | 4,999 |
| | **20,871** | **25,119** |
| *Minus* | | |
| Impairment of loans and receivables from banks | (7) | (9) |
| | **20,864** | **25,110** |

| | Balance, December 31,2018 | Changes during the year | Balance, December 31,2019 |
|---|---|---|---|
| Impairment of loans and receivables from banks | 9 | (2) | 7 |

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## 17. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)

### 17.2. Loans and receivables from clients

| In thousand EUR | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Due loans: | | |
| - municipalities (public organizations) | - | 6 |
| - legal entities | 1,843 | 2,689 |
| - state owned companies | 277 | 234 |
| - individuals | 1,040 | 701 |
| - other | 1,814 | 1,797 |
| Short-term loans: | | |
| - Government of Montenegro | - | 10,000 |
| - municipalities (public organizations) | - | 365 |
| - legal entities | 17,816 | 52,309 |
| - state owned companies | - | 6,973 |
| - individuals | 2,517 | 7,478 |
| - other | 70 | 3,881 |
| Long-term loans: | | |
| - Government of Montenegro | 7,000 | - |
| - municipalities (public organizations) | 255 | 190 |
| - legal entities | 98,586 | 70,529 |
| - state owned companies | 9,017 | 1,620 |
| - individuals | 98,706 | 82,910 |
| - other | 3,809 | 788 |
| | **242,750** | **242,470** |
| Interest receivables: | | |
| - loans | 326 | 396 |
| Accruals: | | |
| - interest on loans | 1,059 | 1,257 |
| - fees | (819) | (1,078) |
| | **566** | **575** |
| | **243,316** | **243,045** |
| *Minus:* | | |
| Impairment allowance of loans, activated guarantees and factoring (Note 7.2) | (14,159) | (12,485) |
| Impairment allowance of interest receivables (Note 7.2) | (197) | (210) |
| Impairment allowance of accruals | (48) | (37) |
| | **(14,404)** | **(12,732)** |
| | **228,912** | **230,313** |

## 17. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)

### 17.2. Loans and receivables from clients (continued)

The concentration by activities of the total net loans to customers by the Bank is as follows:

| In thousand EUR | December 31,2019 | December 31,2018 |
|---|---|---|
| Agriculture, forestry and fishing | 3,324 | 307 |
| Mining | 4,817 | 3,374 |
| Processing industry | 8,813 | 8,997 |
| Water supply | 736 | 572 |
| Construction industry | 22,128 | 24,110 |
| Trade | 36,022 | 43,697 |
| Transport and storage | 11,552 | 14,472 |
| Accommodation and catering services | 17,136 | 19,720 |
| Information and communications | 1,525 | 735 |
| Finance and insurance sector | 1,974 | 775 |
| Real estate trade | 3,089 | 3,167 |
| Professional, scientific and technical activities | 4,480 | 4,475 |
| Administrative and support service activities | 2,709 | 2,152 |
| Public administration, defense and compulsory social security | 7,002 | 10,291 |
| Education | 69 | 8 |
| Health and social care | 412 | 327 |
| Art, entertainment and recreational activities | 427 | 367 |
| Other services | 2,284 | 1,230 |
| Non-resident legal entities | 1,337 | 3,184 |
| Retail customers | 99,076 | 88,353 |
| | **228,912** | **230,313** |

## 17. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)

### 17.2. Loans and receivables from clients (continued)

Changes in loans and receivables from clients and impairment are shown in the following tables:

| LOANS | Level 1 | Level 2 | Level 3 | POCI | Total |
|---|---|---|---|---|---|
| **December 31,2018** | **195,757** | **35,222** | **10,314** | **1,752** | **243,045** |
| New receivables | 102,788 | 9,656 | 1,060 | 7,959 | 121,463 |
| Transfer to level 1 | - | (4,103) | (263) | - | (4,366) |
| Transfer to level 2 | (9,543) | - | (125) | - | (9,668) |
| Transfer to level 3 | (2,425) | (9,379) | - | - | (11,804) |
| Collection (reduction of existing) | (25,373) | (4,902) | (2,268) | - | (32,543) |
| Increase of existing | 3,692 | 1,701 | 56 | - | 5,449 |
| Closed | (76,091) | (13,036) | (690) | - | (89,817) |
| Written off | - | (5) | (4,276) | - | (4,281) |
| Transfers from other levels | 4,366 | 9,668 | 11,804 | - | 25,838 |
| **December 31,2019** | **193,171** | **24,822** | **15,612** | **9,711** | **243,316** |

| IMPAIRMENT | Level 1 | Level 2 | Level 3 | POCI | Total |
|---|---|---|---|---|---|
| **December 31,2018** | **4,123** | **2,071** | **6,017** | **520** | **12,731** |
| New receivables | 3,516 | 750 | 164 | 2,180 | 6,610 |
| Transfer to level 1 | - | (379) | (19) | - | (398) |
| Transfer to level 2 | (190) | - | (26) | - | (216) |
| Transfer to level 3 | (23) | (195) | - | - | (218) |
| Collection (reduction of existing) | (1,074) | (258) | (235) | - | (1,567) |
| Increase of existing | 580 | 436 | 776 | - | 1,792 |
| Closed | (1,739) | (938) | (270) | - | (2,947) |
| Written off | - | (1) | (2,214) | - | (2,215) |
| Transfers from other levels | 398 | 216 | 218 | - | 832 |
| **December 31,2019** | **5,591** | **1,702** | **4,411** | **2,700** | **14,404** |

The Bank's portfolio on the individual impairment amounts to EUR 92,614 thousand, and on the collective impairment EUR 150,702 thousand.
Impairment for loans that are on individual impairment amounts to EUR 10,212 thousand, and on collective impairment EUR 4,192 thousand.
There are 301 credit lots on the individual impairment, and 40,001 on the collective one.

## 18. FINANCIAL ASSETS AT FAIR VALUE TROUGH OTHER COMPREHENSIVE INCOME

### 18.1. Securities

| In thousand EUR | December 31,2019 | December 31,2018 |
|---|---|---|
| **Debt Securities** | | |
| The Government of Montenegro | 96,514 | 88,758 |
| Non-residents | 31,840 | 19,082 |
| | **128,354** | **107,840** |
| **Debt Securities** | | |
| Residents | 177 | 801 |
| Non-residents | 6,227 | 5,826 |
| | **6,404** | **6,627** |
| | **134,758** | **114,467** |

**Impairment of securities**

| In thousand EUR | December 31,2019 | December 31,2018 |
|---|---|---|
| Debt Securities | 894 | 1,116 |
| | **894** | **1,116** |

Securities classified as financial assets at fair value through other comprehensive as at 31 December 2019 in the amount of EUR 69,514 thousand relate to government bonds, government Eurobonds and Treasury bills with maturities of 182 days, the Ministry of Finance Government of Montenegro, with a nominal value of EUR 93,130 thousand.

Eurobonds whose maturity date is from March 2020 to April 2025, with a coupon interest rate of 3.875% for a series that matures in 2020, 5.75% for a series that is due in 2021, 3,375% for a series that matures in 2025 with a nominal value of EUR 42,990 thousand.

Debt securities - non-residents classified as financial assets at fair value through other result as at 31 December 2019 in the amount of EUR 31,840 thousand, maturing in the period from January 2020 to August 2039, with an interest rate ranging from 0.5% to 6.75%.

## 19. PROPERTIES, PLANTS AND EQUIPMENT

Movements on property, equipment and other assets for 2019 and 2018 are presented in the following table:

| | Properties | Computer equipment | Other equipment | Investment in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, January 1, 2018 | 93 | 1,206 | 4,242 | 116 | 5,657 |
| Additions | - | 295 | 317 | 719 | 1,331 |
| Transfers | - | 12 | 744 | (761) | (5) |
| Disposals | - | (44) | (323) | - | (367) |
| **Balance, December 31, 2018** | **93** | **1,469** | **4,980** | **74** | **6,616** |
| Additions | - | 143 | 142 | 782 | 1,067 |
| Transfers | - | 12 | 692 | (704) | - |
| Disposals | (93) | (59) | (252) | - | (404) |
| **Balance, December 31, 2019** | **-** | **1,565** | **5,562** | **152** | **7,279** |
| **Impairment** | | | | | |
| Balance, January 1, 2018 | 6 | 1,113 | 3,101 | - | 4,220 |
| Depreciation (Note 12) | 2 | 115 | 516 | - | 633 |
| Disposals | - | (44) | (255) | - | (299) |
| **Balance, December 31, 2018** | **8** | **1,184** | **3,362** | **-** | **4,554** |
| Depreciation (Note 12) | 2 | 143 | 540 | - | 685 |
| Disposals | (10) | (58) | (244) | - | (312) |
| **Balance, December 31, 2019** | **-** | **1,269** | **3,658** | **-** | **4,927** |
| Current value | | | | | |
| **- December 31, 2019** | **-** | **296** | **1,904** | **152** | **2,352** |
| **- December 31, 2018** | **85** | **285** | **1,618** | **74** | **2,062** |

As at 31 December 2019, the Bank does not have any assets under the pledge in order to provide repayment of loans and other liabilities.

Ongoing investments are mostly related to advance payments for the purchase of new official vehicles in the amount of EUR 91 thousand, as well as the procurement and implementation of new servers in the amount of EUR 44 thousand.

## 20. INTANGIBLE ASSETS

Intangible assets are mostly comprised of licenses and software. The movements on intangible assets in the course of 2019 and 2018 were as follows:

| | Other intangible assets | Licences | Software | Intangible assets in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, January 1, 2018 | 526 | 813 | 2,031 | 293 | 3,663 |
| Additions | - | 62 | 110 | 258 | 430 |
| Transfers | - | - | 386 | (386) | - |
| Disposals | - | - | (10) | - | (10) |
| **Balance, December 31, 2018** | **526** | **875** | **2,517** | **165** | **4,083** |
| Additions | - | 345 | 239 | 79 | 663 |
| Transfers | - | - | 179 | (179) | - |
| Disposals | (205) | - | - | - | (205) |
| **Balance, December 31, 2019** | **321** | **1,220** | **2,935** | **65** | **4,541** |
| **Impairment** | | | | | |
| Balance, January 1, 2018 | 526 | 303 | 1,176 | - | 2,005 |
| Depreciation (Note 12) | - | 35 | 287 | - | 322 |
| Disposals | - | - | (10) | - | (10) |
| **Balance, December 31, 2018** | **526** | **338** | **1,453** | **-** | **2,317** |
| Depreciation (Note 12) | - | 32 | 360 | - | 392 |
| Disposals | (205) | - | - | - | (205) |
| **Balance, December 31, 2019** | **321** | **370** | **1,813** | **-** | **2,504** |
| Current value | | | | | |
| **- December 31, 2019** | **-** | **850** | **1,122** | **65** | **2,037** |
| **- December 31, 2018** | **-** | **537** | **1,064** | **165** | **1,766** |

The increases in intangible assets during 2019 are mainly related to the increase in software, ie. implementation of new applications within the Bank's application software in the amount of EUR 293 thousand, as well as new services, functionalities and software improvements related to card and electronic banking (TETRA POS Platform certification, Master Card Concierge, introduction of a new Payment gateway, etc.) in amounting to EUR 117 thousand.

Ongoing investments for intangible assets amount to EUR 65 thousand. These investments are mostly related to software projects related to card and ATM operations.

The Bank does not depreciate licenses with an indefinite useful life in accordance with IAS 38. The useful lives are reviewed at the end of each reporting period.

## 21. OTHER ASSETS

| In thousand EUR | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Assets acquired through collection of receivables | 686 | 1.530 |
| Other operating receivables | 987 | 965 |
| Prepaid costs | 813 | 658 |
| Receivables from custody | 40 | 38 |
| Advances | 203 | 230 |
| Other receivables from fees and commissions | 223 | 194 |
| Receivables from state funds | 80 | 64 |
| Receivables from costumers | 185 | 151 |
| Credit card receivables | 715 | 217 |
| Receivables from employees | 69 | 44 |
| Other financial receivables | 71 | 146 |
| Impairment | (1,644) | (2,049) |
| | **2,428** | **2,188** |

Assets acquired by collection in the amount of EUR 686 thousand as of December 31, 2019 (December 31, 2018: EUR 1,530 thousand) relates to assets acquired on the basis of activation of loan securitization funds, which are owned by the Bank for a period longer than 12 months. Assets acquired through collection of receivables are recorded at the lower of the total value of the receivables and the estimated value.

The impairment of other assets relates to the assets acquired in the amount of EUR 667 thousand (December 31, 2018: EUR 1,517 thousand) and EUR 977 thousand on the impairment from business relations (December 31, 2018: EUR 532 thousand).

## 22. FINANCIAL LIABILITIES AT AMORTIZED VALUE

### 22.1. DEPOSITS FROM BANKS

| In thousand EUR | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Demand deposits | 1,103 | 1,365 |
| Term deposits | 45 | 45 |
| | **1,148** | **1,410** |

Deposits by banks in the amount of EUR 1,148 thousand as at 31 December 2019 (December 31, 2018 EUR 1,410 thousand) relate to term deposits and demand deposits, of which EUR 580 thousand refers to non-interest-bearing demand deposits from domestic banks, and EUR 522 thousand relate to non-interest-bearing demand deposits for foreign banks.

## 22. FINANCIAL LIABILITIES AT AMORTIZED VALUE (CONTINUED)

### 22.2. DEPOSITS FROM CLIENTS

| In thousand EUR | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Demand deposits:** | | |
| - financial institutions | 1,065 | 1,230 |
| - legal entities | 101,728 | 110,042 |
| - companies with majority state ownership | 27,015 | 8,385 |
| - municipalities (public organizations) | 2,882 | 1,870 |
| - funds | 1,739 | 319 |
| - individuals | 142,510 | 123,165 |
| - non-profit organizations | 7,219 | 8,219 |
| - The Government of Montenegro | 2,562 | 7,845 |
| - others | 11,724 | 13,133 |
| | **298,444** | **274,208** |
| **Funds on escrow accounts** | **309** | **388** |
| **Short - term deposits:** | | |
| - financial institutions | 500 | 701 |
| - legal entities | 1,363 | 7,616 |
| - companies with majority state ownership | 100 | 6,100 |
| - municipalities (public organizations) | - | 652 |
| - funds | 8,560 | 51,789 |
| - individuals | - | 58 |
| - non-profit organizations | 1,461 | 1,457 |
| | **11,984** | **68,373** |
| **Long - term deposits:** | | |
| - financial institutions | 1,006 | 503 |
| - legal entities | 18,640 | 18,908 |
| - companies with majority state ownership | 10,612 | 8,125 |
| - municipalities (public organizations) | 1,253 | 585 |
| - individuals | 71,716 | 34,069 |
| - non-profit organizations | 96 | 73 |
| - The Government of Montenegro | 350 | 250 |
| - others | 3,020 | 2,589 |
| | **106,693** | **65,102** |
| *Interest and other liabilities* | | |
| **Accruals: deposits** | **2,162** | **2,245** |
| | **419,592** | **410,316** |

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

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

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

## 22. FINANCIAL LIABILITIES AT AMORTIZED VALUE (CONTINUED)

### 22.3. LOANS FROM CLIENTS WHICH ARE NOT BANKS

| In thousand EUR | Period (years) | Annual interest rate | December 31,2019 | December 31,2018 |
|---|---|---|---|---|
| European Investment Bank (2009.) | 12 | 4.032% | 583 | 857 |
| European Investment Bank (2009.) | 12 | 3.923% | 325 | 478 |
| European Investment Bank (2010.) | 12 | 3.604% | 1,137 | 1,565 |
| European Investment Bank (2010.) | 12 | 3.168% | 670 | 881 |
| European Investment Bank (2010.) | 12 | 3.019% | 661 | 868 |
| European Investment Bank (2011.) | 12 | 3.841% | 1,222 | 1,542 |
| European Investment Bank (2011.) | 12 | 3.181% | 378 | 465 |
| European Investment Bank (2012.) | 12 | 2.398% | 1,015 | 1,204 |
| | | | **5,991** | **7,860** |
| Investment Development Fund of Montenegro A.D., Podgorica (2005. do 2015.) | 2.9 - 12 | 1% - 5.78% | 16,189 | 17,206 |
| Directorate for Development of Small and Medium Enterprises (2007. and 2010) | 6 - 8 | 0% - 1% | 121 | 121 |
| | | | **16,310** | **17,327** |
| | | | **22,301** | **25,187** |
| *Accruals* | | | | |
| Unrealized interest | | | 34 | 43 |
| **Total** | | | **22,335** | **25,230** |

Sa stanjem na dan 31. decembra 2019. godine, Banka ima obaveze prema Evropskoj investicionoj banci („EIB") po osnovu dugoročnih kredita u iznosu EUR 5.991 hiljada (31. decembra 2018. godine: EUR 7.860 hiljada). Krediti su odobreni za podsticanje razvoja malih i srednjih privrednih društava u Crnoj Gori, uz grejs period u trajanju do maksimum dvije godine. Sredstvo obezbjeđenja urednog vraćanja navedenih obaveza prema EIB-u predstavlja garancija Vlade Crne Gore.

## 23. RESERVES

| In thousand EUR | December 31,2019 | December 31,2018 |
|---|---|---|
| Provisions for potential losses for: | | |
| - off-balance sheet exposures (note 7.2) | 1,092 | 1,427 |
| - operational risk and country risk (note 7.2) | 363 | 325 |
| - court disputes (note 7.2) | 63 | 67 |
| Provisions for employee retirement benefits and jubilee awards | 17 | 12 |
| | **1,535** | **1,831** |

| | Estimate at day | |
|---|---|---|
| | **December 31,2019** | **December 31,2018** |
| | % | % |
| Discount rate for retirement benefits | 2.55 | 3.38 |
| Employee turnover ratio | 5.46% | 6.40% |
| Inflation rate | 0.35% | 2.60% |

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

| In thousand EUR | 2019. | 2018. |
|---|---|---|
| Balance at the beginning of the year | 12 | 13 |
| Provisions during the year (note 10) | 10 | (1) |
| Usage of provisions | (5) | - |
| **Balance as at December 31, 2019** | **17** | **12** |

## 24. OTHER LIABILITIES

| In thousand EUR | December 31,2019 | December 31,2018 |
|---|---|---|
| Liabilities from consignment operations | 18 | 25 |
| Advances received | 3,657 | 2,827 |
| Liabilities for other taxes | 63 | 49 |
| Liabilities relating to deductions from salaries | 5 | 4 |
| Trade payables | 572 | 472 |
| Accrued liabilities | 404 | 252 |
| Custody operation liabilities | 4,213 | 2,742 |
| Suspense accounts | 1,142 | 881 |
| Other liabilities | 1,074 | 718 |
| | **11,148** | **7,970** |

## 25. EQUITY

The ownership structure of the Bank's share capital as at December 31, 2019 and 2018 was as follows:

| | December 31,2019 | | | December 31,2018 | | |
|---|---|---|---|---|---|---|
| **Shareholder** | **Number of shares** | **In thousand EUR** | **% share** | **Number of shares** | **In thousand EUR** | **% share** |
| Generali Financial Holdings FCP-FIS - Sub-Fund 2 | 5,281 | 2,700 | 16.87 | 5,281 | 2,700 | 16.87 |
| Cerere s.r.l | 4,360 | 2,229 | 13.93 | 4,360 | 2,229 | 13.93 |
| Gorgoni Lorenzo | 4,063 | 2,077 | 12.98 | 4,063 | 2,077 | 12.98 |
| Gorgoni Antonia | 3,131 | 1,601 | 10.00 | 3,131 | 1,601 | 10.00 |
| Todorović Miljan | 2,316 | 1,184 | 7.40 | 2,316 | 1,184 | 7.40 |
| Other | 12,154 | 6,215 | 38.82 | 12,154 | 6,215 | 38.82 |
| Total | **31,305** | **16,006** | **100.00** | **31,305** | **16,006** | **100.00** |

## 26. SUBORDINATED DEBT

On 13 December 2019, the Bank issued the third series of HBO3 subordinated bonds, in the total amount of 8,000 bonds with an individual nominal value of EUR 1,000 with a maturity of 15 January 2020. years. The bonds bear a fixed rate of 5.00% per annum with a semi-annual calculation and payment of interest. The bonds were sold to pre-known buyers, through a closed issue.

| In thousand EUR | Year of Debt | Period/ year | Annual interest rate | 2019. | 2018. |
|---|---|---|---|---|---|
| Subordinated bonds HB01 | 2014. | 7 | 6.00% | 10,014 | 9,997 |
| Subordinated bonds HB02 | 2017. | 6 | 5.90% | 4,053 | 4,042 |
| Subordinated bonds HB03 | 2019. | 6 | 5.00% | 7,983 | - |
| | | | | **22,050** | **14,039** |

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

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

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

In accordance with the Decision on Capital Adequacy in Banks ("Official Gazette of Montenegro." no. 38/2011. 55/2012 and 82/17), the Bank's own funds are comprised of the Bank's core capital and additional capital, minus deductible items. The Bank's capital as at December 31, 2019 amounted to EUR 48,858 thousand (December 31, 2018: EUR 37,043 thousand).

The share capital of the Bank, formed in accordance with the Decision on Capital Adequacy in Banks, as at 31 December 2019 amounts to EUR 36,458 thousand (December 31, 2018: EUR 29,834 thousand). The share capital of the Bank as of December 31, 2019 consists of the basic elements of the Bank's own funds: paid share capital at nominal value, premiums collected, increased by the amount of unallotted profit from previous years, the amount that mitigates the negative effects on the Bank's own funds due to transition to the valuation of asset items in accordance with IFRS 9, determined in accordance with paragraphs 5 and 6 of Article 4 of the Decision on Capital Adequacy in banks, the amount of intangible assets and unrealized loss on the basis of the fair value adjustment of financial assets available for sale, as well as the positive difference between the amount of calculated provisions for potential losses and the accumulated amount of allowance for items of balance sheet assets and provisions for off-balance sheet items.

Additional elements of the Bank's capital that are included in the additional capital as at December 31, 2018 amounted to EUR 12,400 thousand relate to subordinated debt for which the requirements of Article 6 of the Decision on Capital Adequacy in Banks are fulfilled, i.e. subordinated bonds issued by the Bank with a face value of EUR 22,000 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, 2019 the Bank is required to maintain the minimum capital adequacy ratio of 10%. As at December 31, 2019 the Bank's capital adequacy ratio equalled 16.29% (December 31, 2018: 12.50%) and was above the prescribed minimum. As at December 31, 2019 all of the Bank's performance adequacy ratios were in compliance with the prescribed minimum values required by the regulations of the Central Bank of Montenegro.

| In thousand EUR | Prescribed limits | The realized indicators of business performance 2019. | 2018. |
|---|---|---|---|
| Capital | Minimum amount of EUR 5 million | 51,900 | 45,582 |
| The solvency ratio | Minimum 10% | 16.29% | 12.50% |
| The Bank's exposure to a single entity or group of related entities | limit 25% of regulatory capital of the Bank | 14% | 19% |
| The sum of large exposures | limit 800% of regulatory capital of the Bank | 112% | 258% |
| The total exposure to related parties of the Bank | limit 200% of regulatory capital of the Bank | 19% | 36% |
| Total exposure to a shareholder who does not have a qualified participation in the bank | limit 10% of regulatory capital of the Bank | 7% | 1% |
| Minimum liquidity ratio | 0,9 on daily basis/1 on decade basis | RLS 1.39 / DPL 1.39 | RLS 1.50 / DPL 1.50 |
| Foreign exchange risk – net open position to a single currency | 15% of Equity | 1% | (5%) |

## 28. OFF-BALANCE SHEET ITEMS

| In thousand EUR | December 31,2019 | December 31,2018 |
|---|---|---|
| Undrawn credit lines | 19,042 | 14,349 |
| Irrevocable documentary letters of credit issued for payments abroad | 277 | - |
| Other letters of credit for payments abroad | 256 | - |
| Guarantees issued | | |
| -Payment guarantees | 36,488 | 38,972 |
| -Performance guarantees | 25,097 | 25,603 |
| -Other types of guarantees | 20,763 | 24,863 |
| | **101,923** | **103,787** |
| Collateral based on receivables | 505,658 | 427,704 |
| Other off-balance sheet items | 157,399 | 128,342 |
| Evident interest | 1,354 | 1,969 |
| **Total** | **664,411** | **558,015** |
| **Total** | **766,334** | **661,802** |

Other types of guarantees include tender, customs and advance types of guarantees. Other items of the Bank's off-balance sheet exposure mainly relate to received credit bonds under custody transactions in the amount of EUR 138,545 thousand (31 December 2018: EUR 110,280 thousand) and revocable credit bonds in the amount of EUR 16,623 thousand (31 December 2018: EUR 15,497 thousand).

## 29. CASH AND CASH EKVIVALENTS

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 | 2019. | 2018. |
|---|---|---|
| Cash on hand | 15,795 | 12,124 |
| Cash on hand-foreign currency | 1,389 | 957 |
| Assets in the course of settlement | 2,220 | 1,527 |
| Gyro account | 85,910 | 85,138 |
| Correspondent accounts with foreign banks | 15,872 | 20,121 |
| Deposits placed with the Central Bank of Montenegro | 31,819 | 29,302 |
| | **153,005** | **149,169** |

## 30. RELATED PARTY TRANSACTIONS

The Law on Banks ("Official Gazette of Montenegro" No. 17/08, 44/10, 40/11 and 73/17) defines that persons who appoint at least one representative on the Board of Directors or a similar body have a significant influence on the Bank's operations. , either through ownership of the shares, by agreement with the owners or in any other way. In accordance with the Law on Banks, transactions with related parties are shown in the following tables:

| | December 31,2019 | December 31,2018 |
|---|---|---|
| **Assets** | | |
| **Loans and receivables from banks** | | |
| Podravska Banka d.d., Koprivnica | 128 | 40 |
| | **128** | **40** |
| **Loans and receivables from clients** | | |
| Montinari Dario | 475 | 448 |
| Gorgoni Mario | 10 | 9 |
| Cerere s.p.a. | - | 3.320 |
| | **485** | **3.777** |
| **Investment securities – available for sale** | | |
| Podravska Banka d.d., Koprivnica | 2,368 | 2,146 |
| | **2,368** | **2,146** |
| **Other financial receivables** | | |
| Sigilfredo Montinari | 7 | 5 |
| | **7** | **5** |
| **Total assets** | **2,988** | **5,968** |
| **Liabilities** | | |
| **Deposits from banks** | | |
| Podravska Banka d.d., Koprivnica | 302 | 134 |
| | **302** | **134** |
| **Deposits from clients** | | |
| Miljan Todorović | 281 | 282 |
| Sigilfredo Montinari | 7 | 5 |
| Gorgoni Lorenzo | 47 | 47 |
| Cerere s.p.a. | 3 | 3 |
| Gorgoni Mario | 24 | 15 |
| Gorgoni Paolo | 2 | 3 |
| | **364** | **355** |
| **Other liabilities** | | |
| Podravska Banka d.d., Koprivnica | 1 | 5 |
| | **1** | **5** |
| **Total liabilities** | **667** | **494** |

Expenses from transactions with related parties during 2019 amounted to EUR 218 thousand (2018: EUR 277 thousand), while income is amounted to EUR 490 thousand (2018: EUR 227 thousand).

## 31. LITIGATIONS

As of December 31, 2019, there are 17 lawsuits against the Bank by legal entities and individuals. The total value of the disputes is EUR 994 thousand. For now, the outcome of disputes cannot be reliably estimated, but the Bank's management, based on the opinion of the legal advisor, does not expect negative outcomes of disputes that could have material effects on the Bank's financial statements for 2019. The total amount of litigation as of December 31, 2019 in which the Bank is the plaintiff is EUR 8,092 thousand.

## 32. EARNING 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.

| Basic and diluted earnings per share | 2019. | 2018. |
|---|---|---|
| Net profit | 4.863 | 4.310 |
| Weighted average number of ordinary shares outstanding | 31.305 | 31.305 |
| Earnings per share / in EUR | 155,34 | 137,68 |

## 33. SUBSEQUENT EVENTS

### *Corona virus pandemic - Covid 19*

Following the outbreak of the Corona Virus Pandemic - Covid 19 (hereinafter: the coronavirus) in the World and Europe, which first appeared in December 2019 in China, and spread to Europe and the rest of the world from January 2020, and to Montenegro from in the middle of March 2020, the Bank, as a responsible entity, took all necessary steps to protect its employees, customers, creditors and business partners. The measures have been taken in such a way as to create safe conditions for the Bank's operation, in compliance with the recommendations of the Institute of Public Health of Montenegro, as well as measures of the Government of Montenegro, which enable the smooth running of the Bank's business activities.

The flow and escalation of the coronavirus is unpredictable, so a major challenge for the Bank is to anticipate its implications for economic and business performance, which may result in estimates and assumptions that will require revision, which may result in material adjustments to the carrying amount of assets and liabilities underway next business year. Uncertainty also relates to a set of national measures to combat and spread the virus, which have already been and will be undertaken in the future. The measures may affect the business of the entire Montenegrin economy and, consequently, on the Bank's operations. According to preliminary estimates made by the Bank's management, a new pandemic in this case could affect the bank's liquidity, loan distribution, loan portfolio quality, impairment, value adjustments and the similar.

The fair value of some securities in the first quarter of 2020 decreased in net effect compared to December 31, 2019. However, the Bank's management believes that the decline in fair value is immediate and that in the coming period there will be an increase in the fair value of securities and that the current decline will not have significant negative effects on the Bank's capital adequacy significantly above the prescribed minimum.

The Bank's liquidity will be most influenced by the moratorium on the repayment of loans and other claims on legal entities and individuals over a period of at least 90 days, beginning on March 31, 2020, as well as any other events in this regard.

In order to create better liquid positions, the Bank has already undertaken certain activities. With the correct composition of the portfolio of investments in securities and maturity dynamics, the Bank had significant inflows of money in terms of maturity of securities during the first quarter of the current year.

On this basis, the amount of investment in securities compared to the end of 2019 decreased by about EUR 12,000 thousand. Also, in accordance with the Investment Strategy, the Bank has always held up to 20% of its portfolio in short-term securities. Specifically, at the end of March 2020, the Bank in its books, participates with short-term securities, treasury bills, with EUR 20,000 thousand. This financial instrument is a good liquidity support mechanism, both due to its short maturity and its potential use as an instrument and monetary policy mechanism of each central bank. In this regard, the Bank initially left enough space to create additional sources of liquidity in case of need.

## 33. SUBSEQUENT EVENTS (continued)

### *Corona virus pandemic - Covid 19 (continued)*

At the end of the first quarter, the Bank's liquidity is at a high level and without significant oscillations. The daily liquidity ratio, calculated according to the methodology prescribed by the Central Bank of Montenegro, was above the legally prescribed minimum of 0.90 throughout the first quarter of 2020. Also, the decadal liquidity ratio was above the legally prescribed minimum of 1.00 and ended the last decade in the first quarter of 2020 at the level of 1.31. An overview of the decadal liquidity ratio during 2020 is given in the table below:

| From: | To: | Decadal liquidity ratio |
|---|---|---|
| 01.01. | 10.01. | 1.39 |
| 11.01. | 20.01. | 1.37 |
| 21.01. | 31.01. | 1.35 |
| 01.02. | 10.02. | 1.26 |
| 11.02. | 20.02. | 1.20 |
| 21.02. | 29.02. | 1.22 |
| 01.03. | 10.03. | 1.23 |
| 11.03. | 20.03. | 1.30 |
| 21.03. | 31.03. | 1.31 |
| 01.04. | 10.04. | 1.20 |
| 11.04. | 20.04. | 1.24 |
| 21.04. | 30.04. | 1.20 |

In order to create additional sources of financing, the Bank has undertaken activities in terms of communication and negotiations with relevant international institutions with which it has already established cooperation. Through the opening of credit lines, the Bank creates preconditions for placing new loans to the Bank's clients that suffer the consequences of the pandemic. Also, in order to operate smoothly abroad, the Bank has strengthened its positions with correspondent banks from the Eurozone. Negotiations are underway on the conclusion of repo agreements with these entities, which would enable the rapid provision of funds on accounts abroad, if the need arises.

The Bank's deposit portfolio is stable, without significant reductions due to the new situation. Total deposits as of March 31, 2020 amount to EUR 407,409 thousand. Loan placement continued with undisturbed dynamics, and liquidity loans had the largest share in approved loans. In the forthcoming period, the Bank will continue with credit activity, as well as activities related to the preservation of the depository base.
All these uncertainties in terms of predicting the impact of the pandemic, the rate of spread of the virus and government measures to be taken to protect and prevent the spread of the virus, the effects on the financial results of the Bank can not be predicted with a high degree of certainty.

At the date of publishing of these financial statements, the Bank continues to meet its maturity obligations and therefore continues to apply the going concern principle as the accounting basis for preparing the financial statements.

### *IFRS 16 Leasing*

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains Leases, SIC-15 Operating Leases-Incentives and SIC-27 Assessing the substance of transactions involving the legal form of a lease. IFRS 16 sets out the principles for recognizing, measuring, presenting and disclosing leases and requires lessees to account for all leases under a single balance sheet model similar to accounting for finance leases in accordance with IAS 17. The standard includes two exemptions from recognition for lessees. values "(values less than EUR 5 thousand) and short-term leases (ie leases with a lease term of 12 months or less). At the date of commencement of the lease, the lessee will recognize a lease payment obligation (ie a lease obligation) and an asset that represents the right to use the asset in question for the duration of the lease (ie the right to use the asset). Tenants will be required to separately recognize the cost of interest on the lease obligation and the cost of depreciation on the right to use the asset.
Tenants will also need to revalue the lease obligation upon the occurrence of certain events (e.g., a change in the duration of the lease, a change in future lease payments due to a change in the index or the rate used to determine those payments). The lessee will generally recognize the amount of the revaluation of the lease obligation as an adjustment to the right to use the asset.

## 33. SUBSEQUENT EVENTS (continued)

***IFRS 16 Leasing (continued)***

The lessor's accounting in accordance with IFRS 16 is essentially unchanged from the accounting in accordance with IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. In addition, IFRS 16 requires lessees and lessors to disclose in more detail than was the case with IAS 17.

In accordance with the decision of the Central Bank of Montenegro, all Banks in Montenegro are required to apply IFRS 16 for annual periods beginning on or after 1 January 2020 for local reporting purposes.

*Transfer to IFRS 16*

The Bank has made the transition to IFRS 16 in accordance with a modified retrospective approach. Comparative data from the previous year have not been corrected.

The Bank has chosen to use the exemption, proposed by the standard, not to apply the requirements of the standard for recognition of rights of use and leasing obligations on the date of first application for lease agreements for which the lease ends within 12 months from the date of initial application. These contracts recognize lease costs directly in the income statement.
In addition, for all leases for which the asset in question may be considered a low-value asset (the newly acquired value of the asset does not exceed EUR 5,000), the Bank will not recognize assets and liabilities in accordance with IFRS 16 but will recognize the cost of these leases directly in the income statement. period.

As a result of the application of IFRS 16 as of January 1, 2020, contracts that were previously recognized as operating leases now qualify as leases defined by the new standard: real estate (mostly related to the Bank's branches), ATMs and POS terminals.
When applying IFRS 16 for the first time, the right to use the leased asset is generally measured at the amount of the lease liability, using an average incremental borrowing rate of 2.55%. The first application resulted in the recording of leasing liabilities in the amount of EUR 4,132 thousand and, accordingly, the right to use the funds in the same amount in the Statement of Financial Position as of January 1, 2020.

Except for the events described in the previous paragraphs 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, 2019.

## 34. EXCHANGE RATES

The official exchange rates used to convert foreign currency balance sheet items into EUR as at 31 December 2019 and 2018 were:

| | 2019. | 2018. |
|---|---|---|
| USD | 1.1189 | 1.1454 |
| CHF | 1.0871 | 1.1227 |
| GBP | 0.852081 | 0.90273 |