

ZAPAD BANKA AD PODGORICA

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"CROWE MNE" d.o.o.
Broj. 79-1/20
Podgorica, 28.04. 2020 god.

ZAPAD BANKA AD PODGORICA

FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2019

FINANCIAL STATEMENTS FOR 2019

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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 Zapad Banka AD Podgorica*****Opinion***

We have audited the accompanying separate financial statements of Zapad banka AD, Podgorica (hereinafter: "the Bank"), which comprise the separate balance sheet as at 31 December 2019, separate income statement, separate statement of changes in equity and separate cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information (hereinafter "the 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.

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INDEPENDENT AUDITOR'S REPORT (continued)
To the Shareholders of Zapad Banka AD Podgorica (continued)
Key Audit Matters (continued)

Key Audit Matters	Appropriate audit procedure
<p><i>Adequacy of impairment of financial placements</i></p> <p>As of December 31, 2019 net booking value of financial placements amounted EUR 40,240 thousand (31 December 2018.:EUR 36,091).</p> <p>This is a key auditing matter because determining the amount of the impairment of financial placements requires significant assessment by the management to determine the moment when an impairment loss and the amount of impairment loss.</p> <p>The most significant considerations relate to:</p> <ul style="list-style-type: none"> - Assumptions used in models of expected credit loss to estimate credit risk associated with an exposure and the expected future cash flows of a client. - Timely identification of exposures with a significant increase in credit risk exposure and credit impairment. - Valuation of collateral and assumptions of future cash flows on individually estimated credit exposures. <p>Management disclosed additional information on impairment charges for loans and receivables and provisions for off-balance sheet items in Notes 3.8, 4.4, 7, 15.2 to the financial statements.</p>	<p>Based on our risk assessment and industry knowledge we examined the cost of impairment of financial placements and evaluated the applied methodology as well as used assumptions and in accordance with the key audit matter. Our audit procedures included:</p> <ul style="list-style-type: none"> • 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. • 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. • Assessment of key controls over the timely identification of exposure with significant increase of the credit risk and exposure identification of the impairment. • 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 of loans. • Collection and detailed testing of the evidence which support the appropriate determination of the assumptions for impairment cost of the financial statements including valuation of collateral and assumptions of future cash flow for individually assessed exposure of the loan impairment. • Assessment of key development of high-risk portfolio from the previous period with regard to industry standards and historical data. • Evaluation of applied methodologies using our knowledge and experience. • We included our IT experts and experts for credit risk in the areas that required specific expertise. • Assessment of the accuracy and completeness of disclosure in financial statements.

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INDEPENDENT AUDITOR'S REPORT (continued)**To the Shareholders of Zapad Banka AD Podgorica (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.

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INDEPENDENT AUDITOR'S REPORT (continued)**To the Shareholders of Zapad Banka AD Podgorica (continued)*****Report on other legal and law requirements***

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

28 April 2020



Đorđe Dimić, Certified Auditor

(License no. 072 issued 9 March 2017)

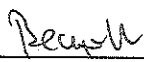
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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019***(all amounts are in EUR '000 unless otherwise stated)***INCOME STATEMENT**


	Notes	2019	2018
Interest income and their income	6	3,495	3,722
Interest income on impaired loans	6	74	146
Interest expenses and other expenses	6	(890)	(1,101)
NET INTEREST INCOME		2,679	2,767
Fee and commission income	8	1,624	2,037
Fee and commission expense	8	(826)	(702)
FEE AND COMMISSION INCOME NET		798	1,335
Net income/expenses from reduction in impairment of financial instruments not measured at fair value through income statement.		354	-
Net gain/loss of financial instruments measured at fair value through income statement not held for trade		-	(21)
Net foreign exchange gains		1,264	954
Net gain/loss based on derecognition of other assets		(11)	-
Other income		73	62
Staff costs	9	(2,284)	(1,866)
Depreciation/amortization charge	10	(352)	(250)
General and administrative costs	11	(1,660)	(1,300)
Net income/expenses from reduction in impairment of financial instruments not measured at fair value through income statement.	7	(576)	(161)
Other expenses		(9)	(16)
GAIN /(LOSS) before tax		276	1,504
Income tax	12	(32)	(42)
NETO DOBITAK /(GUBITAK)		244	1,463


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

Podgorica 28.04.2020


Vesna Kovačević
Head of Finance




Mladen Rabrenović
CEO


Dmytro Likhota
Executive Director
for Operating Support

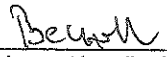
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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019***(all amounts are in EUR '000 unless otherwise stated)***BILANCE SHEET**


	Note	31 December 2019	31 December 2018
ASSETS			
Cash and assets held with the central bank	14	52,163	28,748
Financial assets at amortized cost		61,660	49,160
Loans and receivables from banks	15.1	21,380	13,069
Loans and receivables from clients	15.2	40,240	36,091
Other financial assets		40	-
Financial assets at fair value through income statement		45,878	9,980
Securities	17.1	45,878	9,980
Financial assets at fair value through income statement not held for trade		834	1,227
Loans and receivables from clients	16.1	834	1,227
Derivatives held for hedging risk purpose	22	43	-
Property, Plants and Equipment	18	887	1,101
Intangible assets	19	420	365
Current Tax Assets		98	94
Deferred tax assets		-	1
Other assets	20	96	132
TOTAL ASSETS		162,078	90,809
LIABILITIES			
Financial liabilities at amortized value		146,700	77,975
Deposits due to banks	21.1	4	4
Deposits due to clients	21.1	144,368	74,906
Borrowings from other customers	21.2	2,329	3,065
Derivative financial obligations as a hedging instrument		-	43
Reserves		149	34
Current tax liabilities	12	36	40
Deferred tax liabilities	12	49	23
Other liabilities	23	651	727
Subordinated debt	24	3,000	3,000
TOTAL LIABILITIES		150,586	81,841
EQUITY			
Share capital	25	10,500	8,500
Retained earnings (loss)		445	(1,018)
(Loss)/profit for the current year		244	1,463
Other reserves		303	23
TOTAL EQUITY		11,492	8,968
TOTAL EQUITY AND LIABILITY		162,078	90,809
OFF - BALANCE SHEET	26	137,157	120,153


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ZAPAD BANKA A.D. PODGORICA

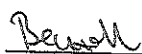
Notes to the financial statements for the year ended 31 December 2019
(all amounts are in EUR '000 unless otherwise stated)

STATEMENT OF CASH FLOW


	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Interest and similar income inflows	3,720	3,616
Interest and similar income outflows	(876)	(1,129)
Fee and commission received	1,725	2,016
Fee and commission paid	(826)	(702)
Salaries, wages and employee benefits and cost of suppliers	(3,942)	(3,168)
Increase in loans and other assets	(2,353)	1,404
Proceeds arising from deposits and other payables	69,328	21,823
Paid tax	-	(10)
Other inflows	73	61
Cash inflows/(outflow) from operating activities, Net	66,849	23,911
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(21)	(429)
Purchase of intangible assets	(182)	(116)
Treasury bills and other securities	(35,618)	(10,052)
Net outflow of cash from investing activities	(35,821)	(10,597)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in borrowing	(737)	(669)
Issue of ordinary shares	2,000	
Inflows from financing activities, Net	1,263	(669)
Foreign exchange difference effect on cash and cash equivalents	1,264	954
Net increase /(decrease) in cash and cash equivalent	33,555	13,599
Cash and cash equivalents, beginning of the period	35,441	21,842
Cash and cash equivalents, end of the year	68,996	35,441

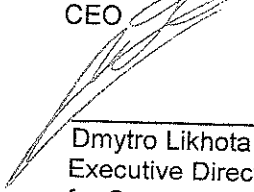
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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019

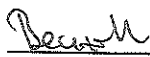
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STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserves	Retained earnings / loss	TOTAL
Impact of MSFI 9			(171)	(171)
Balance as of January 1 2018	8,500	-	(1,018)	7,482
Effects of the amendments from Securities	-	23	-	23
Current period gains	-	-	1,463	1,463
Balance as of 31 December 2018	8,500	23	445	8,968
Share issue	2,000	-	-	2,000
Effects of the amendments from Securities	-	280	-	280
Current period gains	-	-	244	244
Balance as of 31 december 2019	10,500	303	689	11,492


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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

1. THE ESTABLISHMENT OF THE BANK AND ITS OPERATIONAL

Zapad banka AD Podgorica (hereinafter: the Bank) was established on 24 February 2015. On 6 March 2015 it was registered as joint stock entity with the Central Registry of the Commercial Court in Podgorica under No. 4-0009448.

With the Equity Market Commission, the Bank is registered in the Registry of Securities Issuers under No. 531 (Decision number 02/3-1/2-15 dated 25 March 2015).

The Bank performs its financial operations via a drawing account no. 907-57001-31 held with the Central Bank of Montenegro - Payment operations.

Under the Law on Banks, the Founding Act, the Bank's Articles of Association and the Central Bank of Montenegro Decision No. 0101-4014/67-3 dated 30 January 2015, the Bank may perform along with its banking activities operations such as:

- Issuing guarantees and undertaking other off-balance sheet activities;
- Purchase, sale and collection of receivables (factoring, forfeiting, etc.);
- Issuing, processing and recording payment instruments;
- Domestic and foreign payment operations;
- Finance lease;
- Securities transactions;
- Trading for own account and in their own name, or on account of the client: in foreign currency, inclusive of foreign exchange transactions with financial derivatives;
- Repurchasing transactions;
- Analysis, information and advisory services relating to company or entrepreneur creditworthiness, and other operating issues;
- Safe deposit box rental services.

The Bank is registered in Podgorica, at no/2b/7th floor, Moskovska Street.

As at 31 December 2019, the Bank had 59 employees (as at 31 December 2018, the Bank had 54 employees).

The Bank is managed by its shareholders based on their share capital, in accordance with the Law and the Bank's Articles of Associations. The Bank's managing bodies are the Shareholders' Assembly, comprising shareholders and the Board of Directors appointed by the Shareholders' Assembly. The Board of Directors has five members, the majority of which is not employed with the Bank. One member of the Board of Directors has the role of Executive Director.

The members of the Board of Directors as at 31 December 2019 are:

- Vadym Morokhovskyy, President
- Volodymyr Kostelman, Deputy President
- Oleksandr Kuperman, member
- Dejan Marinović, member
- Valentyna Grechko, member

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1. THE ESTABLISHMENT OF THE BANK AND ITS OPERATIONAL (CONTINUED)

The managing authorities and bodies are:

- The Audit Committee
- The Assets and Liabilities Committee (ALCO),
- Credit Risk Management Committee (The Credit Committee),
- Information Technologies Committee.

The Bank has 3 executive directors of whom one is the CEO. CEO represents the Bank and is responsible to coordinate and supervise, on daily basis, the execution of operations in the Bank and the work of Executive Directors of the Bank.

As at 31 December 2019 the Executive Directors of the Bank are:

Mladen Rabrenović, CEO

Oleksandr Kuperman, Executive Director for sales

Dmytro Likhota, Executive Director for business support operations

2.1. Basis of preparation

The Bank is required to prepare financial statements ("hereinafter" the financial statements) in accordance with the Law on Accounting (Official Gazette of Montenegro, No. 52/16), Law on Banks (Official Gazette of Montenegro no. 17/08, 44/10, 40/11 and 73/17) and other regulations governing financial reporting of banks.

The Bank's financial statements have been prepared in accordance with the Decision On the Content, Deadlines and Manner of Preparation and Submission of Financial Statements of Banks (Official Gazette of Montenegro no.15/12, 8/13 and 24/18).

Upon preparation of these financial statements, the Bank implemented policies in accordance with the regulations of the Central Bank of Montenegro, which depart from the requirements of IFRS and IAS effective as of December 31, 2019 in respect of format for presentation of the financial statements.

In accordance with the Law on Accounting legal entities are compiling financial statements at IAS i.e. IFRS published by the International Accounting Standards Board, should be adopted and published by a respective competent authority of Montenegro who got the right on translation and publishing from the International Federation of Accountants (IFAC). Therefore, only IFRS and IAS officially adopted and published by the respective and competent authority of Montenegro may be applicable. The last officially published translation are for the part of IAS applicable from January 2009, i.e. part of the IFRS applicable from January 1, 2013 and IFRS 9 applicable from 1 January 2018, which cover only the basic text of the standards and interpretations and do not include basis for reasoning, illustrative examples, application instructions, comments, opinions and other explanatory material.

In addition, the translation does not include a translation of the Basis of the preparation and presentation of financial statements.

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.

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

2.2. Rules of Estimates

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 instruments available for sale
- Financial liabilities at fair value through income statement.

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 which the estimates were made, are the result of regular reviews. 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 3.17 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. Comparative data

Comparative data in these financial statements present the data from financial statements of the Bank for 2018.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank consistently applies the adopted accounting policies in all the periods presented in financial statements. 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

When calculating the effective interest rate for financial instruments, except for purchased or approved credit -impaired assets, the Bank when estimating future cash flows takes into account all agreed terms but not for ECL.

For purchased or credit - impaired financial assets the credit – adjusted effective interest rate is calculated taking into account expected cash flows including ECL.

When calculating effective interest rate the transaction cost and all unpaid or paid fees are considered, which are the part of effective interest rate. The transaction costs are incremental costs which can be directly attributed to the emission or disposal of some financial asset or financial liability.

Amortized value of the financial asset or financial liability represents the amount by which the financial asset or financial liability are valued 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 liabilities is calculated at initial recognition of the financial asset or liability. For financial assets which became credit – impaired after initial recognition the interest income is calculated by applying the effective interest rate method on amortized value of 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 of the financial asset.

For financial assets which became credit – impaired after initial recognition the interest income is calculated by applying the effective interest rate method on amortized value of 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 of the financial asset.

For financial assets which are credit - impaired at the time of initial recognition the interest income is calculated by applying credit – adjusted interest rate on amortize value of financial asset. The calculation of interest income does not return to gross basis not even when the credit risk is improved.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Interest and commission income and expense

Income and expenses fees are considered to be an integral part of effective interest rate of financial asset or financial liability are included in the calculation of income and expenses using the effective interest rate method.

Fee and commission income and expense are recognised in the income statement at the time when the service is provided or used.

Fee and commission income and expense comprise guarantee fees and letters of credit issued by the Bank in favour of the client, domestic and foreign payment operations fees, and other services provided by the Bank.

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. 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 translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the statement of comprehensive income 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.

3.4. Leasing

Leases of the Bank is classified as operating leases. The payments made under operating leases are charged to operating expenses in the income statement on a straight-line basis over the period of the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. Income Taxes

Tax income cost is based on taxable profit of the business year and consists of current and deferred tax.

Current Income Taxes

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

The Company's taxable profit is determined based on profit presented in the Bank's Income Statements, as adjusted by income and expenses under the Corporate Income Tax Law (Articles 8 and 9 for adjustment of income, and Articles 10 to 20 for adjustment of expenses), and the Decision on the new Chart of Accounts of the Central Bank of Montenegro (MNE Official Gazette No. 55/12 and 82/17). Income tax expense is calculated using the straight-line rate of 9% on taxable income (2016: 9%).

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 tax

Deferred taxes are calculated on all temporary differences between tax base of assets and liabilities and their carrying amounts recorded in the Bank's financial statements.

Deferred tax liabilities are recognized for all taxable temporary differences arising between the tax base of assets and liabilities as at the balance sheet date and the amounts presented for reporting purposes, which will result in future period taxable amounts.

Deferred tax assets are calculated for all deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax credits and unused tax losses can be utilised. The deferred tax assets are calculated at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. The deferred tax is calculated by applying a 9% rate.

Taxes, contributions and other fees that do not depend of business result

Taxes, contributions and other fees that do not depend of business result include property tax and other tax, fees and contributions paid according to various republic and local tax regulations.

3.6. Earnings per share

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

The Bank has no dilutive potential ordinary shares such as convertible debt and share options.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, cash in treasury and deposits with the Central Bank of Montenegro (EUR and foreign currencies) including mandatory reserves held with local and foreign banks as well as other high liquid financial assets.

Cash and cash equivalents are valued at amortized cost in balance sheet.

3.7.1. Mandatory reserve

The calculation, the allocation and the use of mandatory reserves with the Central Bank of Montenegro is prescribed by the Decision on the mandatory reserve with the Central Bank of Montenegro ("Official Gazette of MNE", no. 40/10, 46/10, 06/13, 70/17 and 88/17) became effective, based on which the mandatory reserve is calculated by applying a 7.5% rate to the base comprising demand deposits and deposits with maturities of up to one year, i.e. up to 365 days, 6.5% - to the base comprising deposits with maturities exceeding one year, i.e. over 365 days. A 7.5% rate is applied to deposits with over the 1-year, or 365 days maturity range with clauses allowing early deposit redemption i.e. redemption within the period shorter than 365 days.

The calculated mandatory reserve of the bank is allocated to the account of the obligatory reserve in the country and / or to the accounts of the Central Bank abroad and cannot be separated and held in another form. Banks can use up to 50% of allocated funds of the reserve requirement to maintain daily liquidity

3.8. Financial instruments

3.8.1. Recognition

Purchase or sale of a financial asset or liability is recorded using an accounting coverage at the balance sheet 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 the statements, initially recognized at fair value, and transaction cost are charged to operating expenses in the income statement.

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.

3.8.2.1. Business model assessment

The bank sets its business model at the level that best reflects how it manages financial asset groups to achieve its business objective.

The Bank classifies financial assets into the following three categories:

- Financial assets whose aim is the collection of contracted cash flows,
- Financial assets whose aim is the collection of contracted cash flows and sales,
- Financial assets intended for trading

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (continued)

3.8.2. Classification

3.8.2.1. Business model assessment

The contractual terms of the financial asset at certain dates give the cash flows that are exclusively principal and interest payments (SPPIs) on the amount of the principal outstanding.

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 realised 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.

3.8.2.2. SPPI test

As the second criteria for the classification and measurement of financial instruments IFRS 9 standard defines the characteristics of expected cash flows. In order to classify the financial instruments into categories of measurement at amortized cost or at FVOCI the expected cash flows must meet the criteria of SPPI test, which are clearly defined in IFRS 9 standard. Any violation of these criteria potentially leads to classification of financial instrument in the category measurement of such instrument at FVOCI.

In order for the expected cash flows to meet the SPPI criteria, they must be generated exclusively from:

- Collection of principal,
- Collection of interest for the corresponding principal.

In the event that one of the criteria is violated, the financial instrument must be measured at fair value through the profit and loss account.

Additional cash flows generated from interest to corresponding principal must reflect:

- Time value of the money,
- Credit risk,
- Other basic risk from borrowing assets.

The consequence of additional payments that are included in the interest rate, but which do not meet the above-mentioned criteria, is the failure to meet the SPPI test criteria and the measurement of such an instrument at fair value through the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial instruments (continued)

3.8.3. Financial assets whose purpose is the collection of contracted cash flows

In financial assets, whose purpose is the collection of contracted cash flows, are classified in the following types of assets:

- Loans and receivables from banks (including assets with banks, interest and fees);
- Loans and receivables from clients (including interest and fees, receivables due to leases, forfeiting and factoring);
- Issued guarantees;
- Credit obligations (approved, but unused loans);
- Avali and acceptances of bills of exchange;
- Other guarantees;
- Uncovered credit letters (letters of credit);
- Exposures with financial institutions and the central bank;

According to IFRS 9, the classification and measurement of financial instruments is based on two criteria, from which the first is the choice of the business model for which the instrument is initially acquired.

3.8.4. Financial assets whose purpose is the collection of contracted cash flows and sale

Debt securities are listed here. Government bonds, government bills and other securities are non-derivative financial assets that are classified within the model aimed at "holding for collection and sale". They are initially recognized at cost increased for the transaction costs incurred in connection with the acquisition, while subsequent measurements are carried out at FVOCI. Unrealized gains and losses are recorded within revaluation reserves until the securities are sold, collected or otherwise realized, or until such securities are permanently impaired. When securities are depreciated or impaired, cumulative fair values recognized in the equity are reclassified to the Income Statement.

Interest income is recognized using the effective interest rate in the income statement. Amortized value is calculated considering all issuing costs and all discounts or premiums during settlement. Losses arising from impairment are recognized in the income statement.

Impairment is measured in accordance with the Methodology for assessment of Impairment and expected loss.

3.8.5. Financial assets held for sale

Financial assets held for sale include:

- Derivatives whose aim is protection from foreign exchange rates and holding for trade.
- This model will also include all financial assets, whose objective is not included in the first two models: holding for collection, and holding for collection and sale.

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. All realized and unrealized gains and losses based on sale i.e. change in the market value of these securities are recognized within the position of income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial instruments (continued)

3.8.6. 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. The Bank did not reclassify any of its financial assets or liabilities in 2019.

3.8.7. 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.

3.8.8. Impairment of financial assets and provision

IFRS 9 standard is based on the concept of expected credit losses which includes and macroeconomic valuation assessment models i.e. macroeconomic scenarios.

The Bank has adopted the Methodology of impairment of financial instruments in accordance with IFRS 9. The scope of the Methodology applies to all accounts of the Bank of the following groups, i.e. subject to impairment in accordance with IFRS 9:

- balance sheet exposures: (all types of loans, activated guarantees and syndicated loans, factoring and forfeiting arrangements, interest due, fees and other balance sheet receivables, deposits with banks and other financial institutions, securities held-to-maturity (HTM) and other receivables) and
- off-balance sheet exposures: (issued guarantees, issued overdrafts, letters of credit and other).

During the off-balance sheet exposures assessment, the Bank uses a credit conversion factor (CCF) in accordance with the Decision on Capital Adequacy in Banks of the Central Bank of Montenegro (CBM).

The basic principle of the model of expected credit losses is to present a general model of deterioration or improvement of the credit rating of financial instruments. The amount of expected credit losses (ECL) that is recognized as the cost of the provision depends on the volume of credit impairment from initial recognition. There are two grounds for calculation

- Expected loss for a period of 12 months (Stage 1), which applies to all assets (from initial recognition) until there is a significant deterioration in the credit rating,
- The expected loss over the entire duration of the loan (Stages 2 and 3), which is applied when there is a significant increase in credit risk on an individual or collective basis.

At each reporting date, an assessment is made of whether there has been a significant increase in the credit risk from initial recognition and whether the financial asset is impaired for each portfolio in order to determine the applicable provisioning (for 12 months or for the entire life of the asset).

The expected credit loss is estimated on the basis of an individual or collective assessment. Financial assets are grouped into segments by category (loans to legal entities, loans to individuals), time category (bucket) and staging. Subsequently, the impairment calculation was carried out on the basis of an individual or collective assessment. The combination of these four criteria (client type / bucket / stage / estimation method) determines the parameters and method of estimating the provision for credit losses. The Bank distinguishes between two types of clients: Legal entities (LE) and Individuals (I).

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (continued)

3.8.8. Impairment of financial assets and provision (continued)

At the reporting date an assessment is made, if there was a significant increase in credit risk in relation to the date of initial recognition and if the financial asset has been impaired in order to determine the applicable calculation of the provision (for 12 month or for the entire life time of the asset).

The loan is assigned at Stage 1 if the terms for Stage 2 and Stage 3 are not met. The assessment of a significant deterioration of the credit rating comparing to initial recognition is made through assessment of the following parameters: the delay is longer than 30 days but less than 90 days; Central Bank of Montenegro rating is worsened comparing to initial recognition and expert opinion by analyst of the Bank. If at least one of the above-mentioned parameters is met, the asset is classified in Stage 2. The expert opinion refers to: deterioration of external ratings (Moody's, Standard & Poor's Fitch) government or corporate bonds in relation to initial recognition; current or expected increase in risk of default, other liabilities of the same debtor.

Significant change in a collateral value or the quality of third party guarantees or other collateral which reduces debtor's economic incentives for regular settlement of contractual payments, reduction of the financial support of the parent company or partner company, for which is expected to reduce the debtor's economic incentives for regular settlement of contractual payments; if one of the companies from group of related parties (e.g. holding company) enters the default status, all other entities are assigned a "watchlist" flag; expected changes in credit documentation (e.g. amendments in the terms of contract) including expected termination of the contract that may lead to declaration of the covenants or annex, a grace period, an increase in the interest rate, requests for additional collateral or guarantees, or other changes of the contractual framework of a financial instrument, actual or expected significant changes in the debtor's repayment or the group of the debtors; significant increase of the credit risk on other loans of the same debtor, i.e. some of the remaining loans of the same clients have days of delay over 30 days; actual or expected increase of the market interest rates that would reduce debtor's ability to service his debt obligations; expected restructuring of the loans due to repayment problems; large withdrawal of the assets or in total withdrawn limits on overdraft accounts of the clients in the last quartal; information from external sources suggest a negative development of the credit rating of the client; information from credit registry shows that the client is in delay in repaying loans at other banks and other.

The Bank considers that a financial instrument has become impaired (Stage 3 classification) if one or more criteria have been adversely affected, which have a negative impact on the estimated future cash flows: receivables from the client are in default for over 90 days, with exposure amounts above a certain materiality threshold; adverse changes in operating conditions; financial reorganization of debtors; bankruptcy or insolvency of the client; restructuring of loans (significant changes in conditions, interest rate cuts, partial grace periods (freezing and payment of interest only) necessary due to credit (financial) worthiness, lack of cooperation by the client in case of repayment of debts and receivables from the parent company or related party.

The definition of the default status is applied at the account (loan) level for individuals, while the default for legal entities is applied at the client level. Therefore, in any other account (loan) of a legal entity is in default it is considered that all other accounts (loans) of the same legal entity is in default.

For the purposes of documenting the impairment criteria, except for the criteria for the default, the Bank uses questionnaires on the existence of objective evidence of impairment, for individuals and legal entities separately

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (continued)

3.8.8. Impairment of financial assets and provision (continued)

The appraisal method applied by the Bank relates to an individual and collective assessment. The Bank has prescribed by the Methodology the criteria on the basis of which fulfilment of whether the asset is subject to an individual or collective assessment is determined.

The Bank assesses the asset individually if it meets one of the following criteria:

- Receivables from clients are considered impaired with the exposure amount above the materiality threshold from EUR 50, 000. The receivables are considered impaired if one of the following factors has been identified:
 - Receivables from clients which are delayed over 90 days,
 - The financial problem of the debtor
 - Unfavourable amendments in the operating conditions (unfavourable market conditions, government conditions that may negatively effect on the 's operations, etc.)
 - Financial reorganization of the debtor
 - Bankruptcy or insolvency of the client
- Restructuring loans (significant amendments of the conditions, interest rate reduction, partial grace period (freezing and interest payment only)) necessary due to credit (financial) ability,
- Lack of cooperation by the client in case of debt repayment
- Receivables from parent company or a related party are considered impaired (consideration by the group)
- Restructuring loans (significant amendments of the conditions, interest rate reduction, partial grace period (freezing and interest payment only)) necessary due to credit (financial) ability,
- Lack of cooperation by the client in case of debt repayment
- Receivables from parent company or a related party are considered impaired (consideration by the group)

Provisions for credit losses the Bank calculates on a collective basis for:

- If the provision for credit losses equals zero for calculation based on individual assessment (individual consideration leads to the conclusion that the asset is not impaired). If, on the basis of collective assessment, the provision for credit losses equals zero, the percentage for impairment of theoretically less risky placements is applied (exposures to the state of Montenegro) to gross exposures.
- For all exposures below the materiality threshold.

At the day of initial recognition of the financial asset, the Bank shall determine if the asset is impaired. This occurs in the case of purchases or restructured impaired financial assets. Namely if the Bank ceases to recognize impaired financial asset they should be treated as POCI assets. At the day of initial recognition of the financial asset, it is determined if the if the asset is impaired. POCI asset is probably purchased with the significant discount which reflects the resulting credit losses. For these assets EIR is calculated considering initially expected credit losses of the lifetime in the estimated cash flows (i.e. EIR adjusted with credit risk is used).

At the moment, the Bank is not able to estimate the PD of the useful life, due to the lack of sufficient amount of historical data. Therefore, by the time the available amount of data allows the development of a collective assessment model, the Bank will use data at the level of the Montenegrin banking system, published by the CBM.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Financial instruments (continued)

3.8.8. Impairment of financial assets and provision (continued)

For loans for which the expected amount of credit losses is estimated to be zero, the Bank uses the % of impairment that was obtained by assessing long-term exposures to the state of Montenegro. In the event that the maturity is up to 3 months, or the exposure is fully covered by cash collateral, the Bank applies a minimum percentage of impairment.

Due to the fact that the Bank does not have a sufficiently long history of data, the Bank uses the value of the LGD parameters prescribed by Basel II (for exposures before default, the Bank applies a LGD of 45%, LGD of 60% for loans in default for more than 180 days, LGD of 80% for loans in default for more than 270 days and LGD of 100% for loans in default for more than 270 days, since the collection of loans from other sources, other than collaterals, is no longer expected.

The calculation of impairment on an individual basis for securities based on the assessment of several scenarios weighted by the probability of outcome during the duration of the securities, with a probability of being taken as a PD in accordance with the international rating. If the maturity is up to 3 months, the annual PD is reduced by interpolation to the quarterly PD.

The impairment allowance for short-term exposures to the state of Montenegro is the minimum percentage of impairment that the Bank uses for all exposures, in cases where (individual or collective) consideration of impairment leads to the conclusion that the amount of expected credit losses is equal to zero.

The calculation of impairment on an individual basis for assets with banks is based on the assessment of several scenarios weighted by the probability of outcome during the duration of the exposure, with a probability of being taken as a PD in accordance with the international rating published by Standard & Poor's, Fitch and Moody's. If the maturity is up to 3 months, the annual PD is reduced by interpolation to the quarterly PD.

The Bank is obliged to perform at least monthly the classification of balance sheet and off/balance sheet items based on their risk exposure and make provisions for estimated losses.

Under the Decision on minimum standards for credit risk management in banks (MNE Official Gazette No.22/12, 55/12, 57/13, 044/17 and 082/17), loans and other risk exposed assets are required to be classified in one of the following categories:

- Category A (good assets) - items for which has been assessed that they will be fully collected in accordance with the agreement,
- Category B (assets with specific notification) - with subcategories B1 and B2, - assets with a low probability of loss-making risk but requiring special attention, since inadequate attention paid to these assets could lead to lower prospects for their collection,
- Category C (substandard assets) - with subcategories C1 and C2 -assets with high loss-making risk potential, since weaknesses jeopardising their collection have been inadequately determined,
- Category D (doubtful assets) - items unlikely to be collected, having in mind the creditworthiness of the borrower, the value of the asset and the possibility to have the collateral realised,
- Category E (loss) - fully or partially non-collectable receivables.

Based on the classification of the balance sheet assets and off-balance sheet items the Bank calculates provision for potential losses at a monthly level, using the percentages prescribed by the Decision of the Central Bank of Montenegro on the Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro" no. 22/12, 55/12, 57/13, 44/17 and 082/17). The basis for the calculation of provisions for potential losses is the carrying amount of receivables, excluding impairment for value adjustments.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.8. Financial instruments (continued)****3.8.8. Impairment of financial assets and provision (continued)**

The Bank is obliged to determine the difference between the provision for contingent losses, calculated in accordance with the above table and total provision for balance sheet and off-balance sheet items calculated in accordance with the Decision prescribing the manner of measuring assets under the International Accounting Standards.

The gain on calculated provisions for contingent losses and total provisions for balance sheet and off-balance sheet items represents the required reserve for estimated losses.

3.9. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Buildings	33,3
Computers and computer equipment	5
Office furniture	9
Vehicles	6,7
Other equipment	6,7

The start date of depreciation for any fixed asset is the first day of the month following the month of the acquisition. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the Income statement

3.10. Intangible assets*Licenses*

Acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives (5 years).

Computer software

The cost of computer software licences is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5 years).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11. Borrowings

Borrowings are recognised initially at the fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Bank has an unconditional right to defer settlement of the liability for at least 12 months after the Balance Sheet date.

3.12. Share capital

The Bank's paid in share capital relates to cash paid by shareholders for all ordinary shares. The Bank's share capital comprises ordinary shares, which are stated as a separate line item in the Balance Sheet.

Dividends from shares are recognized as liabilities in the period in which a decision on dividend distribution was made.

3.13. Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when all the following conditions have been satisfied

- The Bank has a present legal or constructive obligation resulting from past events;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- The amount of obligation has been reliably estimated.

Provisions are measured at the present value of the expected cash outflows required to settle the obligation using a discount rate that reflects current market assessments of the time value of money.

Provisions are reviewed at each Balance Sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed in the Income Statement.

3.14. Employee benefits

Short-term employee benefits include wages and salaries and taxes and contributions for social insurance. They are recognized as an expense in the period when they are incurred.

The Bank and its employees are obliged to pay taxes and contributions to Montenegrin Pension and Disability Insurance Fund in accordance with defined contribution plans. The Bank is not obliged to pay reimbursements to employees which are the responsibility of the National Fund. Taxes and contributions on defined benefit obligations are expensed as incurred.

3.15. Off-balance sheet contingencies and commitments

As part of its regular business activities, the Bank has assumed contractual commitments and off-balance sheet contingencies such as guarantees, borrowings and letters of credit, and transactions with financial instruments. These financial instruments are recorded in the Balance Sheet if and when they are payable.

Provisions for potential losses arising from commitments and contingencies are created based on the estimates of potential losses, in accordance with the criteria defined in the Decision on Minimum Standards for Credit Risk Management in Banks and the methodology of the Bank.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16. Related party transactions

The Bank's related parties are:

- Members of the (management) bodies of the Bank, shareholders, employees, and their immediate family (spouse and children);
- Legal entities in which the owner of a qualified share also has a qualified share in the Bank;
- Legal entities in which one of the persons referred to in lines 1 and 2 above has significant influence, or a person referred to in the above line 1 is a director or a member of the Board of Directors or other body of such legal entities;
- Persons holding at least 50% of the capital or voting rights of the legal entity which has a qualified share in the Bank;

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

3.17 Critical accounting estimates and judgements

The Bank makes estimates and assumptions that will affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.17.1. Impairment losses arising from on and off-balance sheet items

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. The Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the credit rating of financial instruments which can affect the Income Statement.

The methodology and assumptions used for estimating the impairment provision are disclosed in Note 3.8.8.

3.17.2. Fair value of financial instruments

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The fair value of financial instruments that are not traded in an active market is determined by applying a Methodology for determining fair value. With the Methodology for determining fair value the Bank defined the methods for determining the fair values of the instruments which are or will be in the portfolio of the Bank

The fair value of the loan is determined by discounting the future contractual cash flows with the appropriate discount rate. Such rate includes risk-free component (zero swap rate) and other components which reflects particularly the credit risk of the borrowers (credit spread) and other aspects as liquidity premium, finance costs, the required profit margin, etc. The discount rate is updated on every valuation date to reflect the current state of above-mentioned elements.

3.17.3 Litigations

The Bank's management assesses the amount of provisions for outflows based on litigations. The assessment is based on the estimated probability of future cash outflows, arising from past contractual or legal obligation.

4. RISK MANAGEMENT

4.1. Introduction

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

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

The risk management procedures are designed to identify and analyse risks, to define limits and controls required for risk management and to monitor the Bank's exposure to each individual risk. The risk management procedures are subject to regular review in order to allow adequate response to the changes in the market, products and services.

4.2. Liquidity Risk

Adequate liquidity risk management is the basic requirement for safe and efficient operations of a bank. The quality of liquidity risk management depends on the Bank's balance sheet structure and cash flow (inflows and outflows) matching. Required liquidity is achieved through rational management of assets and liabilities in order to maintain an adequate proportion of liquid assets and unstable liabilities.

At the end of 2019, deposits comprise mainly deposit accounts of non-residents 89,37% (i.e. EUR 128,999 thousand), of which EUR 115,873 thousand relates to deposits with maturity of up to one year, whereas EUR 1,126 thousand relates to deposits over one year.

Based on the results of measurement and monitoring of basic liquidity ratios, both internally prescribed and those required by the Central Bank of Montenegro, all ratios were above the prescribed minimum, meaning that the Bank managed adequately both operating and structural liquidity.

The table below provides an overview of assets and liabilities maturity dates based on contractual payment terms.

The contractual maturities of assets and liabilities are determined on the basis of the remaining period at the balance sheet date relative to the contractual maturity date.

Likewise, the liability items are distributed according to the remaining agreed maturity, i.e. the agreed payment deadline.

For the analysis of the maturity of assets and liabilities of the Bank in terms of expected maturities, asset positions are distributed according to the expected maturity, which can be equally agreed, but in most cases, it is different from the contracted.

When reporting the inflow from the loan collection the Bank's real expectations regarding the collection are taken into account, based on historical data, in the way that each individual loan party with a delay in settling liabilities more than 30 days the correction of the repayment plan is made by the maturity receivables which are moving for the maximum number of delay within the previous 6 months and are placed into the corrected column.

4. RISK MANAGEMENT

4.2. Liquidity Risk(continued)

When reporting the inflow from the loan collection the Bank's real expectations regarding the collection are taken into account, based on historical data, in the way that each individual loan party with a delay in settling liabilities more than 30 days the correction of the repayment plan is made by the maturity receivables which are moving for the maximum number of delay within the previous 6 months and are placed into the corrected column. It is considered that the maximum number of days in delay in the period of 6 months is sufficient parameter especially considering that the calculation of the interest on total portfolio is made on the last day in the month and therefore the delay is the largest on that day. If the Bank has some other probable data that better indicate client's current situation can correct the repayment plan accordingly.

In order to present the expected outflows in real terms, the stability of the deposit is examined and presented in the columns according to the expected outflows. The Bank has developed and applied the Methodology for determining the stable level of demand deposits. The stable level of demand deposits is determined as 70% of the minimum demand deposits (minus the sight deposits of all clients who make commissions) for the last 12 months. The stable amount of the deposit is allocated in the column 91-180 days.

For the purpose of scheduling term deposits by expected maturity, the Bank uses the date on which it expects the actual deposit outflow to occur, regardless of the agreed maturity.

For the purpose of the arrangement of debt securities, i.e. The Bank uses the expected maturity date of the bonds to be able to sell the securities, based on the history of past sales ("bond marketability"), as follows:

- Bonds that have a rating, which is treated as a credit quality level from 1 to 3 in accordance with the Capital Adequacy Decision, and are classified into a category from 1 to 7 days;
- Montenegrin international Eurobonds are classified in a category from 1 to 7 days;
- Montenegrin local bonds are categorized from 31 to 90 days;
- Bonds that have a rating, which is treated as a credit quality level 4 according to the Decision on Capital Adequacy, and are classified into a category from 91 to 180.

ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity risk (continued)

The maturity structure of gross assets and liabilities according to remaining contractual maturity as at 31 December 2019 is shown as follows:

Assets	1-7 days	8-15 days	16-30 days	31-90 days	91-180 days	181-365 days	1-5 years	Over 5 years	Total
I Cash and deposits with deposit Institutions and Bank receivables	47,021	-	-	-	-	-	5,215	-	52,235
II Financial assets at amortized cost	19,497	1,428	97	6,946	3,326	8,630	18,008	4,322	62,253
Loans and receivables due to Banks	18,035	894	-	2,500	-	-	-	-	21,429
Loans and receivables due to clients	1,412	534	97	4,446	3,326	8,630	18,008	4,322	40,775
Other financial assets	49	-	-	-	-	-	-	-	49
III Financial assets at FVOCI	-	113	25	130	240	2,038	32,519	10,813	45,878
IV Financial assets at FVOCI not held for trade	-	-	-	-	-1	-1	836	-	834
Other assets	38	-	7	14	15	10	9	-	93
Total	66,556	1,541	128	7,090	3,580	10,677	56,587	15,135	161,294
Liabilities									
Cash and balances with Central Bank at amortized cost	4	-	-	-	-	-	-	-	4
Deposits due to clients at amortized cost	118,985	-	3	3,400	567	4,757	13,398	3,233	144,343
Loans from clients which are not Banks	-	-	-	82	124	248	1,429	446	2,329
Interest and accruals at amortized cost	24	-	-	-	-	-	-	-	24
Subordinated debt	-	-	-	-	-	-	-	3,000	3,000
Derivative financial liabilities as hedging instrument	-	-	-	-	-	-	-	-	-
Other financial liabilities	600	-	50	-	-	-	-	-	651
Total	119,614	-	54	3,482	691	5,005	14,827	6,679	150,351
Maturity Gap (1)- (2)	(53,058)	1,541	75	3,608	2,890	5,671	41,759	8,456	10,942
Cumulative Gap	(53,058)	(51,516)	(51,442)	(47,834)	(44,944)	(39,273)	2,487	10,942	(274,638)
% of total source of funds	(35.3%)	(34.3%)	(34.2%)	(31.8%)	(29.9%)	(26.1%)	1.7%	7.3%	

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity risk (continued)

The maturity structure of gross assets and liabilities according to expected maturity as at December 31, 2019 is shown as follows:

Assets	1-7 days	8-15 days	16-30 days	31-90 days	91-180 days	181-365 days	1-5 years	Over 5 years	Total
I Cash and deposits with deposit Institutions and Bank receivables	47,021	-	-	-	-	-	5,215	-	52,235
II Financial assets at amortized cost	19,405	1,428	94	6,973	3,325	8,660	18,046	4,322	62,253
Loans and receivables due to Banks	18,035	894	-	2,500	-	-	-	-	21,429
Loans and receivables due to clients	1,321	534	94	4,473	3,325	8,660	18,046	4,322	40,775
Other financial assets	49	-	-	-	-	-	-	-	49
III Financial assets at FVOCI	31,344	113	25	12,235	2,124	38	-	-	45,878
IV Financial assets at FVOCI not held for trade	-	-	-	-	(1)	(1)	836	-	834
Other assets	38	-	7	14	15	10	9	-	93
Total	97,808	1,541	125	19,221	5,463	8,707	24,105	4,322	161,294
Liabilities									
Cash and balances with Central Bank at amortized cost	4	-	-	-	-	-	-	-	4
Deposits due to clients at amortized cost	92,479	-	3	3,400	27,073	4,757	13,398	3,233	144,343
Loans from clients which are not Banks	-	-	-	82	124	248	1,429	446	2,329
Interest and accruals at amortized cost	24	-	-	-	-	-	-	-	24
Subordinated debt	-	-	-	-	-	-	-	-	-
Derivative financial liabilities as hedging instrument	-	-	-	-	-	-	-	3,000	3,000
Other financial liabilities	600	-	50	-	-	-	-	-	651
Total	93,107	-	54	3,482	27,197	5,005	14,827	6,679	150,351
Maturity Gap (1)- (2)	4,701	1,541	72	15,740	(21,734)	3,702	9,278	(2,358)	10,942
Cumulative Gap	4,701	6,242	6,314	22,054	320	4,022	13,300	10,942	67,894
% of total source of funds	3.1%	4.2%	4.2%	14.7%	0.2%	2.7%	8.8%	7.3%	

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity risk (continued)

The maturity structure of gross assets and liabilities according to the remaining contractual maturity as at December 31, 2018 is shown as follows:

Assets	1-7 days	8-15 days	16-30 days	31-90 days	91-180 days	181-365 days	1-5 years	Over 5 years	Total
I Cash and deposits with deposit Institutions and Bank receivables	25,119	-	-	-	-	-	3,663	-	28,783
II Financial assets at amortized cost	8,310	2	978	9,442	1,958	5,587	19,817	3,347	49,441
Loans and receivables due to Banks	7,615	-	873	4,500	-	-	35	5	13,027
Loans and receivables due to clients	686	2	105	4,942	1,958	5,587	19,782	3,342	36,405
Other financial assets	9	-	-	-	-	-	-	-	9
III Financial assets at FVOCI	-	-	-	1,000	-	1,882	7,003	-	9,824
IV Financial assets at FVOCI not held for trade	50	-	-	18	48	1,114	-	-	1,230
Other assets	68	-	23	10	16	7	9	-	132
Total	33,547	2	1,001	10,470	2,022	8,590	30,492	3,347	89,410
Liabilities									
Cash and balances with Central Bank at amortized cost	4	-	-	-	-	-	-	-	4
Deposits due to clients at amortized cost	48,971	-	-	5,064	192	2,435	17,534	703	74,899
Loans from clients which are not Banks	-	-	-	129	86	302	1,738	810	3,065
Interest and accruals at amortized cost	6	-	-	-	-	-	-	-	6
Subordinated debt	-	-	-	-	-	-	-	3,000	3,000
Derivative financial liabilities as hedging instrument	43	-	-	-	-	-	-	-	43
Other financial liabilities	674	-	53	-	-	-	-	-	727
Total	49,698	-	53	5,193	278	2,737	19,272	4,513	81,744
Maturity Gap (1)- (2)	(16,151)	2	948	5,277	1,744	5,853	11,220	(1,166)	7,666
Cumulative Gap	(16,151)	(16,149)	(15,201)	(9,924)	(8,180)	(2,327)	8,893	7,727	(51,312)
% of total source of funds	(19.8%)	(19.8%)	(18.6%)	(12.1%)	(10.0%)	(2.8%)	(10.9%)	(12.2%)	-

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity risk (continued)

The assets and liabilities maturity structure as at 31 December 2018 was as follows:

Assets	1-7 days	8-15 days	16-30 days	31-90 days	91-180 days	181-365 days	1-5 years	Over 5 years	Total
I Cash and deposits with deposit institutions and Bank receivables	25.119	-	-	-	-	-	-	-	25.119
II Financial assets at amortized cost	8.211	2	978	9.442	1.958	5.887	3.663	3.334	28.782
Loans and receivables due to Banks	7.615	-	873	4.500	-	-	35	5	49.369
Loans and receivables due to clients	587	2	105	4.942	1.958	5.587	19.822	3.329	13.028
Other financial assets	9	-	-	-	-	-	-	-	36.332
III Financial assets at FVOCI	-	-	-	-	-	-	-	-	9
IV Financial assets at FVOCI not held for trade	-	-	-	-	-	-	-	-	9.979
Other assets	50	-	-	18	48	1.114	-	-	1.230
	68	-	23	10	16	7	9	-	133
Total	33.448	2	1.001	14.815	6.656	6.708	23.529	3.334	89.493
Liabilities									
Cash and balances with Central Bank at amortized cost	4	-	-	-	-	-	-	-	4
Deposits due to clients at amortized cost	38.234	-	-	5.064	10.929	2.435	17.534	703	74.900
Loans from clients which are not Banks	-	-	-	129	86	302	1.738	810	3.065
Interest and accruals at amortized cost	6	-	-	-	-	-	-	-	6
Subordinated debt	-	-	-	-	-	-	-	3.000	3.000
Derivative financial liabilities as hedging instrument	43	-	-	-	-	-	-	-	43
Other financial liabilities	674	-	53	-	-	-	-	-	727
Total	38.961	-	53	5.193	11.015	2.737	19.272	4.513	81.745
Maturity Gap (1)-(2)	(5.523)	2	948	9.622	(4.359)	3.971	4.257	(1.180)	7.738
Cumulative Gap	(5.523)	(5.521)	(4.573)	5.049	690	4.661	8.918	7.738	(15.476)
% of total source of funds	(6,7%)	(6,7%)	(5,6%)	6,2%	0,8%	5,7%	10,9%	9,5%	-

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4. RISK MANAGEMENT (CONTINUED)**5.3. Market risk****5.3.1. Risk of interest rate changes**

The sensitivity of assets, liabilities and off-balance sheet items to interest rate changes affects the amount of net interest income and the market value of certain financial instruments (interest rate sensitive funds and investments), which consequently affects the market value of the bank's capital.

The Bank's exposure to interest rate risk as at 31 December 2019 is presented in the table below. In 2019, the Bank did not grant loans with floating interest rates, therefore, the table includes assets and liabilities presented by maturity dates.

As at 31 December 2019	1-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Interest-bearing deposits with other institutions	7.040	2.500	-	-	2.643	12.183
Interest – bearing securities	-	-	-	2.000	43.333	45.333
Loans and other receivables	1.928	4.470	3.343	8.652	23.228	41.621
Other sensitive assets	271	130	240	38	-	678
Total	9.238	7.100	3.583	10.690	69.204	99.815
% of total interest - bearing assets	9,26%	7,11%	3,59%	10,71%	69,33%	-
Liabilities						
Interest – bearing deposits	-	3.400	567	4.741	16.222	24.929
Interest – bearing loans	-	82	124	248	1.875	2.329
Subordinated debt	-	-	-	-	3.000	3.000
Other sensitive liabilities	4	-	-	-	-	4
Total	4	3.482	691	4.989	21.097	30.263
% of total interest - bearing liabilities	0,01%	11,50%	2,28%	16,49%	69,71%	-
Gap	9.234	3.618	2.892	5.701	48.107	69.552
Cumulative Gap	9.234	12.852	15.744	21.445	69.552	-
Cumulative Gap / Total assets %	5,70%	7,93%	9,71%	13,23%	42,91%	-

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***4. RISK MANAGEMENT (CONTINUED)****4.3. Market risk (continued)****4.3.1. Risk of interest rate changes (continued)**

As at 31 December 2018	1-30 days	31-90 days	91-180 days	181-365 days	Over 1 year	Total
Assets						
Interest-bearing deposits with other institutions	4,272	4,500	-	-	1,866	10,638
Interest – bearing securities	-	1,000	-	1,821	7,003	9,824
Loans	843	4,960	2,006	6,702	23,124	37,635
Other sensitive assets	205	125	20	10	-	360
Total	5,320	10,585	2,026	8,533	31,993	58,457
% of total interest - bearing assets	9.10%	18.11%	3.47%	14.60%	54.73%	-
Liabilities						
Interest – bearing deposits	26,133	5,064	156	2,328	17,976	51,657
Interest – bearing loans	-	129	86	302	2,548	3,065
Subordinated debt	-	-	-	-	3,000	3,000
Other sensitive liabilities	8	-	-	-	-	8
Total	26,141	5,193	242	2,630	23,524	57,730
% of total interest - bearing liabilities	45,28%	9,00%	0,42%	4,56%	40,75%	-
Gap	(20,821)	5,392	1,784	5,903	8,469	727
Cumulative Gap	(20,821)	(15,429)	(13,645)	(7,742)	726	-
Cumulative Gap / Total assets %	(22.93%)	(16.99%)	(15.03%)	(8.53%)	0.80%	-

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4. RISK MANAGEMENT (CONTINUED)**4.3. Market risk (continued)****4.3.1. Risk of interest rate changes (continued)*****Sensitivity analysis***

Liquidity risk management is accompanied by monitoring the sensitivity of the Bank's Income Statement to different scenarios for interest rate changes. Income Statement sensitivity is the impact of assumed changes in interest rates on the annual net interest income.

The Bank regularly performs stress testing of interest rate risk in the banking book. The impact on net interest income (NII) for individual GAP is calculated using this formula:

Impact on annual NII = (periodic GAP)*(gap time period (year/s))*(interest rate change in base points).

Considering the maturity matching between interest-bearing assets and liabilities, or mainly positive periodic GAPs of up to one year, the impact on the annual net interest income in the event of reduced interest rates will be negative.

A review of Income Statement sensitivity to changes in interest rates as at 31 December 2019 is presented in the table below:

Interest rate increase	Impact on income statement in 000 EUR	Interest rate decrease	Impact on income statement in EUR
+100 bp	151	-100 bp	(115)

Analiza osjetljivosti bilansa uspjeha na promjene u kamatnim stopama za 31. decembar 2018. godine je prikazana u sljedećoj tabeli:

Interest rate increase	Impact on income in 000 EUR	Interest rate decrease	Impact on income statement in '000' EUR
+100 bp	(129)	-100 bp	129

ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***4. RISK MANAGEMENT (CONTINUED)****4.3. Market risk (continued)****4.3.2. Foreign exchange risk**

Foreign exchange risk is the risk that the value of assets and liabilities will change as a result of changes in foreign exchange rates.

Assets and liabilities by currencies as at 31 December 2019 were as follows:

	<u>USD</u>	<u>GBP</u>	<u>Other</u>	<u>Total</u>
LONG POSITIONS				
F/X assets	95.520	5	143	95.668
TOTAL	95.520	5	143	95.668
SHORT POSITIONS				
F/X liabilities	95.504	7	137	95.648
TOTAL	95.504	7	137	95.648
NET POSITION				
NET LONG (SHORT) POSITIONS (1) - (2)	16	(2)	6	20
% of basic capital	0,26%	(0,03%)	0,10%	-
% of basic assets	0,18%	(0,02%)	0,07%	
Foreign currencies – aggregate				
	20			
% of basic capital	0,23%			
% of basic assets	0,17%			

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***4. RISK MANAGEMENT (CONTINUED)****4.3. Market risk (continued)****4.3.2. Foreign exchange risk (continued)**

Assets and liabilities by currencies as at 31 December 2018 were as follows:

	<u>USD</u>	<u>GBP</u>	<u>Other</u>	<u>Total</u>
LONG POSITIONS				
F/X assets	39.509	5	1	39.515
TOTAL	39.509	5	1	39.515
SHORT POSITIONS				
F/X liabilities	39.465	3	1	39.469
UKUPNO	39.465	3	1	39.469
NET POSITION				
NET LONG (SHORT) POSITIONS (1)- (2)	44	2	-	46
% of basic capital	0,73%	0,03%	0,00%	-
	0,49%	0,02%	-	-
Foreign currencies – aggregate				
% of basic capital	46			
	0,76%			
	0,51%			

4.4 Credit risk

Credit risk is managed on an individual loan basis and for the whole portfolio.

In order to provide the preconditions for adequate credit risk management, risk exposure is considered (i) on an individual loan basis - the Bank determines the creditworthiness and upper debt limit of a client or a group of clients, and (ii) for the whole portfolio, on the basis of:

- Portfolio structure by category of loans (corporate loans, loans to state institutions, retail loans, off-balance sheet exposures);
- Portfolio structure by solvency group
- Portfolio structure by timely settlement of liabilities;
- Portfolio structure by industry;
- Concentration of clients with large exposures (clients or groups of related clients with exposure exceeding 10% of the venture capital,
- Concentration of loans to individuals by type of product;

The Bank performs on a quarterly basis an impairment assessment (balance sheet assets) and a contingent loss assessment (off-balance sheet items) based on which it is exposed to credit risk, under the policy disclosed in Note 3.8.8.

On a monthly basis, the Bank performs a classification of items of balance sheet assets and off-balance sheet items based on which it is exposed to credit risk and calculates provisions for estimated losses. Provisions for credit risk are calculated in accordance with the valid regulations of the Central Bank of Montenegro (see Note 3.8.8.)

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***4. RISK MANAGEMENT (CONTINUED)****4.4 Credit risk (continued)**

In order to effectively manage credit risk, the Bank prepares credit risk stress scenarios and monitors the impact of the weakening of the credit portfolio on the Bank's liquidity, profitability and capital adequacy.

A review of the credit risk exposure is presented below.

Maximum exposure to credit risk without taking into account any collateral:

MAXIMUM EXPOSURE TO CREDIT RISK

	31 December 2019		31 December 2018	
	Gross	Net	Gross	Net
I Cash and balances with Central Bank	52,235	52,163	28,783	28,748
II Financial assets at amortized cost	62,253	61,660	49,520	49,160
Loans and receivables from Banks	21,429	21,380	13,093	13,069
Loans and receivables from clients	40,775	40,240	36,418	36,091
Loans to legal entities	38,885	38,372	34,317	34,015
Loans to individuals	1,745	1,724	1,921	1,896
Loans to entrepreneurs	30	30	42	42
Interest and other receivables	115	114	138	138
Other financial assets	49	40	9	-
III Financial assets at FVOCI	45,878	45,878	9,980	9,980
Securities	45,878	45,878	9,980	9,980
IV Financial assets at FVOCI, not held for trade	834	834	1,227	1,227
Loans and receivables from clients	834	834	1,227	1,227
V Other asset under provision	69	23	96	53
VI Off – balance sheet items	7,700	7,563	3,040	3,016
Guarantees	5,578	5,488	2,094	2,079
Other contingent liabilities	2,122	2,075	946	937
Total (I+II+III+IV+V+VI)	168,969	168,120	92,646	92,184

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.4 Credit risk (continued)

LOANS AND RECEIVABLES FROM CLIENTS, BANKS AND OTHER FINANCIAL ORGANIZATIONS BY LEVELS OF RISK

31 December 2019	S1	S2	S3	Total	Impairment S1	Impairment S2	Impairment S3	Total Impairment	Net
Loans and receivables from banks	21,429	-	-	21,429	49	-	-	49	21,380
Loans and receivables from clients	17,490	16,130	7,154	40,775	99	263	174	535	40,240
Loans to individuals	1,570	175	-	1,745	15	5	-	21	1,724
Housing loans	753	57	-	811	6	-	-	6	804
Cash non-specific purpose loans	500	33	-	533	7	4	-	10	522
Vehicle loans	39	-	-	39	1	-	-	1	39
Other	277	85	-	362	2	1	-	3	359
Loans to legal entities	15,847	15,906	7,132	38,885	83	257	174	513	38,372
Legal entities	11,571	10,238	6,232	28,041	63	241	12	316	27,725
Loans to non-residents	4,195	5,667	900	10,761	18	16	161	195	10,566
Nongovernmental and other non-profit organization	81	2	-	83	2	-	-	2	81
Loans to entrepreneurs	30	-	-	30	-	-	-	-	30
Interest and other receivables	44	49	23	115	-	1	-	1	114

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.4 Credit risk (continued)

LOANS AND RECEIVABLES FROM CLIENTS, BANKS AND OTHER FINANCIAL ORGANIZATIONS BY LEVELS OF RISK (CONTINUED)

31 December 2018	S1	S2	S3	Total	Impairment S1	Impairment S2	Impairment S3	Total Impairment	Net
Loans and receivables from banks	13,093	-	-	13,093	24	-	-	24	13,069
Loans and receivables from clients	16,037	19,049	1,333	36,419	97	161	69	327	36,091
Loans to individuals	1,734	187	-	1,921	20	4	-	24	1,897
Housing loans	645	64	-	709	7	-	-	7	702
Cash non-specific purpose loans	506	25	-	531	8	3	-	11	520
Vehicle loans	33	0	-	33	0	-	-	-	33
Other	550	98	-	648	5	1	-	6	642
Loans to legal entities	14,211	18,773	1,333	34,317	77	156	69	302	34,015
Legal entities	9,581	17,428	1,333	28,342	54	124	69	247	28,095
Loans to non-residents	4,329	1,345	-	5,674	20	32	-	52	5,622
Nongovernmental and other non-profit organization	301	-	-	301	3	-	-	3	298
Loans to entrepreneurs	42	-	-	42	-	-	-	-	42
Interest and other receivables	50	88	-	138	-	1	-	1	137

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***4. RISK MANAGEMENT (CONTINUED)****4.4 Credit risk (continued)****RECEIVABLES FROM CLIENTS AT THE DAYS OF DELAY - STAGE 1**

31 December 2019	Not in delay	Delay up to 30 days	from 31-60 days	From 61-90 days	Total:
Loans and receivables from banks	21,429	-	-	-	21,429
Loans and receivables from clients	7,993	9,497	-	-	17,491
Loans to individuals	1,467	103	-	-	1,570
Housing loans	753	-	-	-	753
Cash non-specific purpose loans	469	31	-	-	500
Vehicle loans	39	-	-	-	39
Other	205	72	-	-	277
Loans to legal entities	6,496	9,351	-	-	15,847
Legal entities	3,883	7,688	-	-	11,571
Loans to non-residents	2,532	1,662	-	-	4,195
Nongovernmental and other non-profit organization	81	-	-	-	81
Loans to entrepreneurs	30	-	-	-	30
Total loans	7,993	9,454	-	-	17,447
Restructured	-	-	-	-	-
Interest and other receivables	-	44	-	-	44

31 December 2018	Not in delay	Delay up to 30 days	from 31-60 days	From 61-90 days	Total:
Loans and receivables from banks	13,093	-	-	-	13,093
Loans and receivables from clients	6,421	9,616	-	-	16,037
Loans to individuals	1,287	446	-	-	1,734
Housing loans	644	-	-	-	644
Cash non-specific purpose loans	442	64	-	-	506
Vehicle loans	33	-	-	-	33
Other	168	382	-	-	550
Loans to legal entities	5,091	9,120	-	-	14,211
Legal entities	3,812	5,769	-	-	9,581
Loans to non-residents	978	3,351	-	-	4,329
Nongovernmental and other non-profit organization	301	-	-	-	301
Loans to entrepreneurs	42	-	-	-	42
Total loans	6,421	9,567	-	-	15,987
Restructured	-	1,876	-	-	1,876
Interest and other receivables	-	50	-	-	50

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***4. RISK MANAGEMENT (CONTINUED)****4.4 Credit risk (continued)****RECEIVABLES FROM CLIENTS AT THE DAYS OF DELAY – STAGE 2**

31 December 2019	Not in delay	Delay up to 30 days	from 31-60 days	From 61-90 days	Over 90 days	Total:
Loans and receivables from banks	-	-	-	-	-	-
Loans and receivables from clients	7,497	7,861	772	-	-	16,130
Loans to individuals	5	170	-	-	-	175
Housing loans	-	57	-	-	-	57
Cash non-specific purpose loans	5	27	-	-	-	33
Vehicle loans	-	-	-	-	-	-
Other	-	85	-	-	-	85
Loans to legal entities	7,492	7,648	767	-	-	15,906
Legal entities	3,499	5,994	745	-	-	10,238
Loans to non-residents	3,991	1,653	22	-	-	5,667
Nongovernmental and other non-profit organization	2	-	-	-	-	2
Loans to entrepreneurs	-	-	-	-	-	-
Total loans	7,497	7,817	767	-	-	16,081
Restructured	1,761	3,412	-	-	-	5,173
Interest and other receivables	-	44	6	-	-	49

31 December 2018	Not in delay	Delay up to 30 days	from 31-60 days	From 61-90 days	Over 90 days	Total:
Loans and receivables from banks	-	-	-	-	-	-
Loans and receivables from clients	282	18,295	471	-	-	19,049
Loans to individuals	109	77	-	-	-	187
Housing loans	-	64	-	-	-	64
Cash non-specific purpose loans	11	13	-	-	-	25
Vehicle loans	-	-	-	-	-	-
Other	98	-	-	-	-	98
Corporate loans	173	18,135	465	-	-	18,773
Loans to legal entities	173	17,045	210	-	-	17,428
Legal entities	-	1,090	255	-	-	1,345
Loans to non-residents	-	-	-	-	-	-
Loans to entrepreneurs	-	-	-	-	-	-
Total loans	282	18,213	465	-	-	18,960
Restructured	-	11,080	-	-	-	11,080
Interest and other receivables	-	83	6	-	-	89

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***4. RISK MANAGEMENT (CONTINUED)****4.4 Credit risk (continued)****RECEIVABLES FROM CLIENTS AT THE DAYS OF DELAY – STAGE 3**

31 December 2019	Not in delay	Delay up to 30 days	from 31-60 days	From 61-90 days	Over 90 days	Total:
Loans and receivables from banks	-	-	-	-	-	-
Loans and receivables from clients	1,024	656	5,475	-	-	7,154
Loans to individuals	-	-	-	-	-	-
Housing loans	-	-	-	-	-	-
Cash non-specific purpose loans	-	-	-	-	-	-
Vehicle loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Loans to legal entities	1,024	656	5,452	-	-	7,132
Legal entities	124	656	5,452	-	-	6,232
Loans to non-residents	900	-	-	-	-	900
Nongovernmental and other non-profit organization	-	-	-	-	-	-
Loans to entrepreneurs	-	-	-	-	-	-
Total loans	1,024	656	5,452	-	-	7,132
Restructured	-	641	5,452	-	-	6,093
Interest and other receivables	-	-	23	-	-	23

31 December 2018	Not in delay	Delay up to 30 days	from 31-60 days	From 61-90 days	Over 90 days	Total:
Loans and receivables from banks	-	-	-	-	-	-
Loans and receivables from clients	-	1,333	-	-	-	1,333
Loans to individuals	-	-	-	-	-	-
Housing loans	-	-	-	-	-	-
Cash non-specific purpose loans	-	-	-	-	-	-
Vehicle loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Loans to legal entities	-	1,333	-	-	-	1,333
Legal entities	-	1,333	-	-	-	1,333
Loans to non-residents	-	-	-	-	-	-
Nongovernmental and other non-profit organization	-	-	-	-	-	-
Loans to entrepreneurs	-	-	-	-	-	-
Total loans	-	1,333	-	-	-	1,333
Restructured	-	1,028	-	-	-	1,028
Interest and other receivables	-	-	-	-	-	-

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.4 Credit risk (continued)

THE AMOUNT OF PROBLEMATIC RECEIVABLES -STAGE 3 IN TOTAL LOANS

31 December 2019.								
	Gross exposure	Impairment	S3 receivables	Impairment of s3	Restructured S3 receivables	Impairment of restructured S3 receivables	Percentage of S3 receivables in gross exposure	
Loans and receivables from banks	21,429	49	-	-	-	-	0.00%	
Loans and receivables from clients	40,775	535	7,154	174	6,116	8	17.53%	
Retail loans	1,745	21	-	-	-	-	0.00%	
Housing loans	811	6	-	-	-	-	0.00%	
Cash loans - non purpose loan	533	10	-	-	-	-	0.00%	
Vehicle loans	39	1	-	-	-	-	0.00%	
Other	362	3	-	-	-	-	0.00%	
Corporate loans	38,885	514	7,132	174	6,093	8	18.33%	
Administrative and support service activities	1,680	3	-	-	-	-	0.00%	
Construction	3,991	12	-	-	-	-	0.00%	
Information and communication	9,206	36	6,217	8	6,093	8	67.53%	
Other service activities	1,930	20	-	-	-	-	0.00%	
Agriculture, forestry and fishing	83	2	-	-	-	-	0.00%	
Real estate trade	246	16	-	-	-	-	0.00%	
Processing industry	2,562	78	-	-	-	-	0.00%	
Traffic and storage	4,820	10	-	-	-	-	0.00%	
Electricity supply	7,069	85	-	-	-	-	0.00%	
Professional, scientific and technical activities	314	5	-	-	-	-	0.00%	
Trade	5,181	199	915	165	-	-	17.65%	
Accommodation and catering services	1,484	28	-	-	-	-	0.00%	
Health and social protection	319	20	-	-	-	-	0.00%	
Loans to the entrepreneurs	30	-	-	-	-	-	0.00%	
Interest and other receivables	115	1	23	-	23	-	20%	

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(All amounts are in EUR'000 unless otherwise stated)

4.4 Credit risk (continued)

31 December 2018.

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.4 Credit risk (continued)

CHANGES OF S3 RECEIVABLES

	Gross 31 December 2018	New S3 clients	Reduction of S3 clients	Impact of the course	Other changes	Gross December 31, 2019	Net December 31, 2019
Loans and receivables from clients	1,333	6,388	566	-	-	7,154	6,980
Retail loans	-	-	-	-	-	-	-
Housing loans	-	-	-	-	-	-	-
Cash loans - non purpose loan	-	-	-	-	-	-	-
Vehicle loans	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Corporate loans	1,333	6,365	566	-	-	7,132	6,958
Legal entities	1,333	5,466	566	-	-	6,233	6,220
Legal entities- non residents	-	899	-	-	-	899	738
Nongovernmental and other non- profit organizations	-	-	-	-	-	-	-
Loans to the entrepreneurs	-	-	-	-	-	-	-
Interest and other receivables	-	23	-	-	-	23	22

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.4 Credit risk (continued)

CHANGES OF S3 RECEIVABLES

	Gross December 31,2017 / January 1, 2018.	New S3 clients	Reduction of S3 clients	Impact of the course	Other changes	Gross December 31, 2018	Net December 31, 2018
Loans and receivables from clients	3,980	2,385	3,604	-	(1,428)	1,333	1,263
Retail loans	-	-	-	-	-	-	-
Housing loans	-	-	-	-	-	-	-
Cash loans - non purpose loan	-	-	-	-	-	-	-
Vehicle loans	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Corporate loans	3,963	2,385	3,587	-	(1,428)	1,333	1,263
Legal entities	3,963	2,385	3,587	-	(1,428)	1,333	1,263
Legal entities- non residents	-	-	-	-	-	-	-
Nongovernmental and other non- profit organizations	-	-	-	-	-	-	-
Loans to the entrepreneurs	-	-	-	-	-	-	-
Interest and other receivables	17	-	17	-	-	-	-

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.4 Credit risk (continued)

RESTRUCTURED RECEIVABLES

31 December 2019.	Gross exposure	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
Loans and receivables from clients	40,775	11,306	-	5,190	6,116	92	-	84	8	28%
Retail loans	1,745	-	-	-	-	-	-	-	-	0%
Housing loans	811	-	-	-	-	-	-	-	-	0%
Cash loans - non purpose loan	533	-	-	-	-	-	-	-	-	0%
Vehicle loans	39	-	-	-	-	-	-	-	-	0%
Other	362	-	-	-	-	-	-	-	-	0%
Corporate loans	38,855	11,266	-	5,173	6,093	92	-	84	8	29%
Administrative and support service activities	1,680	-	-	-	-	-	-	-	-	0%
Construction	3,991	-	-	-	-	-	-	-	-	0%
Information and communication	9,206	6,093	-	-	6,093	8	-	-	8	66%
Other service activities	1,930	-	-	-	-	-	-	-	-	0%
Agriculture, forestry and fishing	83	-	-	-	-	-	-	-	-	0%
Real estate trade	246	-	-	-	-	-	-	-	-	0%
Processing industry	2,562	1,761	-	1,761	-	78	-	78	-	69%
Traffic and storage	4,820	-	-	-	-	-	-	-	-	0%
Electricity supply	7,069	3,412	-	3,412	-	6	-	6	-	48%
Professional, scientific and technical activities	314	-	-	-	-	-	-	-	-	0%
Trade	5,181	-	-	-	-	-	-	-	-	0%
Accommodation and catering services	1,484	-	-	-	-	-	-	-	-	0%
Health and social protection	319	-	-	-	-	-	-	-	-	0%
Loans to the entrepreneurs	30	-	-	17	-	-	-	-	-	0%
Interest and other receivables	115	40	-	-	23	-	-	-	-	34%

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.4 Credit risk (continued)

RESTRUCTURATED RECEIVABLES

31 December 2018.	Gross exposure	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
Loans and receivables from clients	36,418	13,983	1,876	11,080	1,028	111	15	30	65	38%
Retail loans	1,921	-	-	-	-	-	-	-	-	0%
Housing loans	709	-	-	-	-	-	-	-	-	-
Cash loans - non purpose loan	531	-	-	-	-	-	-	-	-	-
Vehicle loans	33	-	-	-	-	-	-	-	-	-
Other	648	-	-	-	-	-	-	-	-	-
Corporate loans	34,317	13,983	1,876	11,080	1,028	111	15	30	65	41%
Administrative and support service activities	3,416	-	-	-	-	-	-	-	-	-
Construction	8,489	6,480	-	5,452	1,028	72	-	7	65	76%
Information and communication	321	-	-	-	-	-	-	-	-	-
Other service activities	301	-	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	296	-	-	-	-	-	-	-	-	-
Real estate trade	2,721	1,876	1,876	-	-	15	15	-	-	69%
Processing industry	3,970	-	-	-	-	-	-	-	-	-
Traffic and storage	8,366	5,627	-	5,627	-	24	-	24	-	67%
Electricity supply	1,694	-	-	-	-	-	-	-	-	-
Professional, scientific and technical activities	435	-	-	-	-	-	-	-	-	-
Trade	2,463	-	-	-	-	-	-	-	-	-
Accommodation and catering services	1,622	-	-	-	-	-	-	-	-	-
Health and social protection	223	-	-	-	-	-	-	-	-	-
Loans to the entrepreneurs	42	-	-	-	-	-	-	-	-	0%
Interest and other receivables	138	-	-	-	-	-	-	-	-	0%

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. Risk management (continued)

4.4 Credit risk (continued)

CHANGES OF RESTRUCTURED S1 RECEIVABLES

	Gross restructured receivables December 31, 2018	New restructured receivables	Reduction of restructured receivables	Impact of the course	Other changes	Gross December 31, 2019	Net December 31, 2019
Loans and receivables from clients	1,885	-	-	-	1,885	-	-
Retail loans	-	-	-	-	-	-	-
Corporate loans	1,876	-	-	-	1,876	-	-
Legal entities	1,876	-	-	-	1,876	-	-
Legal entities- non residents	-	-	-	-	-	-	-
Nongovernmental and other non-profit organizations	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Loans to the entrepreneurs	9	-	-	-	9	-	-

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. Risk management (continued)

4.4 Credit risk (continued)

CHANGES OF RESTRUCTURED S1 RECEIVABLES

	Gross restructured S1 receivables December 31,2017. /January 1, 2018.	New restructured S1 receivables	Reduction of restructured S1 receivables	Impact of the course	Other changes (an increase on the basis of the transfer of already restructured loans to S1)	Gross December 31, 2018	Net December 31, 2018
Loans and receivables from clients	6,159	1,885	119	-	6,040	1,885	1,869
Retail loans	-	-	-	-	-	-	-
Corporate loans	6,128	1,876	118	-	6,010	1,876	1,860
Legal entities	6,128	1,876	118	-	6,010	-	1,860
Legal entities- non residents	-	-	-	-	-	-	-
Nongovernmental and other non-profit organizations	-	-	-	-	-	-	-
Loans to the entrepreneurs	-	-	-	-	-	-	-
Interest and other receivables	31	9	1	-	30	9	9

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.4 Credit risk (continued)

CHANGES OF RESTRUCTURED S2 RECEIVABLES

	Gross restructured S2 receivables December 31, 2018.	New restructured S2 receivables	Reduction of restructured S2 receivables	Impact of the course	Other changes (an increase on the basis of the transfer of already restructured loans to S1)	Gross December 31, 2019	Net December 31, 2019
Loans and receivables from clients	11,132	-	2,228	-	3,714	5,190	5,107
Retail loans	-	-	-	-	-	-	-
Corporate loans	11,080	-	2,216	-	3,691	5,173	5,090
Legal entities	11,080	-	2,216	-	3,691	5,173	5,090
Legal entities- non residents	-	-	-	-	-	-	-
Nongovernmental and other non-profit organizations	-	-	-	-	-	-	-
Loans to the entrepreneurs	-	-	-	-	-	-	-
Interest and other receivables	52	-	12	-	23	17	17

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.4 Credit risk (continued)

CHANGES OF RESTRUCTURED S2 RECEIVABLES

	Gross restructured S2 receivables December 31, 2017. / January 1, 2018.	New restructured S2 receivables	Reduction of restructured S2 receivables	Impact of the course	Other changes (an increase on the basis of the transfer of already restructured loans to S1)	Gross December 31, 2018	Net December 31, 2018
Loans and receivables from clients	2,374	6,294	2,374	-	4,838	11,132	11,102
Retail loans	-	-	-	-	-	-	-
Corporate loans	2,372	6,267	2,372	-	4,813	11,080	11,050
Legal entities	2,372	6,267	2,372	-	4,813	11,080	11,050
Legal entities- non residents	-	-	-	-	-	-	-
Nongovernmental and other non-profit organizations	-	-	-	-	-	-	-
Loans to the entrepreneurs	-	-	-	-	-	-	-
Interest and other receivables	2	27	2	-	25	52	52

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. Risk management (continued)

4.4 Credit risk (continued)

CHANGES OF RESTRUCTURED S3 RECEIVABLES

	Gross restructured S3 receivables December 31, 2018,	New restructured S3 receivables	Reduction of restructured S3 receivables	Impact of the course	Other changes	Gross December 31, 2019	Net December 31, 2019
Loans and receivables from clients	1,028	-	386	-	5,474	6,116	6,107
Retail loans	-	-	-	-	-	-	-
Corporate loans	1,028	-	386	-	5,452	6,093	6,085
Legal entities	1,028		386		5,452	6,093	6,085
Legal entities- non residents		-	-	-	-	-	-
Nongovernmental and other non-profit organizations		-	-	-	-	-	-
Loans to the entrepreneurs	-	-	-	-	-	-	-
Interest and other receivables	-	-	-	-	23	23	22

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. Risk management (continued)

4.4 Credit risk (continued)

CHANGES OF RESTRUCTURED S3 RECEIVABLES

	Gross restructured S3 receivables December 31,2017. /January 1, 2018.	New restructured S3 receivables	Reduction of restructured S3 receivables	Impac t of the cours e	Other changes	Gross December 31, 2018	Net December 31, 2018
Loans and receivables from clients	2,552	1,028	2,552	-	-	1,028	963
Retail loans	-	-	-	-	-	-	-
Corporate loans	2,535	1,028	2,535	-	-	1,028	963
Legal entities	2,535	1,028	2,535			1,028	963
Legal entities- non residents	-	-	-	-	-	-	-
Nongovernmental and other non-profit organizations	-	-	-	-	-	-	-
Loans to the entrepreneurs	-	-	-	-	-	-	-
Interest and other receivables	17	-	17	-	-	-	-

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.4 Credit risk (continued)

CONCENTRATION RISK LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS BY GEOGRAPHIC CONCENTRATION

31 December 2019

	Receivables from S1 and S2 clients					Receivables from S3 clients				
	Montenegro	Cyprus	Russia	Serbia	Other	Montenegro	Cyprus	Russia	Serbia	Other
Loans and receivables from banks	5,286	-	3,788	2,757	9,549	-	-	-	-	-
Loans and receivables from clients	23,405	4,073	-	770	5,011	6,242	-	-	-	738
Retail loans	1,724	-	-	-	-	-	-	-	-	-
Housing loans	804	-	-	-	-	-	-	-	-	-
Cash loans - non purpose loan	522	-	-	-	-	-	-	-	-	-
Vehicle loans	39	-	-	-	-	-	-	-	-	-
Other	359	-	-	-	-	-	-	-	-	-
Corporate loans	21,582	4,072	-	767	4,992	6,220	-	-	-	738
Administrative and support service activities	119	-	-	-	1,557	-	-	-	-	-
Construction	-	3,980	-	-	-	-	-	-	-	-
Information and communication	2,194	-	-	767	-	6,209	-	-	-	-
Other service activities	1,910	-	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	81	-	-	-	-	-	-	-	-	-
Real estate trade	230	-	-	-	-	-	-	-	-	-
Processing industry	2,483	-	-	-	-	-	-	-	-	-
Traffic and storage	4,810	-	-	-	-	-	-	-	-	-
Electricity supply	6,963	-	-	-	22	-	-	-	-	-
Professional, scientific and technical activities	309	-	-	-	-	-	-	-	-	-
Trade	728	93	-	-	3,413	11	-	-	-	738
Accommodation and catering services	1,456	-	-	-	-	-	-	-	-	-
Health and social protection	299	-	-	-	-	-	-	-	-	-
Loans to the entrepreneurs	30	-	-	-	-	-	-	-	-	-
Interest and other receivables	69	1	-	3	19	22	-	-	-	-
Total	28,691	4,073	3,788	3,527	14,560	6,242	-	-	-	738

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.4 Credit risk (continued)

CONCENTRATION RISK LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS BY GEOGRAPHIC CONCENTRATION

31 December 2018	Receivables from S1 and S2 clients					Receivables from S3 clients				
	Montenegro	Ukraine	UAE	Serbia	Other	Montenegro	Ukraine	UAE	Serbia	Other
Loans and receivables from banks	2,739	5,120	-	1,812	3,398	-	-	-	-	-
Loans and receivables from clients	29,172	1	3,376	145	2,134	1,263	-	-	-	-
Retail loans	1,896	-	-	-	-	-	-	-	-	-
Housing loans	702	-	-	-	-	-	-	-	-	-
Cash loans - non purpose loan	520	-	-	-	-	-	-	-	-	-
Vehicle loans	33	-	-	-	-	-	-	-	-	-
Other	641	-	-	-	-	-	-	-	-	-
Corporate loans	27,129	-	3,347	143	2,132	1,263	-	-	-	-
Administrative and support service activities	-	-	3,347	-	58	-	-	-	-	-
Construction	6,963	-	-	143	-	1,263	-	-	-	-
Information and communication	318	-	-	-	-	-	-	-	-	-
Other service activities	298	-	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	277	-	-	-	-	-	-	-	-	-
Real estate trade	2,705	-	-	-	-	-	-	-	-	-
Processing industry	3,966	-	-	-	-	-	-	-	-	-
Traffic and storage	8,184	-	-	-	135	-	-	-	-	-
Electricity supply	1,688	-	-	-	-	-	-	-	-	-
Professional, scientific and technical activities	422	-	-	-	-	-	-	-	-	-
Trade	484	-	-	-	1,939	-	-	-	-	-
Accommodation and catering services	1,610	-	-	-	-	-	-	-	-	-
Health and social protection	214	-	-	-	-	-	-	-	-	-
Loans to the entrepreneurs	42	-	-	-	-	-	-	-	-	-
Interest and other receivables	105	1	29	2	2	-	-	-	-	-
Total	39,911	5,121	3,376	1,957	5,532	1,263	-	-	-	-

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.4 Credit risk (continued)

LOANS AND RECEIVABLES FROM CUSTOMERS COVERED BY COLLATERAL

31 December 2019	S 1 clients				S 2 clients				S 3 clients			
	Property	Deposits	Other collateral	Total	Property	Deposits	Other collateral	Total	Property	Deposits	Other collateral	Total
Loans to individuals	767	105	683	1,554	133	-	36	169	-	-	-	-
Housing loans	503	48	196	747	57	-	-	57	-	-	-	-
Cash loans - non purpose loan	68	57	368	493	-	-	29	29	-	-	-	-
Vehicle loans	-	-	39	39	-	-	-	-	-	-	-	-
Other	195	-	80	275	77	-	7	84	-	-	-	-
Corporate loans	4,773	3,488	7,504	15,765	6,348	8,184	1,116	15,648	571	5,680	708	6,958
Legal entities	3,116	3,488	4,905	11,509	4,796	4,085	1,116	9,997	571	5,530	119	6,220
Legal entities- non residents	1,657	-	2,519	4,176	1,552	4,099	-	5,651	-	150	588	738
Nongovernmental and other non-profit organizations	-	-	80	80	-	-	-	-	-	-	-	-
Loans to the entrepreneurs	29	-	-	29	-	-	-	-	-	-	-	-
Total	5,570	3,593	8,187	17,349	6,481	8,184	1,152	15,817	571	5,680	708	6,958

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

4. RISK MANAGEMENT (CONTINUED)

4.4 Credit risk (continued)

LOANS AND RECEIVABLES FROM CUSTOMERS COVERED BY COLLATERAL (continued)

31 December 2018	S 1 clients				S 2 clients				S 3 clients			
	Property	Deposits	Other collateral	Total	Property	Deposits	Other collateral	Total	Property	Deposits	Other collateral	Total
Loans to Individuals	892	24	798	1,714	161	-	21	182	-	-	-	-
Housing loans	428	-	210	638	64	-	-	64	-	-	-	-
Cash loans - non purpose loan	155	24	319	498	6	-	16	22	-	-	-	-
Vehicle loans	-	-	33	33	-	-	-	-	-	-	-	-
Other	309	-	236	545	91	-	5	96	-	-	-	-
Corporate loans	8,976	3,937	1,218	14,131	2,062	13,629	2,930	18,621	1,089	174	-	1,263
Legal entities	8,119	590	815	9,524	1,830	13,479	1,998	17,307	1,089	174	-	1,263
Legal entities- non residents	857	3,347	105	4,309	232	150	932	1,314	-	-	-	-
Nongovernmental and other non-profit organizations	-	-	298	298	-	-	-	-	-	-	-	-
Loans to the entrepreneurs	42	-	-	42	-	-	-	-	-	-	-	-
Total	9,910	3,961	2,016	15,887	2,223	13,629	2,951	18,803	1,089	174	-	1,263

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***4. RISK MANAGEMENT (CONTINUED)****4.5. Fair Value of Financial Assets and Liabilities**

	Carrying value		Fair value	
	2019	2018	2019	2018
Cash and deposit at central bank	52,163	28,748	52,163	28,748
Financial assets at amortized value	61,660	49,160	61,660	49,160
Loans and receivables from banks	21,380	13,069	21,380	13,069
Loans and receivables from clients	40,240	36,091	40,240	36,091
Other financial assets	40	-	40	-
Financial assets at fair value through other result (Securities)	45,878	9,980	45,878	9,980
Financial assets at FVOCI (Loans and receivables from clients)	834	1,227	834	1,227
Financial liabilities at amortized cost				
Deposit from clients	144,368	74,906	144,368	74,906
Deposit from banks	4	4	4	4
Loans from clients which are not banks	2,329	3,065	2,329	3,065
Subordinated debt	3,000	3,000	3,000	3,000

Fair value is the amount that would be collected for sale of assets, i.e. paid for the settlement of the liabilities in a regular transaction between market participants at the measurement date under the given market conditions. However, there are no available market price for a certain part of the Bank's financial instruments. In conditions in which there is no available market price, fair value is estimated using discounted cash flow model or other models. Changes in assumptions underlying the estimates, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, determined estimates of fair market value cannot be realized in a current sale of the financial instrument.

4.5.1 Fair Value of Financial Instruments Measured at Fair value*Fair value hierarchy for financial instruments measured at fair value*

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) on active markets for identical assets or liabilities. This level includes listed equity securities. The Bank does not have financial instruments measured at fair value included within Level 1.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for an asset or a liability, either directly (that is, as prices) or indirectly (that is, as derived from prices).
- Level 3 - Inputs for an asset or a liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***4. RISK MANAGEMENT (CONTINUED)****4.5. Fair Value of Financial Assets and Liabilities (continued)****4.5.1 Fair Value of Financial Instruments Measured at Fair value (continued)**

Estimated fair value of financial instruments based on fair value hierarchy is given as follows

31 December 2019.	Level 1	Level 2	Level 3	Total
Financial assets				
-at fair value through other result	45,878	-	-	45,878
- at fair value through income statement	-	-	834	834
Total	45,878	-	834	46,712

31 December 2018.	Level 1	Level 2	Level 3	Total
Financial assets				
-at fair value through other result	9,980	-	-	9,980
- at fair value through income statement	-	-	1,227	1,227
Total	9,980	-	1,227	11,207

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. However, no readily available market prices exist for a certain portion of the Bank's financial instruments, and those were accordingly classified into Level 2 and Level 3 based on fair value hierarchy. In this circumstance where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affects the estimates. Therefore, the calculated fair market estimates cannot be realized in a current sale of the financial instrument.

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5. CAPITAL MANAGEMENT

The Bank manages its capital, which is a broader concept than equity in the Balance Sheet, in order to:

- comply with capital requirements set by the Central Bank of Montenegro
- secure a capital adequacy ratio that will enable it to continue as a going concern and
- retain the capital adequacy ratio that will enable further development of operations

The capital adequacy and the use of capital is monitored by the Bank's management on a quarterly basis. The Central Bank of Montenegro has defined the following capital requirement limits:

- Minimum capital cash portion of EUR 5 million and the
- Capital adequacy ratio of 10%.

The total capital, that is, the Bank's own funds consists of basic capital, additional capital and deductible items:

Basic capital comprises: Paid-in share capital measured at nominal value, exclusive of cumulative preference shares; collected share premium, exclusive of share premium for preference cumulative shares, required reserve for estimated losses at regulatory request, set aside in accordance with the decision prescribing minimum standards for credit risk management in banks; reserves created and charged to profit after taxation (legal, statutory and other reserves); prior years retained earnings for which the Shareholders' Assembly has decided to include in basic capital, less income tax and other expected expenses; current year profit, provided the following conditions have been met: the Shareholders' Assembly, or the Board of Directors with the approval of the Shareholder's Assembly passed a Decision that current year profit in its full or less than full amount shall be allocated to reserves as an increase in share capital, so as to cover prior years' losses and/or to retained earnings, and presented in the form of a percentage (profit is reduced for related income tax and other expected expenses; profit is confirmed by an independent auditor; the Bank received approval from the Central Bank to incorporate profit in its basic capital).

Deductibles from basic capital comprise: Prior year's loss; current year loss; intangible assets such as goodwill, licenses, patents, trademarks and concessions; nominal value of acquired own shares, exclusive of cumulative preference shares; unrealized loss arising from fair value adjustments of financial assets available for sale; the gain on calculated provisions for contingent losses and total provisions for balance sheet and off-balance sheet items; the amount exceeding the limit for investments in immovable property and fixed assets determined by special regulations prescribed by the Central Bank.

Additional capital comprises: Nominal value of cumulative preference shares; collected share premium for preference cumulative shares; general reserves, not exceeding 1.25% of total risk weighted assets; subordinated debt and hybrid instruments, which meet the requirements of Article 6 and Article 7 of the Decision on capital adequacy for inclusion into additional capital. Deductibles from Additional Capital comprise: Acquired own cumulative preference shares; receivables and potential payables secured by hybrid instruments or the Bank's subordinated loan in the amount not exceeding the value of the instruments included in additional capital.

Capital requirements are determined on an individual basis for each type of risk - credit risk, operating risk - market risk and other risks in accordance with applicable regulations. Major capital requirements relate to capital used to cover credit risk and country risk. In this respect, credit risk weighted assets are calculated using ponders ranging between 0% do 150% depending on the type and the level of credit risk specific for each risk exposure. Another major capital requirement relates to country risk. Capital to cover country risk is calculated using ponders ranging between 0% and 300%.

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***5. CAPITAL MANAGEMENT (CONTINUED)**

The Banks total capital structure as at December 31, 2019 and December 31, 2018 and the capital adequacy ratio are presented in the table below:

	2019	2018
Basic capital		
Paid-in share capital measured at nominal value, exclusive of cumulative preference shares	10,500	8,500
Collected share premium	-	-
Unallocated profits from previous years for which the Shareholders' Assembly has made a decision to be included in equity, reduced for tax on profit and other expected costs	445	(171)
Amount to mitigate the negative effects on own funds of the bank due to the transition to valuation of assets using IFRS	145	162
Basic capital	11,090	8,491
Prior year loss	-	847
Current year loss	-	-
Intangible assets	420	365
Unrealized loss on value adjustments of available-for-sale financial assets at fair value	-	14
Gains on the difference between calculated reserve for contingent losses and the provision made	1,823	1,201
Deductibles on the calculation of basic capital	2,243	2,427
Basic capital	8,847	6,064
Additional elements of own resources included in the additional capital	3,000	3,000
Bank's own funds	11,847	9,064
Weighted balance sheet assets	49,208	29,061
Weighted off balance sheet assets	5,584	1,954
Amount to mitigate the negative effects of the transition to valuation of asset items using IFRS 9	145	162
Total credit risk weighted assets	54,937	31,177
Capital required to cover market risks	-	-
Capital required to cover operational risks	671	400
Capital required to cover country risk	3,404	2,035
Capital required to cover other risks	-	-
Capital adequacy	18.21%	24.36%

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***6. INTEREST INCOME AND EXPENSE AND OTHER SIMILAR INCOME AND EXPENSES**

	<u>2019</u>	<u>2018</u>
Interest income and similar income		
Deposit at foreign banks	509	1,120
Loans	2,103	2,321
Legal entities	1,995	2,182
Individuals	98	115
Entrepreneurs	2	3
Others	8	21
Securities	768	108
Loan approval fee	115	173
Total interest income and similar income	3,495	3,722
Interest income on impaired placements		
Legal entities	74	146
Total interest income on impaired placements	74	146
Interest expense and similar expenses		
Deposits	(721)	(963)
Government of Montenegro	(6)	-
Legal entities	(40)	(6)
State-owned entities	(444)	(486)
Individuals	-	(129)
Liabilities for loans and borrowings	(231)	(342)
Government of Montenegro	(34)	(40)
Other	(34)	(40)
Total interest expenses	(135)	(98)
Net interest income	(890)	(1,101)
Interest income and similar income	2,679	2,767

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

	<u>2019</u>	<u>2018</u>
Loan impairment cost	208	20
Impairment cost of cash, deposits, loans and receivables from banks	63	18
Impairment cost of securities	142	36
Impairment cost of other financial assets	1	8
Impairment cost of other assets	49	70
Provisions for off-balance sheet liabilities	113	9
Total impairment and provisioning costs	576	161

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ZAPAD BANKA A.D. PODGORICA
Notes to the financial statements for the year ended 31 December 2019.
(All amounts are in EUR'000 unless otherwise stated)
7. NET INCOME/EXPENSES BASED ON IMPAIRMENT FINANCIAL INSTRUMENTS NOT VALUED AT FAIR VALUE THROUGH INCOME STATEMENT (CONTINUED)
7.1. Changes in impairment and provisions in the Balance Sheet

Changes in impairment and provisions were as follows:

	Loans (Note 15.2)	Interest (Note 15.2.)	Banks (Note 14, 15)	Other financial assets	Other assets (Note 20)	Off- balance sheet	Total
Balance as at December 31, 2017	203	1	-	-	13	5	222
IFRS9 effects as at January 1, 2018	103		41		13	10	167
Increase of impairment	485	3	32	8	78	40	646
Reversal of impairment	(465)	(3)	(14)		(8)	(31)	(521)
Write-off					(53)	-	(53)
Balance as at December 31, 2018	20326	11	59	8	143	24	432
Increase of impairment	716	2	94	1	59	242	1,114
Reversal of impairment	(508)	(2)	(31)		(10)	(129)	(680)
Write-off					(47)		(47)
Balance as at December 31, 2019	534	1	122	9	45	137	848

8. FEE AND COMMISSION INCOME AND EXPENSE

	2019	2018
Fee and commission income		
Payment operations	718	1,018
Account maintenance	511	690
Off-balance sheet operation fees	248	171
Card and ATM operations	46	41
Other fees	67	115
Loan fees	34	2
Total fee and commission income	1,624	2,037
Fee and commission expense		
Payment operations	(270)	(296)
Deposit insurance	(437)	(330)
Card and ATM operations	(72)	(57)
Other	(28)	-
Fee and commission expense	(19)	(19)
Total fee and commission expense	(826)	(702)
Net fee and commission income	798	1,335

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***9. PERSONAL EXPENSES**

	2019	2018
Net salaries	1,265	1,041
Taxes, surtaxes and contributions on salaries	875	731
Fees to members of Board of Directors And Audit committee	24	24
Taxes, surtaxes and contributions on fees to members of Board of Directors and Audit committee	8	8
Staff training	12	4
Travel costs and daily allowances	73	38
Other expenses	27	20
Total	2,284	1,866

10. DEPRECIATION COST

	2019	2018
Amortization of software	127	112
Depreciation of IT equipment	86	79
Depreciation of office furniture	21	14
Depreciation of plant and equipment	35	13
Depreciation of other material assets	74	23
Vehicle depreciation	9	9
Total	352	250

11. GENERAL AND ADMINISTRATIVE COSTS

	2019	2018
Rental cost	433	457
Costs of control of the CBMNE	131	113
Software maintenance	119	91
Legal services	128	32
One-year license charge	27	32
Hardware maintenance	10	14
Postal, telephone and communication network charges	87	61
Security costs	47	45
Translation costs	14	8
SWIFT maintenance costs	28	27
UBCG membership fees	16	16
Maintenance costs	23	19
Costs of office and supplies	9	10
Electricity and heating costs	25	22
Audit cost	20	19
Insurance costs	9	6
Advertising costs	25	10
Representation costs	142	83
Consulting costs	7	79
Due Diligence costs	175	-
Maintenance of plastic cards	46	45
Securities costs	25	1
Other operating costs	114	111
Total	1,660	1,300

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***12. OTHER OPERATING COSTS**

	2019	2018
Current tax expense	36	39
Deferred tax expense	(4)	3
Total	32	42

Deferred tax expense in amount of EUR 4 thousand was incurred based on a deferred tax liability for temporary differences arising between the accounting and the tax value of fixed assets and intangible assets. Deferred tax liabilities as of 31 December 2019 amount to EUR 19 thousand (31 December 2018 amounted to EUR 23 thousand). The balance of the deferred tax liability in the amount of EUR 30 thousand was incurred as a result of the fair value adjustment for the bonds.

The Bank's income tax calculation is presented below:

	2019	2018
Current tax		
Gain/(loss) before tax recorded in the income statement	276	1,504
Capital gains	(355)	-
Depreciation cost in income statement	352	250
Depreciation cost for tax purpose	(301)	(302)
Tax effect of unrecognized expenditures and income, net	71	73
Amount of taxable profit	43	1,525
Used tax losses to the amount of taxable profit	-	1,083
The rest of the taxable business profit	43	442
Capital gains	355	-
Transferred capital losses	-	-
The remainder of the taxable capital gain	355	-
Tax rate	398	442
Amount of tax for the period	36	40
Reduction of tax due on timely payment	-	(1)
The tax effect of temporary differences		
Tax effect of temporary differences in relation to basic assets and intangible investments	(4)	3
Deferred tax expense	(4)	3
Total tax expense in income statement	32	42

13. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit by weighted average number of ordinary shares issued during the year.

	2019	2018
Net profit in EUR 000	244	1,463
Weighted average number of ordinary shares issued during the year	91,667	85,000
Basic gain per share (in EUR per share)	2.66	17.21

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***14. CASH AND DEPOSITS WITH CENTRAL BANKS**

	2019	2018
Cash in hand	224	203
Funds on gyro account in Central Bank of Montenegro	41,583	21,253
Obligatory reserves held with the Central Bank of Montenegro	10,429	7,327
Total cash and deposits with central banks	52,236	28,783
Impairment of funds on gyro account	58	26
Impairment of obligatory reserves	15	9
Impairment of cash and deposits with central banks (Note 7.1.)	73	35
Cash and deposits with central banks reduced for impairment	52,163	28,748

The Bank sets aside the mandatory reserve under the Decision on Banks' Mandatory Reserve Held with the Central Bank of Montenegro (Official Gazette of MNE, No. 40/10, 46/10, 06/13, 70/17 and 88/17). Under this decision, banks shall set aside the mandatory reserve at the rates of 7.5% - to the base comprising demand deposits and deposits with maturities of up to one year, i.e. up to 365 days; and 6.5% - to the base comprising deposits with maturities exceeding one year, i.e. over 365 days without an option to cancel the deposit.

Cash and cash equivalents (for the purposes of compiling the Individual Cash Flow Statement):

	2019	2018
Cash in hand	223	203
Gyro account at Central Bank	41,583	21,253
Funds on account with foreign banks (at demand)	11,458	3,918
Deposits with domestic banks (at demand)	5,302	2,741
Obligatory reserves held with the Central Bank of Montenegro	10,429	7,326
Total cash and deposits with central banks	68,996	35,441

15. FINANCIAL ASSETS AT AMORTIZED VALUE**15.1. Loans and receivables from banks**

	2019	2018
Correspondent accounts with foreign banks	11,458	3,918
Deposits held with domestic banks and other financial institutions	5,302	2,746
Long term deposits held with foreign banks and other financial institutions	4,652	6,364
Receivables on interest for deposits with banks	17	65
Total loans and receivables from banks	21,429	13,093
Impairment of funds on foreign account	25	8
Impairment of deposits with resident banks	16	7
Impairment of deposits with non-resident banks	8	9
Impairment of cash and deposits with banks (Note 7.1.)	49	24
Loans and receivables from banks reduced for impairment	21,380	13,069

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***15. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)****15.1. Loans and receivables from banks (continued)**

As at 31 December 2019, the Bank had deposits on foreign currency accounts held with the following banks:

	2019	2018
PJSC VOSTOK BANK	326	527
BANCA POPOLARE DI SONDRIO	1,800	-
AKTIF YATIRIM BANKASI A.S.	1,934	4
ALFA-BANK	2,087	9
SBERBANK	529	509
TRANSKAPITALBANK	1,708	1,051
INTESA SANPAOLO BANKA	47	4
AIK BANKA	2,761	1,814
KT BANK AG	266	-
Total	11,458	3,918

Changes in impairment of loans and receivables from banks:

	Balance. January 1, 2019	Increase/ Reduction	Balance December 31,
2019			
Impairment			
Impairment of funds on gyro account	26	32	58
Impairment of obligatory reserve	9	6	15
Impairment of funds on foreign account	8	17	25
Impairment of deposits with resident banks	7	9	16
Impairment of deposits with non-resident banks	9	(1)	8
Total	59	63	122

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***15. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)****15.2. Loans and receivables from clients**

Short-term and long-term loans by client category were as follows:

	2019			2018		
	Short-term	Long-Term	Total	Short-term	Long-Term	Total
Legal entities	7,474	20,666	28,140	3,734	24,715	28,449
Entrepreneurs	-	30	30	-	42	42
Legal entities non-residents	3,523	7,258	10,781	1,031	4,652	5,683
Non-governmental and non-profit organizations	-	83	83	-	303	303
Individuals – residents	22	1,729	1,751	-	1,928	1,928
Total gross loans at amortized value	11,019	29,766	40,785	4,765	31,640	36,405
Receivables for interest and fees	26	89	115	11	127	138
Accruals	(20)	(104)	(124)	(9)	(116)	(125)
Impairment of principal	(95)	(440)	(535)	(51)	(275)	(326)
Impairment of interest	-	(1)	(1)	-	(1)	(1)
Net loans at amortized value	10,930	29,311	40,240	4,716	31,375	36,091

Short-term loans were granted mostly to private companies for the period of one month to one year, at rates ranging between 4.25 % to 9% p.a.

Long-term loans were granted mostly for investment purposes. These loans were mostly granted for the period of 13 - 120 months, at fixed interest rates ranging between 4% -8.5% p.a.

Gross loans

	Level 1	Level 2	Level 3	Total
January 1, 2019	15,987	18,960	1,333	36,280
New receivables	10,567	6,371	15	16,952
Reduction/payment of receivables	(2,030)	(4,264)	(667)	(6,961)
Transfer to level 1	-	-	-	-
Transfer to level 2	(7,108)	-	-	(7,108)
Transfer to level 3	-	(6,451)	-	(6,451)
Transfer from other level	-	7,108	6,451	13,559
Other changes	30	(5,642)	-	(5,612)
December 31, 2019	17,447	16,081	7,132	40,660
Interest and other receivables	44	49	23	115
Loans and receivables from clients	17,491	16,130	7,154	40,775

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***15. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)****15.2. Loans and receivables from clients (continued)****Impairment**

	Level 1	Level 2	Level 3	Total
January 1, 2019	97	160	69	326
New receivables	73	111	4	188
Reduction/payment of receivables	(13)	20	72	79
Transfer to level 1	-	-	-	-
Transfer to level 2	(34)	-	-	(34)
Transfer to level 3	-	(29)	-	(29)
Transfer from other level	-	34	29	63
Other changes	(24)	(35)	-	(59)
December 31, 2019	99	261	174	534
Impairment of interest receivables	-	1	-	1

16. FINANCIAL ASSET AT FAIR VALUE THROUGH INCOME STATEMENT, WHICH ARE NOT HELD FOR SALE**16.1. Loans and receivables from clients**

Short-term and long-term loans by client category were as follows:

	2019			2018		
	Short-term	Long-Term	Total	Short-term	Long-Term	Total
Legal entities	860	-	860	1,254	-	1,254
Receivables for interest and fees	-	-	-	1	-	1
Fair value adjustment	(24)	-	(24)	(24)	-	(24)
Total loans at fair value	836	-	836	1,231	-	1,231
Accruals	(2)	-	(2)	(4)	-	(4)
Net loans at fair value	834	-	834	1,227	-	1,227

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***17. FINANCIAL ASSETS AT FAIR VALUE THROUGH THE OTHER RESULT****17.1. Securities**

Balance of securities at fair value through the other result:

	2019	2018
Government of Montenegro	16,608	4,970
Banks, non-residents	17,489	-
Legal entities, non-residents	1,852	-
General government, non-residents	8,518	4,382
Non-depreciated discount / premium	866	473
Accruals - interest	545	155
Total	45,878	9,980

Impairment of securities at fair value through the other result (Note 7):

Balance at January 1, 2018	-
Increase of impairment	40
Reversal of impairment	(4)
Balance at December 31, 2018	36
Increase of impairment	154
Reversal of impairment	(12)
Reversal based on sale of securities	(27)
Balance at December 31, 2019	151

Securities which are classified at fair value through other income statement as at 31 December 2018 in the amount of EUR 16.608 thousand refer to domestic government bonds in the amount of EUR 12.050 and Government Eurobonds in amount of EUR 4.558.

Securities classified at fair value through other comprehensive income at 31 December 2019 in the Non-resident Banks category, in the amount of EUR 17,489 thousand, relate to debt securities of which the issuers are: Societe Generale (France), ABN AMRO (Netherlands), Standard Chartered (United Kingdom), UBS Group AG (Switzerland), Banco Santander SA (Spain), BNP Paribas (France) First Abu Dhabi Bank (UAE), Danske Bank (Denmark), Mashreqbank PSC (UAE), QNB Finance (Qatar) and HSBC (United Kingdom).

Securities classified at fair value through other comprehensive income as at 31 December 2019 in the category Non-resident Corporations, amounting to EUR 1,852 thousand, refer to debt securities issued by CEZ, a. s. (Czech Republic) and British American Tobacco (United Kingdom).

Securities classified at fair value through other comprehensive income as of December 31, 2019 in the General Government, non-resident category of EUR 8,518 thousand relate to debt securities issued by the Ministry of Finance of the following countries: Latvia, Croatia, Lithuania, Indonesia and Saudi Arabia.

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***18. PROPERTY, PLANTS AND EQUIPMENT**

	Equipment	Assets in progress	Total
Cost			
Balance at January 1, 2018	644	389	1,033
Increase	723	(294)	429
Disposals and write off	(1)	-	(1)
Balance at December 31, 2018	1,366	95	1,461
Increase	117	(95)	22
Disposals and write off	(23)	-	(23)
Balance at December 31, 2019	1,460	-	1,460
Impairment			
Balance at January 1, 2018	(222)	-	(222)
Depreciation (Note 10)	(138)	-	(138)
Balance at December 31, 2018	(360)	-	(360)
Current year depreciation (Note 10)	(224)	-	(224)
Disposals	11	-	11
Balance at December 31, 2019	(573)	-	(573)
Current value at December 31, 2018	1,006	95	1,101
Current value at December 31, 2019	887	-	887

19. INTANGIBLE ASSETS

	Softwer	Assets in progress	Total
Cost			
Balance at January 1, 2018	508	16	524
Increase	89	27	116
Balance at December 31, 2018	597	43	640
Current increase	177	6	183
Balance at December 31, 2019	774	49	823
Impairment			
Balance at January 1, 2018	(163)	-	(163)
Depreciation (Note 10)	(112)	-	(112)
Balance at December 31, 2018	(275)	-	(275)
Current depreciation (Note 10)	(128)	-	(128)
Balance at December 31, 2019	(403)	-	(403)
Current value at December 31, 2018	322	43	365
Current value at December 31, 2019	371	49	420

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***20. OTHER ASSETS**

	2019	2018
Receivables by fees and commissions	69	102
Prepaid costs	55	56
Receivables from costumers	7	7
Receivables by card operations	5	5
Given advances	5	4
Other business receivables	1	1
Impairment of other assets (Note 7.1.)	(46)	(43)
Total	96	132

21. FINANCIAL LIABILITIES AT AMORTIZED VALUE**21.1. Deposits of clients and banks**

	2019	2018
Demand deposits	118,990	48,971
Term deposits	25,358	25,929
Interest liabilities	4	8
Accruals	20	2
Total	144,372	74,910
<i>Demand deposits</i>	2019	2018
State-owned companies	20	56
Legal entities	3,198	2,838
Entrepreneurs	20	20
Legal entities- non-resident	105,015	36,517
Government of Montenegro	421	237
Nongovernmental and other non-profit organizations, residents	79	160
Individuals - residents	194	215
Individuals – non - residents	10,037	8,922
Other depository institutions, residents	2	2
Banks	4	4
Total demand deposits	118,990	48,971
<i>Term deposits</i>	2019	2018
Legal entities	8,328	456
Legal entities- non-resident	11,539	15,457
Government of Montenegro	2,000	2,000
Nongovernmental and other non-profit organizations, residents	50	-
Individuals - residents	1,033	367
Individuals – non - residents	2,408	7,649
Total term deposits	25,358	25,929
Total deposits	144,347	74,900

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***21. FINANCIAL LIABILITIES AT AMORTIZED VALUE (CONTINUED)****21.2. Loans from clients which are not banks**

	<u>2019</u>	<u>2018</u>
Liabilities for borrowings	2,329	3,065
Liabilities for interest on borrowings	-	-
Total	<u>2,329</u>	<u>3,065</u>
a) Liabilities for borrowings:		
	<u>2019</u>	<u>2018</u>
Investment development fund of Montenegro	2,329	3,065
Total	<u>2,329</u>	<u>3,065</u>
	<u>2019</u>	<u>2018</u>
Payable within 12 months from the balance sheet date	-	517
Payable within 1-5 years	498	1,738
Payable within the period exceeding 5 years	1,831	810
Total	<u>2,329</u>	<u>3,065</u>

Loans used by the Bank are long-term credit lines granted by the Investment Development Fund of Montenegro which are due to mature in 2028. Loans granted by the Investment Development Fund of Montenegro are repaid at the interest rate in range from 1% to 1.5%.

22. DERIVATIVE FINANCIAL OBLIGATIONS AS A HEDGING INSTRUMENT

Swap operations are presented in the balance sheet of the underlying derivatives position held as hedges of foreign exchange risk. Recording of contracted swap operations are implemented on off balance, while the effect of adjusting the contracted rate in relation to the reporting date is recorded within the derivative position in the Balance Sheet and within the position of the net gains from the exchange rate differences in the Income Statement. At December 31, 2019, the derivative financial liabilities as a hedging instrument amounted to EUR 43 thousand.

23. OTHER LIABILITIES

	<u>2019</u>	<u>2018</u>
Advances received	542	596
Temporary account	17	55
Trade payables	50	50
Card operations	35	21
Other liabilities	2	2
Tax liabilities	1	1
Liabilities for fees and commissions	4	2
Total	<u>651</u>	<u>727</u>

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***24. SUBORDINATED DEBT**

Subordinated debt balance:

	2019	2018
Legal entity – non-resident	3,000	3,000
Subordinated debt interest	-	-
Total	3,000	3,000

As at December 31, 2019, the Bank signed the three subordinated debt agreements with the legal entity non- resident in amount of EUR 3,000 thousand.

25. CAPITAL

	2019	2018
Issued share capital – ordinary shares	10,500	8,500
Accumulated loss	616	(847)
MSFI 9 effect	(171)	(171)
Other provisions	303	23
Current year profit	244	1,463
Total	11,492	8,968

Share capital comprises ordinary shares bearing the same rights which were issued in kind and entered into the Central Depository Agency (CDA) on securities' owners accounts. Shareholders have the right to participate in the management of the bank, the right to a percentage of profits (dividend), and the right to an appropriate portion of assets in the event of liquidation or bankruptcy, in accordance with law.

The Bank's share capital as at 31 December 2019 comprised 105,000 shares with a par value of EUR 100.00 per share.

At the 2nd extraordinary session of the General Meeting of Shareholders, held on April 2, 2019. Among other necessary decisions, a Decision was issued on the issue of shares with a closed offer addressed to a predetermined person in the total amount of EUR 2,000 thousand.

The Capital Market Commission (hereinafter referred to as "the Commission") is August 2, 2019. issued a Decision on recording a closed prospectus for a closed offer of the issue of shares issued to a predetermined person who has undertaken to buy the entire issue, number 02 / 12e-7 / 7-19. Following the procedure conducted by the Bank, the Commission on 28.08.2019. issued a Decision on determining the performance of the issue of shares issued to a predetermined person who has committed to buy the entire issue - 20,000 ordinary shares, number 02 / 12e-7 / 9-19. The value of the issue is EUR 2,000 thousand or 20,000 shares with a nominal value of EUR 100, which is 100% of the issue.

Data on the new issue of shares were registered with the Central Depository and Clearing Company Joint Stock Company Podgorica on August 29, 2019, while the registration of the capital increase with the Central Registry of Companies of the Tax Administration was completed on August 30, 2019.

The Law on Banks ("Official Gazette of Montenegro", No. 17/08, 44/10, 40/11, 73/17), which entered into force on March 19, 2008, defines the minimum amount of bank cash in valued at EUR 5,000 thousand.

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***25. CAPITAL (CONTINUED)**

The ownership structure as at 31 December 2019 is presented in the table below:

	2019	% share
Volodymyr Kostelman	5,000	47.62%
Liya Morokhovska	4,950	47.14%
Vadym Morokhovskyy	550	5.24%
Total	10,500	100%

25. 1 COMPLIANCE WITH CBMNE REGULATIONS

In accordance with the regulations of the Central Bank of Montenegro, the Bank is obliged to maintain a minimum capital adequacy ratio of 10%. The Bank is obliged to adjust the volume of its operations with the prescribed indicators, that is, to harmonize the volume and structure of its risk placements with the Law on Banks and Regulations of the Central Bank of Montenegro.

<i>(in thousands EUR)</i>	Operating indicators achieved	
	2019	2018
Share capital (minimum amount EUR 5 million)	8,847	6,064
Bank's own resources (minimum EUR 5 million)	11,847	9,064
Solvency ratio (minimum 10%)	18,21%	24,36%
Daily liquidity ratio as of December 31	1,78	2,15
	1,80	2,27
Decadal liquidity ratio for the decade ending December 31 (minimum ratio 1)	23,75%	21,05%
The Bank's exposure to a single entity or group of related parties	477,09%	233,71%
(limit of 25% of the Bank's own funds)	17,28%	26,76%
Large exposures (800% of the Bank's own funds limit)	0,57%	0,81%
Total exposure to persons related to the Bank	1,02%	0,63%
(limit of 200% of the Bank's own funds)	3,05%	6,85%
Total exposure to the Bank employee	0%	0%

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.***(All amounts are in EUR'000 unless otherwise stated)***26. OFF BALANCE SHEET ITEMS**

	<u>2019</u>	<u>2018</u>
Irrevocable commitments - loans granted	2,122	946
Issued guarantees	5,578	2,094
Issued guarantees payable	2,334	1,689
Issued performance bonds	2,695	405
Other guarantees	549	-
Current contracts for foreign transaction	43	(43)
Collateral for loans and receivables	<u>129,414</u>	<u>117,156</u>
Total off-balance sheet items	<u>137,157</u>	<u>120,153</u>

- a) Guarantees provided to companies, both resident and non-resident, comprise payable guarantees, tender guarantees and guarantees for the performance of the contract. The Bank created provision for off-balance sheet losses amounting to EUR 137 thousand for guarantees and other commitments.
- b) Collateral for accounts receivable relates to assets received as collateral amounting to EUR 129,414 thousand

Assets received as collateral are presented in the table below:

	<u>2019</u>	<u>2018</u>
Properties	94,040	85,016
Cash collateral	21,521	23,177
Pledged assets	13,770	8,864
Securities	<u>83</u>	<u>99</u>
Total	<u>129,414</u>	<u>117,156</u>

- c) A significant segment of off-balance sheet operations is represented by commission operations. In the case of a commission transaction, the Bank concludes with the client - client (legal or natural person) the Commission on the basis of which the client - client deposits money with the Bank - the commissioner and orders the bank - the commissioner to deposit the funds thus deposited, on its own behalf and for the account of the client - the client. , according to a written commission order, it lends to a third party - the debtor, a financial organization. The Bank does not assume any risk in terms of guaranteeing the return of funds to the client - client from the debtor - financial organization and has no obligation to calculate interest, but solely collects the fee for execution of the commission order from the client - client. As this business is risk-free for the Bank, records are kept in the memorandum of accounts as they do not enter the Bank's exposure. Balance of deposited (commission) funds placed with a commission order, as of December 31, 2019 year amounts to EUR 3,246 thousand.

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27. RELATED PARTY TRANSACTIONS

A number of banking transactions are entered into with related parties in the normal course of business. Under the Law on Banks, the Bank's related parties are:

- Members of the (management) bodies of the Bank, shareholders, employees, and their immediate family (spouse and children),
- Legal entities in which the owner of a qualified share also has a qualified share in the Bank,
- Legal entities in which members of the (management) bodies of the Bank, shareholders, employees, and their immediate family have significant influence, or any of the above persons is a director or a member of the Board of Directors or other body of such legal entities,
- Persons holding at least 50% of the capital or voting rights of the legal entity which has a qualified share in the Bank.

Related party transactions are performed at market conditions and prices.

ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (CONTINUED)

	Volodymyr Kostelman	Liya Morokhovska	Calyptra Invest	Vostok banka	Gama Montenegro	Graal doo	OU Agro White company	Other related legal entities	Related individuals	Total
	Shareholder	Shareholder	Jointly controlled entities							
Receivables										
Foreign currency account	-	-	-	326	-	-	-	-	-	326
Fixed term deposits with banks	-	-	-	2,536	-	-	-	-	-	2,536
Loans	-	-	-	-	801	70	-	-	1,020	1,891
Other receivables	-	-	-	14	-	-	-	-	-	14
Total receivables	-	-	-	2,876	801	70	-	-	1,020	4,767
Liabilities										
Demand deposits	7	229	1,550	-	-	1	2,603	1,095	123	5,608
Term deposits	-	1,587	9,039	-	-	-	-	-	14	10,640
Subordinated debt	-	-	3,000	-	-	-	-	-	-	3,000
Other liabilities	-	-	-	-	-	-	-	-	-	-
Total liabilities	7	1,816	13,589	-	-	1	2,603	1,095	137	19,248
Net receivables/(liabilities)	(7)	(1,816)	(13,589)	2,876	801	69	(2,603)	(1,095)	883	(14,481)
First-class collateral	-	-	-	2,500	-	-	-	-	48	2,548
Net receivables/(liabilities) reduced with first class collateral	(7)	(1,816)	(13,589)	376	801	69	(2,603)	(1,095)	835	(17,029)

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (CONTINUED)

The volume of related party transactions, assets and liabilities as at December 31, 2017 and related income and expenses are presented in the table below:

	Volodymyr Kostelman	Liya Morokhovska	Calyptra Invest	Vostok bank	Gama Montenegro	Graal doo	OU Agro White company	Other related legal entities	Related individual s	Total
	Shareholder	Shareholder	Jointly controlled entities							
Income										
Interest income	-	-	3	482	29	6	-	-	52	572
Fees income	-	1	13	1	-	1	11	10	6	43
Total income	-	1	16	483	29	7	11	10	58	615
Expenses										
Interest expenses	-	198	434	-	-	-	-	-	-	632
Commission expenses	-	-	-	61	-	-	-	-	-	61
Rental cost	-	-	-	-	-	-	-	-	139	139
Total expenses	-	198	434	61	-	-	-	-	139	832
Net income/(expenses)	-	(197)	(418)	422	29	7	11	10	-81	(217)

The calculated personal income for related individuals, by type of income, in 2019 was:

	Bank management	Key management	Board members	Total
Earnings and other short-term benefits	314	804	-	1,118
Board Membership Fee	-	-	31	31
Total	314	804	31	1,149

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (CONTINUED)

The volume of related party transactions, balance of assets and liabilities as of December 31, 2018, and related expenses and income in the income statement are shown in the following table:

	Volodymyr Kostel'man	Liya Morokhovska	Calyptra Invest	Vostok banka	Gama Montenegro	Graal doo	OU Agro White company	Other related legal entities	Related individuals	Total
	Akcionar	Akcionar	Jointly controlled entities							
Receivables										
Foreign currency account	-	-	-	527	-	-	-	-	-	527
Fixed term deposits with banks	-	-	-	4,535	-	-	-	-	-	4,535
Loans	-	-	-	-	846	114	-	-	1,027	1,987
Other receivables	-	-	-	65	-	-	-	-	-	65
Total receivables	-	-	-	5,127	846	114	-	-	1,027	7,114
Liabilities										
Demand deposits	8	797	110	-	-	5	1,391	70	128	2,509
Term deposits	-	7,315	10,957	-	-	-	-	-	13	18,285
Subordinated debt	-	-	3,000	-	-	-	-	-	-	3,000
Other liabilities	-	-	-	-	-	-	-	-	-	-
Total liabilities	8	8,112	14,067	-	-	5	1,391	70	141	23,794
Net receivables/(liabilities)	(8)	(8,112)	(14,067)	5,127	846	109	(1,391)	(70)	886	(16,680)
First-class collateral	-	-	-	4,500	-	-	-	-	41	4,541
Net receivables/(liabilities) reduced with first class collateral	(8)	(8,112)	(14,067)	627	846	109	(1,391)	(70)	845	(21,221)

27. RELATED PARTY TRANSACTIONS (CONTINUED)

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ZAPAD BANKA A.D. PODGORICA

Notes to the financial statements for the year ended 31 December 2019.

(All amounts are in EUR'000 unless otherwise stated)

	Volodymyr Kostel'man	Liya Morokhovska	Calyptra Invest	Vostok bank	Gama Montenegro	Graal doo	OU Agro White company	Other related legal entities	Related individuals	Total
	Shareholder	Shareholder	Jointly controlled entities							
Income										
Interest income	-	-	21	1,043	3	9	-	-	45	1,121
Fees income	-	1	7	1		1	8	6	5	29
Total income	-	1	28	1,044	3	10	8	6	50	1,150
Expenses										
Interest expenses	-	330	456	-	-	-	-	-	-	786
Commission expenses	-	-	-	72	-	-	-	-	-	72
Rental cost	-	-	-	-	-	-	-	-	120	120
Total expenses	-	330	456	72	-	-	-	-	120	978
Net income/(expenses)	-	(329)	(428)	972	3	10	8	6	(70)	172

Accrued personal income for related individuals, by type of income, in 2018 amounted to:

	Bank management	Key management	Board members	Total
Earnings and other short-term benefits	304	573	-	877
Board Membership Fee	-	-	31	31
Total	304	573	31	908

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ZAPAD BANKA A.D. PODGORICA**Notes to the financial statements for the year ended 31 December 2019.**

(All amounts are in EUR'000 unless otherwise stated)

28. CONTINGENT LIABILITIES

As of December 31, 2019, three disputes are pending against the Bank. Management estimates that these disputes will be resolved in favor of the Bank and accordingly no provisions have been made. As of December 31, 2019, a dispute is pending against the Bank as the third defendants (together with two other defendants' rights) and the value of the dispute is EUR 13,980 thousand. Management's assessment is that the said dispute will be resolved in favor of the Bank on the grounds that the previous two disputes have been initiated by the other two legal entities and with the same subject of dispute resolved in favor of the Bank and the other defendants and that, so far, judgments of court instances have been rendered. Of Montenegro in favor of the Bank and other defendants in this legal matter. In accordance with the foregoing, the Bank did not make a provision for the said dispute.

29. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARD 16

In January 2016, the IASB issued IFRS 16 effective on or after January 1, 2019. IFRS 16 replaces the existing guidance on accounting for leases in IAS 17 Leasing. IFRS 16 introduces a unique lease accounting model for tenants. The lessee recognizes the property related to the right of use and represents its right to use the underlying property and the lease obligation that represents its obligation to pay the lease. There are exceptions to the recognition of leases for short-term leases (less than 12 months) and low-value lease agreements.

For each lease agreement, it is assessed whether it contains a lease, ie. whether the contract bears the right to control the use of the identified assets in the contracted period in exchange for compensation.

Assets with the right of use and the obligation to lease are recognized on the lease commencement date. The property is initially measured at cost and subsequently amortized over the lease term. The lease liability is initially measured at the present value of the lease payments not paid at the commencement date and is discounted using a specified interest rate. When the interest rate cannot be easily determined, the tenant's borrowing rate is used.

The Central Bank of Montenegro has deferred application of IFRS 16 until 1 January 2020. years.

The effect of the first application of IFRS 16 (in thousands of EUR) on the Balance Sheet is presented as follows:

Investment property:	EUR 887
Property, plant and equipment:	EUR 3,422
Other liabilities:	EUR 4,309

30. FOREIGN EXCHANGE RATES

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

	December 31, 2019	December 31, 2018
USD	1.11890	1.14540
GBP	0.85208	0.90273
RUB	69.2781	79.5445

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31. EVENTS AFTER REPORTING DATE

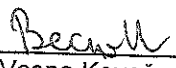
Following the outbreak of the Corona Virus Pandemic - Covid 19 (hereinafter: the coronavirus) in the World and Europe, which first appeared in December 2019 in China, and spread to Europe and the rest of the world from January 2020, and to Montenegro from in the middle of March 2020, the Bank, as a responsible 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. 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 loan distribution, loan portfolio quality, impairment, value adjustments and the similar.


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

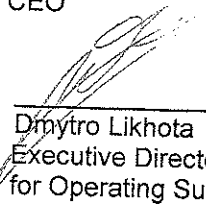
In addition to the events described in the preceding paragraphs, there were no significant events after the balance sheet date that would have an impact on financial position of the bank and operating results disclosed in financial statements for the year ended December 31, 2019.

Podgorica 28.04.2020


Vesna Kovačević
Head of Finance




Mladen Rabrenović
CEO


Dmytro Likhota
Executive Director
for Operating Support