

*This is an English translation of Independent Auditor's Report
originally issued in the Montenegrin language*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders Assembly of Invest Bank Montenegro AD, Podgorica

Report on Financial Statements

We have audited the accompanying financial statements of Invest Bank Montenegro AD, Podgorica (the "Bank"), which comprise a balance sheet as of 31 December 2017, a related income statement, a statement of changes in equity and a statement of cash flows for the year then ended, as well as a summary of significant accounting policies and notes to the accompanying financial statements.

Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations applicable in Montenegro, based on the Law on Accounting ("Official Gazette of Montenegro", No. 52/2016) and the regulations of the Central Bank of Montenegro governing financial reporting of banks, and for such internal control that management determines to be necessary for enabling the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Accounting prevailing in Montenegro and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor takes into consideration internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The audit also includes evaluating the appropriateness of the used accounting policies and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



INDEPENDENT AUDITORS' REPORT

To the Shareholders Assembly of Invest Bank Montenegro AD, Podgorica (Continued)

Report on Financial Statements (Continued)

Basis for Qualified Opinion

As disclosed in Note 16 to the financial statements as of 31 December 2017, total gross loans and receivables from clients amount to EUR 23,521 thousand. The Bank assessed and calculated provisions for potential losses in accordance with the Decision on Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro", No. 022/12, 055/12, 057/13), as well as allowances for impairment for balance sheet assets and provisions for off-balance sheet items amounting to EUR 5,065 thousand and EUR 202 thousand, respectively. The Bank recorded as of 1 January 2018 an additional allowance for impairment on total gross loans and receivables from clients in the amount of EUR 4,932 thousand on gross loans, in accordance with the effects of the first-time application of IFRS 9 "Financial Instruments". As of 31 December 2017, in our opinion, based on the audit procedures performed on a representative sample of loans and risk-weighted off-balance sheet exposures, the allowance for impairment of balance sheet assets and provisions for off-balance sheet items were understated at least by the amount of EUR 4,432 thousand, and the current year result and the capital of the Bank were overstated by the same amount.

The above mentioned additional allowance for impairment for financial assets would have a significant impact on the calculation of the Bank's total capital and the amounts of other indicators stipulated by the Law on Banks and relevant regulations of the Central Bank of Montenegro disclosed in Note 27 to the financial statements. Our opinion on the financial statements of the Bank for the prior year is also modified in respect to these matters.

As disclosed in Notes 17c and 17d to the financial statements, as of 31 December 2017, investments in associates and joint ventures at equity method and investments in subsidiaries amounted to EUR 9,340 thousand while the revaluation reserves amounted to EUR 993 thousand. The investments in associates and joint ventures at equity method and revaluation reserves are entirely related to equity investment in Atlas banka AD Podgorica in the amount of EUR 7,340 thousand, whereas the investments in subsidiaries, amounting to EUR 2,000 thousand, entirely refer to the stake in the company Global Carbon d.o.o. Podgorica (and represents a 100% deductible item of total capital and it does not have a negative impact on Bank's equity). The Bank neither calculated nor recorded potential losses from the impairment of the indicated investments in 2017, but recorded as of 1 January 2018 the effect of the first-time application of IFRS 9 "Financial Instruments" for Global Carbon do.o. Podgorica in the amount of EUR 2,000 thousand. In addition, shares of Atlas banka AD Podgorica were measured at the cost of EUR 1,787 per share, representing the latest change in the value of these shares on Montenegro Stock Exchange as of 26 December 2011. The nominal value of a share of Atlas banka as of 31 December 2017 is EUR 500, while the carrying amount of a share is EUR 537. Considering the foregoing, there are indicators that the value of the above mentioned shares has been impaired, and taking into account the Bank did not perform the share impairment test, as well as that the above mentioned shares were not traded in the last few years, we were unable, based on the available documentation, to satisfy ourselves as to the adequacy of valuation of the above mentioned securities as of 31 December 2017, as well as to the effects this matter may have to the accompanying financial statements, and, consequently, to the indicators stipulated by the Law on Banks and relevant regulations by the Central Bank of Montenegro, disclosed in Note 27 to the separate financial statements. Our opinion on the financial statements of the Bank for the prior year is also modified in respect to these matters.

INDEPENDENT AUDITORS' REPORT

To the Shareholders Assembly of Invest Bank Montenegro AD, Podgorica (Continued)

Report on Financial Statements (Continued)

Basis for Qualified Opinion (Continued)

As disclosed in Note 20 to the financial statements as of 31 December 2017, total other financial receivables amount to EUR 2,542 thousand, gross, or EUR 2,333 thousand, net. Most of these receivables relate to receivables for the purchase of shares in a legal entity, based on a consortium between related parties in the amount of EUR 2,333 thousand, gross, i.e., EUR 2,196 thousand, net, which fell due as of 31 December 2017. As of 1 January 2018, for the above mentioned receivable, by applying IFRS 9 impairment was established in the amount of EUR 509 thousand. Considering the unresolved legal issues related to the purchase of this share, and therefore, the receivables of the Bank, we were unable to satisfy ourselves as to the adequacy of valuation of the above mentioned receivables as of 31 December 2017, as well as to the effects this issue may have to the accompanying financial statements based on the available documentation, and accordingly, the performance indicators stipulated by the Law on Banks and relevant regulations of the Central Bank of Montenegro disclosed in Note 27 to the separate financial statements. Our opinion on the financial statements of the Bank for the prior year is also modified in respect to these matters.

As disclosed in the Note 21 to the financial statements as of 31 December 2017, the assets acquired in lieu of debt collection amounted to EUR 1,957 thousand and were recorded in the amount of the outstanding principal and attributable interests and other fees at the time of acquisition of rights. As of 31 December 2017, the Bank recorded the allowance for impairment in its financial statements for the assets acquired in the amount of EUR 157 thousand.

In 2018, the Bank recorded an additional impairment in the amount of EUR 118 thousand. In accordance with the requirement of IAS 36 - "Impairment of Assets", impairment losses amounting to EUR 200 thousand have been identified for certain assets, i.e., the fair value of these assets less costs to sell is lower than their carrying amount, and, accordingly, the assets acquired and assets held for sale and the result of the Bank's operations for 2017 were overstated by the above mentioned amount. The Bank's management is investing significant efforts in the realisation of these assets and in 2017 and early 2018 there was a sale of the acquired property in the amount of EUR 220 thousand at the value approximating the value recorded in the Bank's books of account, and further realisation is also expected. Our opinion on the financial statements of the Bank for the prior year is also modified in respect to these matters.

As disclosed in Note 2.3. to the financial statements, the Bank's management believes that the going concern principle is appropriate for the preparation of the accompanying financial statements, although the Bank is facing some uncertainties in its operations. For the year ended 31 December 2017, a net loss amounting to EUR 772 thousand was reported, the total capital of the Bank as of the same date amounted to EUR 13,606 thousand, while the Bank's total capital amounted to EUR 5,229 thousand and the solvency ratio was 13.90%. The total effects of the first-time application of IFRS 9 "Financial Instruments" amount to EUR 8,044 thousand, and, according to the Bank's estimate, they will not jeopardise the Bank's operations or affect the indicators stipulated by the Law on Banks and other relevant regulations of the Central Bank of Montenegro, considering that the Central Bank of Montenegro had provided for that the amount for mitigating the adverse effects to the Bank's total capital should be included in the basic elements of the Bank's total capital due to the transition to valuing balance sheet assets by using IFRS 9. This amount has been determined for the period from 2018 until 2022. In addition, in 2018, there has been an increase in the client base and depositors of the Bank. This information has not been disclosed in full in the financial statements, as well as the effects that may arise due to the Bank's inability to operate in accordance with the going concern principle.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders Assembly of Invest Bank Montenegro AD, Podgorica (Continued)

Report on Financial Statements (Continued)

Qualified Opinion

In our opinion, except for the effects of the adjustments disclosed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2017 and its financial performance and its cash flows for the year then ended, in accordance with the accounting regulations prevailing in Montenegro and regulations of the Central Bank of Montenegro governing the financial reporting of banks.

Emphasis of Matter

As disclosed in Note 32 to the financial statements, the Bank is obliged to reconcile the scope of its operations with the prescribed indicators, i.e., to reconcile the scope and structure of its risk-weighted placements with the Law on Banks and regulations of the Central Bank of Montenegro. As of 31 December 2017, the indicator of the Bank's exposure to an individual or a group of related parties has not been reconciled with the prescribed limits of the Central Bank of Montenegro. The Bank's management undertakes all necessary activities to reconcile the indicator with the legally defined framework at the shortest possible notice.

Our opinion is not modified in respect to these matters.

Report on Other Legal and Regulatory Requirements

Management of the Bank is responsible for the preparation and fair presentation of the annual business report in accordance with the requirements of the Law on Accounting ("Official Gazette of Montenegro", No. 052/16). Our responsibility is to express an opinion on the consistency of the Bank's annual business report for the year ended 31 December 2017 with the audited separate financial statements for the same year and whether the annual business report has been prepared in accordance with the Law on Accounting. Our procedures in this regard were performed in accordance with the applicable Standard on Auditing 720 "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements", and are only limited to the assessment of the consistency of financial information disclosed in the annual business report with the audited financial statements.

In our opinion, financial information disclosed in the Bank's annual business report for the year ended 31 December 2017 is consistent, in all material respects, with the audited financial statements of the Bank for the year ended 31 December 2017 and prepared in accordance with the Law on Accounting.

Podgorica, 19 June 2018




Milovan Popovic
Certified Auditor

INCOME STATEMENT

From 1 January to 31 December 2017
(in thousands of EUR)

	Notes	2017	2016
Interest income		1,743	1,758
Interest expenses	3.1., 6b	(1,116)	(1,153)
Net interest income		626	605
Dividend income		1	4
Impairment expenses	3.6., 7a	(163)	(191)
Provision charges	3.6., 7b	(31)	(6)
Fee and commission income	3.1., 8a	298	251
Fee and commission expenses	3.1., 8b	(286)	(244)
Net fee and commission income		12	7
Net gains from financial instruments held for trading		42	59
Net gains/(losses) from investment securities		(27)	(41)
Foreign exchange (losses)/gains, net	3.2	(3)	2
Employee benefits	9	(694)	(688)
General and administrative expenses	10	(359)	(418)
Depreciation/amortisation charges	11	(127)	(126)
Other expenses		(83)	(15)
Other income	12	34	57
OPERATING PROFIT/LOSS		(772)	(751)
Income taxes	3.3., 13	-	-
NET PROFIT		(772)	(751)

The notes on the following pages constitute an integral part of these financial statements.

These financial statements were approved by the management of Invest Bank Montenegro AD, Podgorica, on 24 January 2018 in Podgorica.

Approved by and signed on behalf of Invest Bank Montenegro AD, Podgorica

Person responsible for the preparation of
financial statements

Milanka Radunovic

Milanka Radunovic



Chief Executive Director

Zoran Nikolic

BALANCE SHEET
As of 31 December 2017
(in thousands of EUR)

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and deposit accounts held with depository agencies	14	3,008	3,181
Loans and receivables due from banks	15	1,619	1,061
Loans and receivables due from customers	3.5., 16	23,319	24,724
Financial assets held for trading		-	-
Investment securities			
- available for sale	17a	2,088	2,116
- held to maturity	17b	50	50
Investments in associates and joint ventures at equity method	17c	7,340	7,340
Investments in subsidiaries	17d	2,000	2,000
Property, plant and equipment	18	1,228	1,260
Intangible assets	19	164	179
Other financial receivables	20	2,333	2,328
Other operating receivables	21	2,160	2,049
TOTAL ASSETS		45,310	46,288
LIABILITIES			
Deposits due to banks		-	-
Deposits due to customers	22	26,164	24,099
Borrowings from banks	23	-	-
Borrowings from other customers	23	5,017	5,548
Provisions	24	29	1
Deferred tax liabilities		7	7
Other liabilities	25	487	2,255
TOTAL LIABILITIES		31,704	31,910
EQUITY			
Share capital	26	13,844	13,844
Share issue premium		2	2
Retained earnings		(751)	-
Profit for the year		(772)	(751)
Other reserves		1,283	1,283
TOTAL EQUITY		13,606	14,378
TOTAL EQUITY AND LIABILITIES		45,310	46,288
OFF-BALANCE SHEET ITEMS	28	102,057	122,389

The notes on the following pages constitute an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
 From 1 January to 31 December 2017
 (in thousands of EUR)

	Share capital	Share issue premium	Other reserves	Retained earnings	Total
Balance as of 1 January 2016	13,844	2	1,290	13	15,149
Transfer of profit to other reserves	-	-	13	(13)	-
Decrease in revaluation reserves	-	-	(20)	-	(20)
Profit/(loss) for the year	-	-	-	(751)	(751)
Balance as of 31 December 2016	13,844	2	1,283	(751)	14,378
Balance as of 1 January 2017					
Transfer of profit to other reserves	-	-	-		-
Decrease in revaluation reserves	-	-	-	-	-
Profit/(loss) for the year	-	-	-	(772)	(772)
Balance as of 31 December 2017	13,844	2	1,283	(1,523)	13,606

The notes on the following pages constitute an integral part of these financial statements.

STATEMENT OF CASH FLOWS
From 1 January to 31 December 2017
(in thousands of EUR)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		943	1,028
Interest paid		(1,116)	(1,153)
Fee and commission receipts		298	251
Fees and commissions paid		(286)	(243)
Payments to and on behalf of employees and to suppliers		(1,229)	(1,290)
Increase/decrease in loans and other assets		(220)	57
Inflows/(outflows) from deposits and other liabilities		2,065	(199)
Taxes paid		(50)	(47)
Other inflows		894	15
		<u>1,299</u>	<u>(1,581)</u>
<i>Net cash generated by/(used in) operating activities</i>			
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(5)	(18)
Purchase of intangible assets		(70)	(44)
Treasury bills		-	(50)
		<u>(75)</u>	<u>(112)</u>
<i>Net cash generated by investing activities</i>			
CASH FLOW FROM FINANCING ACTIVITIES			
Increase/(decrease) in borrowings, net		(531)	(913)
		<u>(531)</u>	<u>(913)</u>
<i>Net cash generated by/(used in) financing activities</i>			
Foreign exchange (losses)/gains		(3)	2
		<u>693</u>	<u>(2,606)</u>
Net decrease in cash and cash equivalents			
Cash and cash equivalents at the beginning of year		<u>2,008</u>	<u>4,614</u>
Cash and cash equivalents at the end of year	3.4., 30	<u><u>2,701</u></u>	<u><u>2,008</u></u>

The notes on the following pages constitute an integral part of these financial statements.