



Department of Economics and Business

Chair Introduction to Business Economics

Financial statement Analysis and performance evaluation of the banking sector in Montenegro

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1. INTRODUCTION

Banking sector is the crucial for growth of an economy, and from its stability and profitability is depending also real sector.

Changes that affect the banking today are so intense that it can even be called banking revolution. A high number of trends affecting the banking, among them are:

- Multiplication of services - Banks increased range of financial services offered to their clients;
- Growing competition - Competitive pressure among financial institutions and in relation to other institutions - e.g. Insurance companies and brokerage houses, has encouraged the development of services that are yet to be developed in the future. Banking institutions, brokerage and insurance companies are intertwined, or "enter" to each other in the business and offer its clients complete financial services;
- The technological revolution - Banking is becoming capital intensive service industry based on fixed costs and less labor-intensive activity with a variable cost. Also, there is increased use of automation and other technological innovations in the banking business;
- Consolidation and geographic expansion - Banks expands its operations to distant markets and increases the volume of its business. Banks are spreading branches and holding companies, also there is merging some of the big banks;
- The globalization of banking - The largest banks of the world are competing with each other on all continents, and in the global market place.

In such an environment, management team should lead the bank to a financial institution which will build the image of innovative, dynamic service company, especially client-oriented.

Key conditions for competitiveness of one bank would be following:

1. To have strong capital base;
2. To achieve adequate level of profitability;

3. To develop sophisticated financial product and services.

The aim of this thesis is to evaluate Financial statements of banking sector in Montenegro, from the point of their profitability and stability.

The profitability of banks in Montenegro measured by return on equity was in decline since the financial crisis in 2008. In recent period it started to recover, but still on low level. Despite this, the public often believes that banking profits are too high. This conclusion probably comes from the belief that the increased interest rates on loans lead to the increase of banks' profits. On the other hand, there are warnings that there is increased cost of banking services. This is primarily related to increased risk premiums and the provision for loan losses.

Certain groups view banks in a different perspective. These are the owners, depositors and other creditors of banks. For them, the profit of the bank is key category, because if profit is too small, it can be interpreted as a sign of instability and lack of perspective for bank. From the point of the owners, it may result in unwillingness for further capital investment (while the expected profit increases again). From the point of depositors and creditors, too small profits can lead to doubts about the prospects of business and lead to a reluctance to further granting loans to bank or to invest deposit and savings.

Different views of debt and creditor side on the profitability of banks are not always opposed. There is a very low threshold of profit or loss after which also debtors will agree that income is too low. If for no other reason, then because of the risk that the bank ends up in bankruptcy or liquidation in which all claims can be currently matured. Also there is a very high threshold after which the depositors and other creditors are beginning to wonder about the sustainability of this situation and equitable participation in it. Information about the extremely high profit can create pressure on creditors and depositors that banks pay a higher interest rate on their claims.

In the complex and volatile times, it is essential to try to assess where the equilibrium between the competing interests that are profiling around the banks. This raises the specific question: what is the level of profit high enough to guarantee the avoidance of instability, and what is the level of profit low enough that we can say that banking profits do not differ from the overall state of the economy?

This thesis comprises of following chapters:

-After Introduction, it is presented theoretical description of Financial statements with basis for preparations.

-In next part it is presented banking sector in Montenegro, with macroeconomic environment, i.e. conditions in which banks operates. There are presented aggregated balance sheet and income statement, with analysis of movements in positions and conclusion.

-In last part are chosen four largest banks in Montenegro, with individual market share more than 10%, where are analyzed movements in their financial statements, key indicators, and finally comparative analyses between them.

-In conclusion, author gave final conclusion on result of research.

2. FINANCIAL REPORTING IN BANKS

2.1. Content and basis for preparation

In accordance with IAS 1¹, the objective of general purpose financial statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making economic decisions. To meet that objective, financial statements provide information about an entity's assets, liabilities, equity, income and expenses, including gains and losses, contributions by and distributions to owners (in their capacity as owners), cash flows.

That information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

A complete set of financial statements includes:

- a statement of financial position (balance sheet) at the end of the period;
- a statement of profit or loss and other comprehensive income for the period (presented as a single statement, or by presenting the profit or loss section in a separate statement of profit or loss, immediately followed by a statement presenting comprehensive income beginning with profit or loss);
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory notes;
- comparative information prescribed by the standard.

Each of these reports provides information that is different, but at the same time they are related, because each of them presents different aspects of same business changes.

¹ International Accounting Standard 1

Content of financial statements, way of presentation, recognition, measurement, disclosures is prescribed with predefined standards.

Financial statements in Montenegro are prepared in accordance with accounting legislative applied to financial reporting for banks in Montenegro.

Banks are obliged to keep accounting records and prepare financial statements in accordance with Law on accounting and auditing („Official gazette ” no. 69/05, no. 80/08 and no. 31/11), than according to Decision on applying International accounting standards (IAS) in Montenegro („Official gazette ”, no. 69/2002), and in accordance with Central bank of Montenegro regulations for reporting.

The relevance of the financial statement is, to provide information to a wide range of users in making management and investment decisions. These users include managers, directors, employees, prospective investors, financial institutions, government, regulatory agencies, media, vendors and general public. Although, these statements are often complex and may include an extensive set of notes to the financial statement and explanation of financial policies and management estimates and analysis. The notes describe each item on the balance sheet, income statement and cash flow statement in further detail. Notes to financial statement are considered an integral part of the financial statements.

Financial statements for banks present a different analytical problem than statements for manufacturing or service companies. As a result, analysis of a bank's financial statements requires a distinct approach that recognizes a bank's unique risks.

Banks take deposits from savers and pay interest on some of these accounts. They pass these funds on to borrowers and receive interest on the loans. Their profits are derived from the spread between the rate they pay for funds and the rate they receive from borrowers. This ability to pool deposits from many sources that can be lent to many different borrowers creates the flow of funds inherent in the banking system. By managing this flow of funds, banks generate profits, acting as

the intermediary of interest paid and interest received, and taking on the risks of offering loans.

Banking is a highly leveraged business requiring regulators to dictate minimal capital levels to help ensure the solvency of each bank and the banking system. In the Montenegro, bank's primary regulator is Central Bank of Montenegro. Its focus is on compliance with certain requirements, restrictions and guidelines, aiming to uphold the soundness and integrity of the banking system.

2.2. Statement on financial position – Balance sheet

A Balance sheet is a financial report that shows the value of a company's assets, liabilities, and owner's equity at a specific period of time, usually at the end of an accounting period, such as a year. An asset is anything that can be sold for value. A liability is an obligation that must eventually be paid, it is a claim on assets. The owner's equity in a bank is often referred to as bank capital, which is what is left when all assets have been sold and all liabilities have been paid. The relationship of the assets, liabilities, and owner's equity of a bank is shown by the following equation:

$$\text{Bank Assets} = \text{Bank Liabilities} + \text{Bank Capital}$$

A bank uses liabilities to buy assets, which earns its income. By using liabilities, such as deposits or borrowings, to finance assets, such as loans to individuals or businesses, or to buy interest earning securities, the owners of the bank can leverage their bank capital to earn much more than would otherwise be possible using only the bank's capital.

Assets earn revenue for the bank and include cash, securities, loans, and property and equipment that allow it to operate.

One of the major services of a bank is to supply cash on demand, whether it is a depositor withdrawing money, or a bank customer drawing on a credit line. A bank also needs funds to pay bills, but while bills are predictable in both amount and timing, cash withdrawals by customers are not.

Bank must maintain a certain level of cash compared to its liabilities to maintain solvency. A bank must hold some cash as reserves, which is the amount of money held in a bank's account at the regulator (for example Central Bank of Montenegro). Regulator determines the legal reserves, which is the minimum amount of cash that banks must hold in their accounts to ensure the safety of banks and also allows the regulator to affect monetary policy by adjusting the reserve level. Often, banks will keep excess reserves for greater safety.

Loans are the major asset for most banks. They earn more interest than banks have to pay on deposits, and, thus, are a major source of revenue for a bank.

Liabilities are either the deposits of customers or money that banks borrow from other sources to use to fund assets that earn revenue. Deposits are money that the banks owe to the customer.

Banks also borrows money, usually from other banks or financial institutions.

As a last resort banks can also borrow from the Central bank, though they rarely do this since it indicates that they are under financial stress and unable to get funding elsewhere.

Banks can also get more funds from the bank's owners in form of additional share capital.

2.3. Statement of Comprehensive Income – Income statement

To understand how well a bank is doing, we need to look at a bank's income statement, where are described sources of income and expenses that affect the bank's profitability.

Operating income is the income that comes from a bank's ongoing operations. Most of a bank's operating income is generated as difference between interest income on its assets, particularly loans, and interest expense on their liabilities. It also includes noninterest income, which is generated mostly by the difference

between fee and commission income and expenses for services that bank provides to client and obtain from other banks and Central bank.

Operating expenses include the costs of running a banking business: salaries for employees, rent on bank buildings, professional and legal services, marketing, IT expenses, depreciation.

Very important and significant item in income statement are expenses for Impairment for loan losses. When a bank has a bad debt or anticipates that a loan might become a bad debt in the future, it can write up the loss as a current expense in its income statement.

Impairment is directly related to loan loss reserves in balance sheet. Loan loss reserves increase by increasing expenses when losses have not yet occurred, as earnings are being set aside to deal with the losses in the future. Provisions for loan losses have been a major element in fluctuating bank profits in recent years in Montenegro.

2.4. Statement of changes in equity

Owners have invested in the business to maximize their wealth and they are interested in knowing how the business financial position and financial performance has affected their invested interest in the business.

Statement of changes in equity details the change in owners' equity over an accounting period by presenting the movement in reserves comprising the shareholders' equity.

Movement in shareholders' equity over an accounting period comprises the following elements:

- Changing in shares;
- Net profit or loss during the accounting period attributable to shareholders;
- Increase or decrease in share capital reserves;
- Dividend payments to shareholders;

-
- Gains and losses recognized directly in equity;
 - Effect of changes in accounting policies;
 - Effect of correction of prior period error.

2.5. Statement of cash flow

The cash flow statement ties together all the details from the income statement and the balance sheet to give a summary of the overall picture of cash inflows and outflows for business.

The three sections of the cash flow statement are operating, investing and financing. There are two methods that can be used for preparing cash flow statement, the direct method and the indirect method.

The cash flow statement is a summary of the transactions that affected cash or cash equivalents in a particular period. It is a summary of all the cash payments and the cash receipts that occurred during the month, quarter or year for a business.

Each section of the cash flow statement will give insight into business activities and where cash came from or where it went to.

The cash flow statement also removes any non-cash transactions that may be on the income statement like depreciation expense for fixed and intangible assets. This allows us to look at how and in what areas the business is generating cash, or not generating cash. With this information company will be able to make adjustments to operations, or investing or financing activities.

3. FINANCIAL ANALYSIS OF BANKING SECTOR IN MONTENEGRO

3.1. Actual condition of banking sector

Macroeconomic environment²

Following are presented key macroeconomic trends in Montenegro, as they are base and explanation of conditions under which banks are performing its business.

GDP: According to last estimates by the Ministry of Finance of Montenegro, GDP growth rate for IQ 2015 was between 3.2% - 3.5%. Growth rate as of 2014. was 1.5%. Comparing to estimates from the beginning of 2014. GDP growth is 2.0% lower.

Postponement of planned investments, low economic activity and a strong decline in electricity production had a negative impact on the achievement of the projected growth rates. A positive impact on GDP had: construction sector, trade, tourism and the financial sector.

Annual inflation for 2014. was -0.5%, while the last macroeconomics projections of Ministry of Finance of Montenegro predicted 1.0% annual inflation for 2015.

Budget balance: Budget deficit for the period January – July 2015. amounted to EUR -115.5 million or -3.2% of GDP. For 2014. budget deficit amounted to EUR -102.6 million or -3.0% of GDP, which is -1.1% higher than estimates from the beginning of year. According to the latest projections by the Ministry of Finance of Montenegro, budget deficit for 2015, will amount to EUR -188.6 million or -5.3% of GDP.

Current account balance: Current account deficit for IQ 2015, amounted to EUR -197.0 million or -5.5% of GDP. For 2014, current account deficit was EUR -525.8

² www.cb-mn.org, www.mf.gov.me

million or -15.3% of GDP. Compared to estimates from beginning of 2014. actual 2014. budget deficit is 1.1% higher. Macroeconomic projections published on March 2015 predict a current account deficit of EUR -542.6 million or -15.3% of GDP.

State debt: State debt of Montenegro at end of June 2015. amounted to EUR 2159.5 million or 60.3% of GDP. The amount of state debt including domestic debt amounted to EUR 372.2 million, while external debt amounted to EUR 2160.1 million and in accordance with the Budget Law and Fiscal Responsibility, as a deduction, including the amount of deposits of EUR 372.8 million.

Macroeconomic projections from March 2015. predicted state debt for 2015 of EUR 2153.0 or 60,1%.

Foreign Direct Investments: Preliminary data show that, in the first six months of 2015, net FDI inflow recorded a growth. In the period January-June 2015, net FDI inflow amounted to EUR 185.4 million, or 19.1% more than in 2014. Total FDI inflow amounted to EUR 222.3 million or 1% more relative to the previous year, while at the same time there was an outflow of EUR 37.1 million.

Industrial output: Industrial production in August 2015. compared to the previous month decreased by 21.3%, while compared to last year's average monthly production decreased by 3.3%. Compared to the same month last year it decreased by 0.1%.

Unemployment: According to the data published by Monstat unemployment rate in Montenegro for IIQ 2015 was 17.7%, which is less than at the end of 2014. when it was 18.0%.

Wages: Compared to previous month average net salaries in July 2015. decreased by 1.0%, while comparing to same month last year salaries increased by 1.3%. Comparing to average net salaries in 2014 net salaries in July decreased by 0.2%.

Frozen accounts: Number of companies frozen accounts in August 2015. was 14.445 i.e. a 1.0% monthly increase. In terms of value, the total amount of debt was EUR 535.1 million and it increased by 1.3% compared to previous month.

Summarized key Macroeconomic indicators are presented in following table:

Macro indicators	Actual			Outlook	
	YE 2011	YE 2012	YE 2013	YE 2014	YE 2015
Change of Real GDP, yoy %	3.2%	-2.5%	3.3%	1.5%	3.5%
Change of Nominal GDP, yoy %	4.2%	-2.6%	5.7%	2.9%	4.5%
Nominal GDP, EUR bn	3,234	3,149	3,327	3,424	3,580
Unemployment rate, %(ARS)	19.7%	19.7%	19.5%	19.4%	18.9%
Change of Consumer Prices, %	3.1%	4.1%	2.2%	-0.5%	1.0%
Public Debt (% of GDP)	46.0%	53.9%	56.6%	55.8%	60.1%
Budget balance, in % of GDP	-5.4%	-6.1%	-3.8%	-3.0%	-5.3%
Current account balance, in % of GDP	-19.6%	-18.7%	-14.6%	-15.3%	-14.6%

Table 1. Key macroeconomic indicators in Montenegro

Macroeconomic situation in Montenegro is not convenient. There is a decrease in industrial output, GDP, deficit in Budget, high percentage of unemployment, big number of frozen account in commercial sector, deflation – which is not good indicator for an economy and banking sector.

Total assets and liabilities of banks

As of June 2015, total assets and liabilities of banks amounted to 3,236.8 million EUR, which is a monthly increase of 0.5%, and annual increase of 7.7%.

In the structure of banks' assets in June 2015. total loans share was 73.6%, followed by cash and deposits with central banks 14.1%, while other banks' assets items share was 12.3%. In the structure of liabilities, the dominant share of 74.3% were deposits, followed by capital with 14.1%, borrowings with 7.9%, while other items share was 3.7% of total assets.

As of June 2015, total equity of banks amounted to 455.3 million EUR, recording monthly decline of 0.2%, and an annual increase of 6.4%.

Loans

Total banks' loans amounted to 2,381.3 million EUR as of June 2015, which represents a monthly decline of 1.1% and an annual increase of 0.2%. Loans to deposits ratio was 0.99% as of June 2015, and it was lower than in June 2014. when it amounted to 1.11%.

Deposits

Total banks' deposits amounted to 2,403.1million EUR as of June 2015, recording a monthly increase of 1.1%, and an annual increase of 12.0%.

In total deposits' maturity structure, time deposits share was 53.3%, while demand deposits share was 46.6% of total deposits. The remaining 0.1% referred to funds at escrow account. In the structure of time deposits, the highest share was recorded by deposits with maturity from one to three years (50.6%) and deposits with maturity from three months to one year (38.2%).

Observed by sectors, households' deposits share was 57.0% in total deposits.

Banks' Liquidity

Liquid assets of banks amounted to 662.4 million EUR in June 2015, showing a monthly increase of 19 million EUR or 3%, and a 96.9 million EUR or 17.1% annual increase. In June 2015, liquidity ratios, both daily and ten-day, were above the statutory minimum for the entire banking system.

Reserve requirements

As of June 2015, total allocated reserve requirement of banks held with the Central Bank of Montenegro amounted to 220.3 million EUR or 0.3% more in relation to the previous month, while it was 22.4 million EUR or 11.3% higher compared to June 2014.

Of total reserve requirement, 51.6% was in the reserve requirement accounts in the country, 28.7% was in T-bills, while 20.2% was allocated to the Central Bank's account held abroad.

In June, twelve banks used the opportunity to allocate a part of their reserve requirement in the form of T-bills. Thus, total allocated funds in the form of T-bills amounted to 62 million euros.

The effective reserve requirement rate, measured as the ratio of allocated reserve requirement to total deposits, amounted to 9.17% at end June 2015, and it was lower relative to June 2014, when it amounted to 9.22%.

Lending Interest Rates

Lending interest rates on total loans outstanding as of June 2015: the weighted average nominal interest rate (WANIR) on total loans granted amounted to 8.14%, while weighted average effective interest rate (WAEIR) amounted to 9.01%. WANIR recorded a monthly decline of 0.03 %, while WAEIR recorded monthly increase of 0.02 %. Both WANIR and WAEIR recorded annual decline of 0.50 and 0.53 %, respectively.

Lending interest rates on new loans: In June 2015, WANIR on new loans amounted to 7.54% while WAEIR amounted to 8.85%. WANIR and WAEIR recorded respective monthly declines of 0.24 and 0.29 %. WANIR and WAEIR recorded respective annual declines of 1.30 and 1.20 %.

Deposit interest rates

Weighted average deposit effective interest rate (WADEIR) amounted to 1.49% in June 2015, recording monthly decrease of 0.01 % and an annual decline of 0.69 %. WAEIR on retail deposits amounted to 1.89% and it recorded monthly increase of 0.02 %, and annual decrease of 0.79 %. At the same time, WAEIR on corporate deposits amounted to 0.96%, recording a monthly decline of 0.04 %, as well as annual decline of 0.53 %.

In June 2015, the difference between lending interest rates and deposit interest rates amounted to 7.52 %, and being higher relative both to the previous month and to June 2014 (7.49 and 7.36 %, respectively).

Non-performing Loans - NPL and other receivables in the banking system, at the end of May 2015 was 16.2%. (2014: 15,9%).

Banking sector in Montenegro is stable and highly liquid, with moderate level of risk, and high NPL. Loan activity in 2014. decreased and continued decreasing in 2015. WANIR are declining, but still are too high. Interest rate spread increases.

3.2. Structure of banks in Montenegro

In banking system in Montenegro at the end of 2014. were present 12 banks. During 2015. another two banks started its operations, Zapad bank and Ziraat bank.

Following banks that are present on Montenegro market:

Atlasmont banka, Crnogorska komercijalna banka, Erste Bank, Universal Capital bank, Hipotekarna banka, Hypo Alpe - Adria Bank, Invest banka Montenegro, Komercijalna banka, NLB Montenegro banka, Prva banka Crne Gore, Societe Generale bank Montenegro, and Lovcen banka - which started operations in last quarter 2014.

The most of the banks are with foreign ownership.

3.3. Aggregated Financial statements

Following aggregate Balance sheet and Income statements of banks for 2014. and 2013. This analysis does not include previous years, as from 2013. It is implemented new Chart of accounts for banks and IAS 39. This analysis does not include other Financial statements (only Balance sheet and Income statement), Off balance sheet items, and Other comprehensive income – OCI, as they are not relevant for the subject.

BALANCE SHEET, IN 000 EUR

No	ASSETS	2014	2013	2014/ 2013
1.	Cash and balances with banks and Central Bank	497,572	392,323	27%
2.	Loans and advances to banks, net	389,897	354,312	10%
3.	Loans and advances to customers, net	1,828,709	1,885,471	-3%
4.	Financial assets available for sale	10,010	26,108	-62%
5.	Financial assets held for trade	3,186	2,781	15%
6.	Other assets at fair value through profit and loss	0	0	
7.	Derivative financial assets as hedging instruments	0	0	
8.	Financial assets:	240,321	160,276	50%
8.a.	- available for sale	192,587	105,625	82%
8.b.	- held to maturity	47,733	54,651	-13%
9.	Investment in consolidated companies and joint ventures at capital method	3,766	3,729	1%
10.	Investment in dependent companies	10,979	10,979	0%
11.	Investment property	134	0	
12.	Property and equipment	50,185	51,291	-2%
13.	Intangible assets	8,042	8,462	-5%
14.	Current tax assets	1,264	198	539%
15.	deferred tax assets	276	249	11%
16.	Other financial receivables	11,869	9,424	26%
17.	Other business receivables	77,642	51,428	51%
18.	Total Assets	3,133,850	2,957,031	6%
	LIABILITIES			
19.	Deposits from banks	19,029	26,036	-27%
20.	Deposits from customers	2,310,856	2,092,219	10%
21.	Borrowed funds form banks	102,887	278,129	-63%
22.	Borrowed funds from other clients	143,827	46,600	209%
23.	Financial liabilities held for trade	0	0	
24.	Financial liabilities at fair value through profit and loss	0	5	-100%

25.	Derivative financial liabilities as hedging instruments	0	0	
26.	Debt securities	15,029	15,025	0%
27.	Provisions	12,517	12,678	-1%
28.	Current tax liability	1,634	1,358	20%
29.	Deferred tax liabilities	913	1,082	-16%
30.	Other liabilities	40,603	44,052	-8%
31.	Subordinated liabilities	42,864	42,796	0%
32.	Total Liabilities	2,690,157	2,559,979	5%
	EQUITY	0	0	
33.	Share capital	506,591	484,391	5%
34.	Share premium	16,163	16,162	0%
35.	Retained earnings	-218,204	-206,265	6%
36.	Current year profit	23,855	1,282	1761%
37.	Other reserves	115,289	101,481	14%
38.	Minority interest	0	0	
39.	Total Equity: (33. to 38.)	443,694	397,051	12%
40.	TOTAL LIABILITES AND EQUITY: (32. + 39.)	3,133,850	2,957,030	6%

Table 2. Aggregated Balance sheet for all 12 banks as of 31.12.2014.³

Income statement, in 000 EUR

No	Description	2014	2013	2014/ 2013
1.	Interest and similar income	173,072	179,144	-3%
2.	Interest and similar expense	61,912	74,728	-17%
3.	Net interest income (1- 2)	111,162	104,416	6%
4.	Dividend income	112	584	-81%
5.	Impairment	20,297	44,481	-54%
6.	Provisions expenses	822	277	197%
7.	Fee and commission income	61,454	56,992	8%
8.	Fee and commission expense	26,482	23,149	14%
9.	Net fee and commission income (7- 8)	34,973	33,843	3%
10.	Net Gains/Losses of financial instrument held for trade	1,724	566	205%
11.	Net Gains/Losses of financial instrument at	0	0	

³ Table prepared by author from individual financial statements of banks available on Central bank of Montenegro website www.cb-mn.org

	fair value through profit and loss			
12.	Net Gains/Losses on investment securities	970	596	63%
13.	Change of fair value for hedge accounting	0	-10	-100%
14.	Net Losses / Gains on foreign exchange	1,902	1,661	14%
15.	Personnel expenses	57,724	56,591	2%
16.	General administrative expenses	41,871	39,499	6%
17.	Depreciation expense	9,473	9,641	-2%
18.	Other expense	2,848	3,142	-9%
19.	Other income	7,494	14,746	-49%
20.	EBIT (3+4-5-6+9+10+11+12+13+14-15-16-17-18+19)	25,301	2,771	813%
21.	Income tax	1,410	1,653	-15%
22.	Net Profit/Loss (20 - 21)	23,890	1,282	1764%

Table 3. Aggregated Income statement for all 12 banks for period 1.1.-31.12.2014.⁴

Financial position and financial result movements:

- ▶ Banks had significant increase in cash and equivalents, with receivables from banks, and are highly liquid.
- ▶ Banks had drop of Loans to clients by 3% in 2014. Total loans amounted to 1.829 million EUR (2013: 1.885 million EUR). However, banks invested excess of liquidity in Securities, which increased by 50%.
- ▶ Banks improved liabilities structure, deposits from clients increased by 10%, and borrowings from banks and clients decreased slightly.
- ▶ It is evident 218 million EUR of accumulated loss in equity (2013: 206 million EUR), which is result of written-off loans and provisions in previous periods, meaning that banks had bad quality of loan portfolio.
- ▶ Total assets increased by 6% and amounted 3.134 million EUR (2013: 2.957 million EUR).
- ▶ Drop in loans was reflected in Income statement with decrease of interest income by 3%.
- ▶ Decrease of deposits and borrowings resulted in decrease of interest expense by high 17%.
- ▶ Together it resulted in increase of Net interest income by 6%.
- ▶ It is recorded increase of Net fee and commission income by 3%.

⁴ Table prepared by author from individual financial statements of banks available on Central bank of Montenegro website www.cb-mn.org

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- ▶ Banks increased operating expenses in all categories by 3%.
 - ▶ Impairment cost was released significantly by 54%, which indicates on improving of quality of loans.
 - ▶ Overall profit increased by 1764%, from 1,3 million EUR in 2013. to 23,9 million EUR in 2014.
 - ▶ ROE for 2014. was 5.4% (ROaE was 5.7%), which is not satisfactory.

However, aggregate Balance sheet statement does not have net loans presented in gross amount with Loan loss provisions. So, it cannot be evident what is real decrease in loans, is it gross amount decrease or it is result of increase of provisions.

Detailed Balance sheet and Income statement for each individual bank are presented in Appendix.

3.4. Conclusion

Macroeconomic situation in Montenegro is not convenient, as presented in chapter 3.1.

In such macroeconomic environment and in small Montenegrin economy, there are 12 banks existing in 2014. (2013: 11), with two new banks in 2015, amounting to actual 14 banks.

Healthy competition is always welcome, but there are *evident too many banks in Montenegro, with low profitability on the system level*. Montenegro's economy is small, and the total balance sum of all the banks in the Montenegrin market does not reach the level of balance sum of one mid-sized bank in the European Union. Consequently, banks are less cost-effective and to achieve an adequate profit to justify the investment of the owner of the bank, they have to charge higher margins. In the long term with the increasing number of banks, cost efficiency on the level of the average bank reduces and banks have to offset it with higher margins.

4. COMPARATIVE ANALYSIS OF THE FOUR LARGEST BANKS IN MONTENEGRO

4.1. Key performance and profitability indicators

For the purpose of this analyses are chosen four banks that had market share in 2013. and 2014. over 10%. These banks are also called `system banks`. All four major banks have up to 100% foreign ownership.

Market shares of these banks in banking sector in assets, loans to clients and deposits to clients are presented in following table:

MARKET SHARE	2014			2013		
NAME OF BANK	Assets	Net Loans to clients	Deposits from clients	Assets	Net Loans to clients	Deposits from clients
Crnogorska komercijalna banka, member of OTP group – CKB	18.3%	17.5%	19.9%	20.9%	19.4%	23.8%
NLB Monetnegrobanka - NLB	16.5%	15.3%	17.2%	17.3%	15.6%	18.2%
Societe Generale Montenegro -SOGE	12.2%	15.0%	12.9%	11.8%	14.1%	12.3%
Erste bank - ERSTE	12.0%	12.7%	11.9%	11.9%	13.8%	10.5%
Total market share for 4 banks	58.9%	60.5%	61.7%	61.9%	62.9%	64.8%

Table 4. Market share of 4 major banks in Montenegro⁵

From the presented table, it can be concluded that these 4 banks hold around 60% of market share in all main categories.

The most dominant bank in Montenegro banking sector is CKB holding around 18% of market share, closely followed by NLB with around 16% of share. On third and fourth position are SOGE with higher share of loans - around 15%, than in assets- around 12%, and ERSTE with around 12% of market share.

However, it is evident decrease of market share of these banks in total, and first two banks individually, which means that also other smaller banks are taking their market share.

⁵ Table prepared by author from individual financial statements of banks available on Central bank of Montenegro website www.cb-mn.org

Key performance and profitability indicators which will be used for comparison of these banks are following:

Return on equity, ROE: $\text{Net profit} / \text{Equity}$
Return of assets, ROE: $\text{Net profit} / \text{Assets}$
Solvency ratio ⁶
Loan/Deposits ratio: $\text{Loans to clients} / \text{Deposits to clients}$
Liquid assets****/Total Assets
Debt/Equity ratio: $\text{Financial debt***} / \text{Equity}$
Operating result : $\text{Net Operating income}^* - \text{Opearting expenses}^{**}$
Cost/Income ratio: $\text{Operating expenses} / \text{Net operating income}$
Net interest margin: $\text{Net interest Income} / \text{Assets}$
Risk cost ratio: $\text{Impairment expense} / \text{Loans to clients}$
Provisions coverage: $\text{Loan Loss provisions}^7 / \text{Gross Loans to clients}$

Net Operating Income*: Net interest income + Net fee income+Dividend income+ FX exchange income

Operating expenses**: Personnel expenses + Other Administrative expenses + Depreciation

Financial debt***: Borrowings from banks and other + Debt securities issued + Subordinated debt

Liquid assets****: Cash and balances with banks and Central Bank + Loans and advances to banks, net

⁶ Calculation regulated with Central bank of Montenegro requirement based on Basel II Standardized approach

⁷ Loan loss provisions amount is obtained from audited financial statements of banks available on Central bank of Montenegro website www.cb-mn.org

4.2. Crnogorska komercijalna banka, member of OTP Group



Crnogorska komercijalna banka A.D., Podgorica was established as an independent bank and registered with the Commercial Court in Podgorica on January 15, 1997. OTP Bank Plc. Budapest holds 100 % equity interest in the Bank's equity.

On December 31, 2014, the Bank consisted of its Head Office in Podgorica and eleven branches, thirteen sub-branch offices and five counters located on the territory of Montenegro.

As of December 31, 2014, the Bank had 440 employees (2013: 461 employees).

Financial statements of CKB bank for 2013. and 2014. are presented in following tables:

BALANCE SHEET, IN 000 EUR				
No.	ASSETS	2014	2013	2014/2013
1.	Cash and balances with banks and Central Bank	88,285	77,290	14%
2.	Loans and advances to banks, net	127,653	137,227	-7%
3.	Loans and advances to customers, net	320,259	366,554	-13%
4.	Financial assets available for sale	0	0	
5.	Financial assets held for trade	2,010	1,504	34%
6.	Other assets at fair value through profit and loss	0	0	
7.	Derivative financial assets as hedging instruments	0	0	
8.	Financial assets:	14,432	17,647	-18%
8.a.	- available for sale	152	146	4%
8.b.	- held to maturity	14,280	17,501	-18%
9.	Investment in consolidated companies and joint ventures at capital method	75	38	96%
10.	Investment in dependent companies	0	0	

11.	Investment property	0	0	
12.	Property and equipment	13,414	13,564	-1%
13.	Intangible assets	2,768	3,075	-10%
14.	Current tax assets	10	198	-95%
15.	Deferred tax assets	0	0	
16.	Other financial receivables	2,021	1,793	13%
17.	Other business receivables	1,104	0	-405224%
18.	Total Assets	572,032	618,890	-8%
	LIABILITIES			
19.	Deposits from banks	186	3,636	-95%
20.	Deposits from customers	459,020	498,321	-8%
21.	Borrowed funds form banks	1,519	2,473	-39%
22.	Borrowed funds from other clients	2,344	6,114	-62%
23.	Financial liabilities held for trade	0	0	
24.	Financial liabilities at fair value through profit and loss	0	5	-100%
25.	Derivative financial liabilities as hedging instruments	0	0	
26.	Debt securities	0	0	
27.	Provisions	4,123	4,091	1%
28.	Current tax liability	0	0	
29.	Deferred tax liabilities	352	412	-15%
30.	Other liabilities	12,846	8,287	55%
31.	Subordinated liabilities	7,048	14,056	-50%
32.	Total Liabilities	487,438	537,395	-9%
	EQUITY			
33.	Share capital	136,875	136,875	0%
34.	Share premium	0	0	
35.	Retained earnings	-87,692	-87,692	0%
36.	Current year profit	3,094	6,320	-51%
37.	Other reserves	32,316	25,991	24%
38.	Minority interest	0	0	
39.	Total Equity: (33. to 38.)	84,595	81,495	4%
40.	TOTAL LIABILITES AND EQUITY: (32. + 39.)	572,032	618,890	-8%

Table 5. Balance sheet of CKB as of 31.12.2014. and 2013.⁸

⁸ Table prepared by author from financial statements of Bank available on Central bank of Montenegro website www.cb-mn.org

Income statement, in 000 EUR

No	Description	2014	2013	2014/2013
1.	Interest and similar income	30,811	36,606	-16%
2.	Interest and similar expense	8,272	15,359	-46%
3.	Net interest income (1- 2)	22,539	21,247	6%
4.	Dividend income	47	8	456%
5.	Impairment	8,729	7,511	16%
6.	Provisions expenses	809	-1,283	-163%
7.	Fee and commission income	17,084	17,825	-4%
8.	Fee and commission expense	6,045	6,468	-7%
9.	Net fee and commission income (7- 8)	11,039	11,357	-3%
10.	Net Gains/Losses of financial instrument held for trade	323	0	
11.	Net Gains/Losses of financial instrument at fair value through profit and loss	0	0	
12.	Net Gains/Losses on investment securities	0	-27	-100%
13.	Change of fair value for hedge accounting	0	0	
14.	Net Losses / Gains on foreign exchange	755	766	-1%
15.	Personnel expenses	13,813	12,988	6%
16.	General administrative expenses	7,146	6,933	3%
17.	Depreciation expense	2,899	2,712	7%
18.	Other expense	743	898	-17%
19.	Other income	2,470	2,727	-9%
20.	EBIT (3+4-5-6+9+10+11+12+13+14-15-16-17-18+19)	3,034	6,320	-52%
21.	Income tax	-61	0	
22.	Net Profit/Loss (20 - 21)	3,094	6,320	-51%

Table 6. Income statement of CKB bank for period 1.1.- 31.12.2014. and 1.1.-31.12. 2013.⁹

Balance sheet and Income statement movements:

► CKB had significant drop in 2014. in Loans to clients by 13%, also deposits from clients and banks had significant drop. It is evident 84 million EUR of accumulated loss in equity, which is result of written-off loans and provisions in previous periods, meaning that this bank had bad quality of loan portfolio.

⁹ Table prepared by author from financial statements of Bank available on Central bank of Montenegro website www.cb-mn.org

- ▶ Total assets decreased by 8%.
- ▶ Drop in loans was reflected in Income statement with decrease of interest income by 16%.
- ▶ Decrease of deposits and borrowings resulted in decrease of interest expense by high 46%. Together it resulted in increase of Net interest income by 6%.
- ▶ It is recorded decrease of Net fee and commission income by 3%.
- ▶ CKB increased operating expenses in all categories by 5,5%.
- ▶ Impairment cost increased by 16%.
- ▶ Overall profit decreased by 51%.

Ratios

RATIO	2014	2013
Return on equity, ROE: Net profit / Equity	3.7%	7.8%
Return of assets, ROA: Net profit / Assets	0.5%	1.0%
Solvency ratio ¹⁰	15,71%	14,38%
Loan/Deposits ratio: Loans to clients / Deposits to clients	69.8%	73.6%
Liquid assets / Total assets	37.7%	34.7%
Debt/Equity ratio: Financial debt / Equity	13%	28%
Operating result : Net Operating income – Operating expenses	10,845	10,747
Cost/Income ratio: Operating expenses / Net operating income	68.7%	67.8%
Net interest margin: Net interest Income / Assets	3.9%	3.4%
Risk cost ratio: Impairment expense/ Loans to clients	2.7%	2.0%
Provisions coverage: Loan Loss provisions/ Gross Loans to clients	13,5%	12,7%

Table 7. Key performance indicators for CKB¹¹

*Overall, there was **worsening** in CKB performance in 2014. Comparing previous year, starting from decrease in market share, loan portfolio, operating result, cost efficiency, risk cost, and all indicators. Bank is over liquid.*

¹⁰ For all banks data is obtained from audit reports available on Central bank of Montenegro website www.cb-mn.org

¹¹ Table and calculations prepared by author

4.3. NLB Montenegrobanka



NLB Montenegrobanka A.D., Podgorica was established in 1990. In 1995 was registered as JSC, and in 2002. it is registered in the Commercial Court in Podgorica. Nova Ljubljanska banka dd Ljubljana is majority shareholder of 98% of common shares. Republic Slovenia is 100% owner of Nova Ljubljanska bank dd Ljubljana.

On December 31, 2014, the Bank consisted of its Head Office in Podgorica and seventeen branches on the territory of Montenegro.

As of December 31, 2014, the Bank had 326 employees (2013: 320 employees).

Financial statements of NLB Montenegrobank for 2013 and 2014. are presented in following tables:

BALANCE SHEET, IN 000 EUR				
No.	ASSETS	2014	2013	2014/2013
1.	Cash and balances with banks and Central Bank	97,974	104,022	-6%
2.	Loans and advances to banks, net	48,551	44,009	10%
3.	Loans and advances to customers, net	279,217	293,230	-5%
4.	Financial assets available for sale			
5.	Financial assets held for trade			
6.	Other assets at fair value through profit and loss			
7.	Derivative financial assets as hedging instruments			
8.	Financial assets:	81,937	61,891	32%
8.a.	- available for sale	81,937	61,891	32%
8.b.	- held to maturity			
9.	Investment in consolidated companies and joint ventures at capital method			
10.	Investment in dependent companies			
11.	Investment property			

12.	Property and equipment	3,308	3,828	-14%
13.	Intangible assets	862	968	-11%
14.	Current tax assets			
15.	Deferred tax assets			
16.	Other financial receivables	1,082	1,449	
17.	Other business receivables	3,758	2,761	36%
18.	Total Assets	516,689	512,158	1%
	LIABILITIES			
19.	Deposits from banks	1,805	1,540	17%
20.	Deposits from customers	396,406	381,624	4%
21.	Borrowed funds form banks	4,551	34,183	-87%
22.	Borrowed funds from other clients	24,361	9,980	144%
23.	Financial liabilities held for trade			
24.	Financial liabilities at fair value through profit and loss			
25.	Derivative financial liabilities as hedging instruments			
26.	Debt securities			
27.	Provisions	1,445	3,282	-56%
28.	Current tax liability	6	10	-40%
29.	Deferred tax liabilities	65	57	14%
30.	Other liabilities	4,185	18,358	-77%
31.	Subordinated liabilities	14,426	14,262	1%
32.	Total Liabilities	447,250	463,296	-3%
	EQUITY			
33.	Share capital	64,925	49,925	30%
34.	Share premium	7,146	7,146	0%
35.	Retained earnings	-52,453	-36,165	45%
36.	Current year profit	5,476	-16,288	-134%
37.	Other reserves	44,345	44,244	0%
38.	Minority interest			
39.	Total Equity: (33. to 38.)	69,439	48,862	42%
40.	TOTAL LIABILITES AND EQUITY: (32. + 39.)	516,689	512,158	1%

Table 8. Balance sheet of NLB as of 31.12.2014. and 2013.¹²

¹² Table prepared by author from financial statements of Bank available on Central bank of Montenegro website www.cb-mn.org

Income statement, in 000 EUR

No	Description	2014	2013	2014/2013
1.	Interest and similar income	23,970	30,223	-21%
2.	Interest and similar expense	11,115	14,402	-23%
3.	Net interest income (1- 2)	12,855	15,821	-19%
4.	Dividend income	2	24	-92%
5.	Impairment	1,275	22,363	-94%
6.	Provisions expenses	-1,776	1,313	-235%
7.	Fee and commission income	8,656	8,372	3%
8.	Fee and commission expense	5,022	4,985	1%
9.	Net fee and commission income (7- 8)	3,634	3,387	7%
10.	Net Gains/Losses of financial instrument held for trade	575	592	-3%
11.	Net Gains/Losses of financial instrument at fair value through profit and loss			
12.	Net Gains/Losses on investment securities	3	66	-95%
13.	Change of fair value for hedge accounting		-10	-100%
14.	Net Losses / Gains on foreign exchange	-64	5	-1380%
15.	Personnel expenses	7,114	7,286	-2%
16.	General administrative expenses	4,430	4,373	1%
17.	Depreciation expense	989	1,153	-14%
18.	Other expense	156	148	5%
19.	Other income	669	460	45%
20.	EBIT (3+4-5-6+9+10+11+12+13+14-15-16-17-18+19)	5,487	-16,291	134%
21.	Income tax	11	-3	-467%
22.	Net Profit/Loss (20 - 21)	5,476	-16,288	134%

Table 9. Income statement of NLB for period 1.1.- 31.12.2014. and 1.1.-31.12. 2013¹³

Balance sheet and income statement movements:

► NLB had drop in 2014. in Loans to clients by 5%. However, Bank invested excess of liquidity in Securities, which increased by 32%.

► Bank improved liabilities structure, deposits from clients increased by 4%, and borrowings from banks and clients decreased significantly.

► It is evident 52 million EUR of accumulated loss in equity, which is result of written-off loans and provisions in previous periods, which means that this bank had bad quality of loan portfolio.

¹³ Table prepared by author from financial statements of Bank available on Central bank of Montenegro website www.cb-mn.org

- ▶ Total assets slightly increased by 1%.
- ▶ Drop in loans was reflected in Income statement with decrease of interest income by 21%.
- ▶ Decrease of deposits and borrowings resulted in decrease of interest expense by high 23%.
- ▶ Together it resulted in decrease of Net interest income by 19%.
- ▶ It is recorded increase of Net fee and commission income by 7%.
- ▶ Bank decreased operating expenses in all categories by 2,8%.
- ▶ Impairment cost was released significantly by 95%. As Provisions coverage was decreased, this can be result of cleaning of loan portfolio in 2013, and improvement of quality of loan portfolio in 2014.
- ▶ Overall profit increased by 134%, from loss of 16 million EUR in 2013, it recorded profit of 5,5 million EUR.

Ratios

RATIO	2014	2013
Return on equity, ROE: Net profit / Equity	7.9%	-33.3%
Return of assets, ROA: Net profit / Assets	1.1%	-3.2%
Solvency ratio	14,34	7,3%
Loan/Deposits ratio: Loans to clients / Deposits to clients	70.4%	76.8%
Liquid assets / Total assets	28.4%	28.9%
Debt/Equity ratio: Financial debt / Equity	0.62	1.20
Operating result : Net Operating income – Operating expenses	4,469	7,017
Cost/Income ratio: Operating expenses / Net operating income	73.7%	64.6%
Net interest margin: Net interest Income / Assets	2.5%	3.1%
Risk cost ratio: Impairment expense/ Loans to clients		
Provisions coverage: Loan loss provisions/ Gross loans to clients	0.5%	7.6%
	17,1%	18,5%

Table 10. Key performance indicators for NLB¹⁴

*Overall, there was **some improvement** in NLB performance in 2014. ROE improved but it is still on level lower than 10%. C/I ratio got worst, even operating expenses decreased, due to significant decrease of Net interest income. Net interest margin is on low level. Risk indicators show improvement. Bank is over liquid.*

¹⁴ Table and calculations prepared by author

4.4. Societe Generale Montenegro



Podgorička banka AD, Podgorica was established deriving from Montenegrobank DD, Podgorica during 1992. After privatization in 2005. majority shareholder becomes Societe Generale Group, Paris, France. Bank changed name in a 2006. to Podgorička bank Societe Generale Group AD, Podgorica. In 2012. Bank changed name to Societe Generale bank Montenegro AD, Podgorica.

Societe Generale Group, Paris, France owes 90,56% of shares as of December 31, 2014.

On December 31, 2014, the Bank consisted of its Head Office in Podgorica and twenty branches on the territory of Montenegro.

As of December 31, 2014, the Bank had 287 employees (2013: 268 employees).

Financial statements of Societe Generale bank Montenegro bank for 2013. and 2014. are presented in following tables:

BALANCE SHEET, IN 000 EUR

No.	ASSETS	2014	2013	2014/2013
1.	Cash and balances with banks and Central Bank	55,058	46,999	17%
2.	Loans and advances to banks, net	6,703	9,296	-28%
3.	Loans and advances to customers, net	274,707	265,875	3%
4.	Financial assets available for sale	300	1,193	-75%
5.	Financial assets held for trade	0	0	
6.	Other assets at fair value through profit and loss	0	0	
7.	Derivative financial assets as hedging instruments	0	0	
8.	Financial assets:	30,822	10,778	186%
8.a.	- available for sale	22,449	5,237	329%
8.b.	- held to maturity	8,373	5,541	51%
9.	Investment in consolidated companies and joint ventures at capital method	0	0	

10.	Investment in dependent companies	0	0	
11.	Investment property	0	0	
12.	Property and equipment	11,346	12,142	-7%
13.	Intangible assets	220	305	-28%
14.	Current tax assets	0	0	
15.	Deferred tax assets	0	0	
16.	Other financial receivables	375	456	-18%
17.	Other business receivables	1,272	1,161	10%
18.	Total Assets	380,801	348,205	9%
	LIABILITIES			
19.	Deposits from banks	0	0	
20.	Deposits from customers	297,612	256,542	16%
21.	Borrowed funds form banks	7,848	47,383	-83%
22.	Borrowed funds from other clients	25,139	113	22236%
23.	Financial liabilities held for trade	0	0	
24.	Financial liabilities at fair value through profit and loss	0	0	
25.	Derivative financial liabilities as hedging instruments	0	0	
26.	Debt securities	0	0	
27.	Provisions	2,003	1,772	13%
28.	Current tax liability	603	313	93%
29.	Deferred tax liabilities	118	311	-62%
30.	Other liabilities	2,343	2,232	5%
31.	Subordinated liabilities	0	0	
32.	Total Liabilities	335,665	308,666	9%
	EQUITY			
33.	Share capital	24,731	24,731	0%
34.	Share premium	0	0	
35.	Retained earnings	10,222	7,433	38%
36.	Current year profit	5,714	4,888	17%
37.	Other reserves	4,470	2,487	80%
38.	Minority interest	0	0	
39.	Total Equity: (33. to 38.)	45,136	39,539	14%
40.	TOTAL LIABILITES AND EQUITY: (32.+ 39.)	380,801	348,205	9%

Table 11. Balance sheet of SOGE as of 31.12.2014. and 2013¹⁵

¹⁵ Table prepared by author from financial statements of Bank available on Central bank of Montenegro website www.cb-mn.org

Income statement, in 000 EUR

No	Description	2014	2013	2014/2013
1.	Interest and similar income	25,337	23,237	9%
2.	Interest and similar expense	7,870	8,283	-5%
3.	Net interest income (1- 2)	17,467	14,953	17%
4.	Dividend income	2	59	-97%
5.	Impairment	3,290	4,109	-20%
6.	Provisions expenses	220	399	-45%
7.	Fee and commission income	6,931	6,605	5%
8.	Fee and commission expense	3,064	2,536	21%
9.	Net fee and commission income (7- 8)	3,867	4,069	-5%
10.	Net Gains/Losses of financial instrument held for trade	0	0	
11.	Net Gains/Losses of financial instrument at fair value through profit and loss	0	0	
12.	Net Gains/Losses on investment securities	3	0	
13.	Change of fair value for hedge accounting	0	0	
14.	Net Losses / Gains on foreign exchange	275	103	167%
15.	Personnel expenses	7,256	6,941	5%
16.	General administrative expenses	3,635	3,280	11%
17.	Depreciation expense	1,077	1,092	-1%
18.	Other expense	416	197	111%
19.	Other income	580	2,245	-74%
20.	EBIT (3+4-5-6+9+10+11+12+13+14-15-16-17-18+19)	6,300	5,411	16%
21.	Income tax	586	523	12%
22.	Net Profit/Loss (20 - 21)	5,714	4,888	17%

Table 12. Income statement of SOGE for period 1.1.- 31.12.2014. and 1.1.-31.12. 2013¹⁶

Balance sheet and Income statement movements:

► Bank had increase in 2014. in Loans to clients by 3%. Bank improved liability structure, where deposits from clients had increase by 16%, while borrowings decreased significantly. Bank invested excess of liquidity in Securities which increased by significant 186%.

¹⁶ Table prepared by author from financial statements of Bank available on Central bank of Montenegro website www.cb-mn.org

- ▶ Total assets increased by 9%.
- ▶ Increase in loans was reflected in Income statement with increase of interest income by 9%.
- ▶ Decrease of deposits and borrowings resulted in decrease of interest expense by 5%. Together it resulted in increase of Net interest income by significant 17%.
- ▶ It is recorded decrease of Net fee and commission income by 5%.
- ▶ Bank increased operating expenses in all categories by 5,8%.
- ▶ Impairment cost decreased by 20%.
- ▶ Overall profit increased by 17%.

Ratios

RATIO	2014	2013
Return on equity, ROE: Net profit / Equity	12.7%	12.4%
Return of assets, ROA: Net profit / Assets	1.5%	1.4%
Solvency ratio	13,17%	12,28%
Loan/Deposits ratio: Loans to clients / Deposits to clients	92.3%	103.6%
Liquid assets / Total assets	16.2%	16.2%
Debt/Equity ratio: Financial debt / Equity	0.73	1.20
Operating result : Net Operating income – Operating expenses	9,643	7,871
Cost/Income ratio: Operating expenses / Net operating income	55.4%	59.0%
Net interest margin: Net interest Income / Assets	4.6%	4.3%
Risk cost ratio: Impairment expense/ Loans to clients		
Provision coverage: Loan loss provisions / Gross loans to clients	1.2%	1.5%
	4,9%	4,1%

Table 13. Key performance indicators for SOGE¹⁷

*Overall, there was **significant improvement** in SOGE performance in 2014. in almost all parameters. Increase in loan portfolio, Excellent ROE, decrease in C/I ratio. Risk indicators are good, however Provisions coverage does not look sufficient, or Bank has extraordinary quality portfolio.*

¹⁷ Table prepared by author from financial statements of Bank available on Central bank of Montenegro website www.cb-mn.org

4.5. Erste bank



Erste Bank AD, Podgorica was registered as Opportunity Bank AD, Podgorica. Bank changed name in 2009. to Erste Bank AD, Podgorica.

Erste&Steiermärkische Bank d.d. Rijeka, Croatia is 100% shareholder of the Bank. Erste Group bank, Vienna and Steiermärkische und Sparkasse, Graz, Austria are owners of Erste&Steiermärkische Bank d.d. Rijeka, Croatia.

On December 31, 2014, the Bank consisted of its Head Office in Podgorica and sixteen branches on the territory of Montenegro.

As of December 31, 2014, the Bank had 268 employees (2013: 253 employees).

Financial statements of Erste bank for 2013. and 2014. are presented in following tables:

BALANCE SHEET, IN 000 EUR				
No.	ASSETS	2014	2013	2014/2013
1.	Cash and balances with banks and Central Bank	56,593	33,216	70%
2.	Loans and advances to banks, net	32,313	24,996	29%
3.	Loans and advances to customers, net	231,451	259,417	-11%
4.	Financial assets available for sale	0	0	
5.	Financial assets held for trade	0	0	
6.	Other assets at fair value through profit and loss	0	0	
7.	Derivative financial assets as hedging instruments	0	0	
8.	Financial assets:	48,047	24,843	93%
8.a.	- available for sale	40,130	18,670	115%
8.b.	- held to maturity	7,917	6,174	28%
9.	Investment in consolidated companies and joint ventures at capital method	0	0	
10.	Investment in dependent companies	0	0	
11.	Investment property	134	0	

12.	Property and equipment	3,591	4,424	-19%
13.	Intangible assets	2,051	2,299	-11%
14.	Current tax assets	0	0	
15.	Deferred tax assets	0	0	
16.	Other financial receivables	417	461	-9%
17.	Other business receivables	2,286	1,264	81%
18.	Total Assets	376,884	350,920	7%
	LIABILITIES			
19.	Deposits from banks	162	144	12%
20.	Deposits from customers	273,906	219,781	25%
21.	Borrowed funds form banks	23,586	62,627	-62%
22.	Borrowed funds from other clients	13,157	6,214	112%
23.	Financial liabilities held for trade	0	0	
24.	Financial liabilities at fair value through profit and loss	0	0	
25.	Derivative financial liabilities as hedging instruments	0	0	
26.	Debt securities	15,025	15,016	0%
27.	Provisions	1,780	1,431	24%
28.	Current tax liability	621	600	4%
29.	Deferred tax liabilities	244	265	-8%
30.	Other liabilities	2,606	2,179	20%
31.	Subordinated liabilities	0	3,030	-100%
32.	Total Liabilities	331,087	311,287	6%
	EQUITY			
33.	Share capital	5,339	5,339	0%
34.	Share premium	1,571	1,571	0%
35.	Retained earnings	29,474	24,179	22%
36.	Current year profit	5,968	5,283	13%
37.	Other reserves	3,444	3,261	6%
38.	Minority interest	0	0	
39.	Total Equity: (33. to 38.)	45,796	39,633	16%
40.	TOTAL LIABILITES AND EQUITY: (32. + 39.)	376,884	350,920	7%

Table 14. Balance sheet of ERSTE as of 31.12.2014. and 2013¹⁸

¹⁸ Table prepared by author from financial statements of Bank available on Central bank of Montenegro website www.cb-mn.org

Income statement, in 000 EUR

No	Description	2014	2013	2014/2013
1.	Interest and similar income	26,899	26,503	1%
2.	Interest and similar expense	7,489	9,353	-20%
3.	Net interest income (1- 2)	19,410	17,151	13%
4.	Dividend income	2	1	65%
5.	Impairment	4,745	3,156	50%
6.	Provisions expenses	277	-75	-471%
7.	Fee and commission income	5,152	5,020	3%
8.	Fee and commission expense	2,165	1,614	34%
9.	Net fee and commission income (7- 8)	2,987	3,406	-12%
10.	Net Gains/Losses of financial instrument held for trade	382	126	204%
11.	Net Gains/Losses of financial instrument at fair value through profit and loss	0	0	
12.	Net Gains/Losses on investment securities	688	0	
13.	Change of fair value for hedge accounting	0	0	
14.	Net Losses / Gains on foreign exchange	-15	240	-106%
15.	Personnel expenses	7,675	7,838	-2%
16.	General administrative expenses	4,722	4,518	5%
17.	Depreciation expense	1,322	1,161	14%
18.	Other expense	190	362	-48%
19.	Other income	1,996	1,996	0%
20.	EBIT (3+4-5-6+9+10+11+12+13+14-15-16-17-18+19)	6,519	5,960	9%
21.	Income tax	551	677	-19%
22.	Net Profit/Loss (20 - 21)	5,968	5,283	13%

Table 15. Income statement of ERSTE for period 1.1.- 31.12.2014. and 1.1.-31.12. 2013¹⁹

Balance sheet and Income statement movements:

► Erste bank had drop in 2014. in Loans to clients by 11%. However, Bank invested excess of liquidity in Securities, which increased by 93%.

► Bank improved liabilities structure, deposits from clients increased by 25%, and borrowings from banks and clients decreased significantly.

► Total assets increased by 7%.

¹⁹ Table prepared by author from financial statements of Bank available on Central bank of Montenegro website www.cb-mn.org

- ▶ Drop in loans to clients was not reflected in Income statement due to investment in Securities, and Bank recorded slight increase of interest income by 1%.
- ▶ Decrease of deposits and borrowings resulted in decrease of interest expense by high 22%.
- ▶ Together it resulted in increase of Net interest income by 13%.
- ▶ It is recorded decrease of Net fee and commission income by 12%, due to higher expense.
- ▶ Bank increased operating expenses in all categories by 1.5%.
- ▶ Impairment cost was increased significantly, by 50%. Provisions coverage also increased.
- ▶ Overall profit increased by 13%.

Ratios

RATIO	2014	2013
Return on equity, ROE: Net profit / Equity	13.0%	13.3%
Return of assets, ROA: Net profit / Assets	1.6%	1.5%
Solvency ratio	17,0%	15,55%
Loan/Deposits ratio: Loans to clients / Deposits to clients	84.5%	118.0%
Liquid assets / Total assets	23.6%	16.6%
Debt/Equity ratio: Financial debt / Equity	1.13	2.19
Operating result : Net Operating income – Operating expenses	9,047	7,407
Cost/Income ratio: Operating expenses / Net operating income	60.3%	64.6%
Net interest margin: Net interest Income / Assets	5.2%	4.9%
Risk cost ratio: Impairment expense/ Loans to clients	2.1%	1.2%
Provisions coverage: Loan loss provisions/ Gross loans to clients	7,7%	6,8%

Table 16. Key performance indicators for ERSTE²⁰

Overall, there was **improvement** in ERSTE performance in 2014. in almost all parameters except decrease in loan portfolio, decrease in Excellent ROE but still high, decrease in C/I ratio. Risk indicators are good, Net interest margin is high. Bank is highly capitalized. Bank is over liquid.

²⁰ Table prepared by author from financial statements of Bank available on Central bank of Montenegro website www.cb-mn.org

4.6. Comparative analysis of largest banks

Following Balance sheet and Income statement key position movements' analysis along with key ratios for 2014.

Cash and balances with banks and Central Bank, Loans and advances to banks, Liquid assets / Total assets:

► These positions are mostly non-interest bearing. All banks are over liquid with high liquidity ratio, meaning that banks are paying interest on funds that are not utilized in interest bearing assets, which is costly to them and directly influence on level of profitability.

Highest increase in these positions had ERSTE by 53%, than SOGE 10%. CKB had slightly increase by 1%. The highest Liquidity ratio has CKB 37.7%.

► NLB recorded decrease of liquid positions by 1%. and have lowest Liquidity ratio of 16.2%, which means that this bank has best utilized funds.

Loans and advances to customers

For the purpose of this analysis are obtained data from audited reports of banks about Gross loans and Loan loss provision, in order to analyze separately these components from net movement in Loans.

CKB	2014	2013	2014/2013
Loans and advances to customers, net	320,259	366,554	-13%
Gross Loans	370,406	419,958	-12%
Loan loss Provisions	-50,147	-53,404	-6%
NLB	2014	2013	2014/2013
Loans and advances to customers, net	279,217	293,230	-5%
Gross Loans	336,871	359,859	-6%
Loan loss Provisions	-57,654	-66,629	-13%
SOGE	2014	2013	2014/2013
Loans and advances to customers, net	274,707	265,875	3%
Gross Loans	288,785	277,189	4%
Loan loss Provisions	-14,078	-11,314	24%
ERSTE	2014	2013	2014/2013
Loans and advances to customers, net	231,451	259,417	-11%
Gross Loans	250,872	278,224	-10%
Loan loss Provisions	-19,421	-18,807	3%

-
- ▶ The highest decrease in net loans recorded CKB by 13%, accompanied with decrease of gross amount by 12%, and release of provisions by 6%. ERSTE also had significant decrease in Net loans by 11%, accompanied with decrease of gross amount by 10% and allocation of provisions by 3%. NLB had decrease in net loans by 5%, decrease in gross loans by 6% and release of provisions by 13%.
 - ▶ Only SOGE recorded increase in Net loans by 3%, accompanied with increase of gross amount by 4%, and allocation of provisions by 24%.

Provisions coverage

The highest provisions coverage had NLB 17,1% which may indicate high level of non-quality portfolio. CKB also had high provisions coverage of 13.5%. ERSTE had provisions coverage of 7.7%. Lowest coverage had SOGE of 4.9% which may indicate that this bank underestimated provision and can suffer higher impairment losses in future period.

However, this ratio is not representative for comparasion, as does not have information about provision coverage of Non - performing loans and exposures.

Financial assets Available for sale and Held to maturity

All banks have invested some of the excess of their liquidity in these financial assets, mostly Government bonds and treasury bills, which is good as they are non-risky and bearing relatively high interest income.

CKB had the smallest investment in these financial assets and highest liquidity ratio, which may indicates that this bank has space to improve its assets and liabilities management.

Property and equipment, Intangible assets

There are no significant movements in these positions, except decrease with all banks, which should be depreciation. According to Central bank regulations banks cannot excess investment in Fixed assets more than 50% of own capital.

Total Assets

All banks had increase in total assets, except CKB. However, increase or decrease in total assets as single movement is not sufficient indicator for comparison, having in mind above presented movements in assets structure.

Deposits from banks

Deposits from banks have no significant share in banks liabilities structure.

Deposits from customers, Loan/Deposits ratio

All banks had increase in deposits from clients, except CKB which had decrease by 8%. Highest increase had ERSTE 25%, SOGE 16%, and NLB 4%.

Borrowed funds form banks and other clients, Debt securities, Subordinated liabilities, Debt/Equity ratio

All banks improved liabilities structure, by decreasing financial debt by 26% NLB to 52% CKB. All banks improved debt/equity ratio, where lowest ratio has CKB 0.13 and highest ERSTE 1.13.

Comparing liquidity ratios of banks with movements in interest bearing assets and liabilities, it can be concluded that CKB has highest liquidity ratio due to significant drop in loans, and on another side optimized resources by decreasing them significantly, but still not sufficient.

Provisions

Provisions comprises mostly from provisions for OFF balance sheet items, litigations, and other provisions.

All banks had increase of Provisions except NLB which had decrease for 56%. Amount of these provisions may indicate the quality of off balance sheet exposures like guarantees, credit limits and similar, but it is not disclosed separately.

Equity, Solvency ratio

NLB bank had capitalization in 2014. in amount of 25 million EUR in order to achieve prescribed solvency ratio, as due to loss of 16 million EUR had violation of this ratio. It is evident accumulated loss from previous years for CKB 88 million EUR and NLB 52 million EUR.

Banks had relatively good solvency ratios as of 31.12.2014. ERSTE had highest solvency ratio of 17%, SOGE had lowest solvency ratio of 13.17%

Interest and similar income

Highest increase in Interest income had SOGE by 9%, while NLB had highest decrease by 21 %. CKB had decrease by 16%, while ERSTE had slight increase by 1%. Their interest income was result in loans movements, as well as investments in available for sale financial assets. It also depends on quality of loan portfolio - Non performing loans, and movements in interest rates.

Interest and similar expense

All banks had mostly significant decrease in interest expense, CKB by 46% as had highest decrease in funds. NLB had decrease by 23%, Erste by 20%, and SOGE by 5%. Banks partly optimized their over liquidity by decreasing borrowings and interest rates on deposits, which resulted in decrease of their interest expense.

Net interest income, Net interest margin

All banks had increase in Net interest income, except NLB.

▶ NLB did not compensate high decrease in interest income with decrease in interest expense, and had decrease of net interest income by highly 19%.

▶ Highest increase had SOGE by 17%, following ERSTE by 13% and CKB by 6%.

▶ Highest net interest margin had ERSTE 5,2% and SOGE 4,6%.

Impairment, Risk cost ratio

Provisions for loan losses in balance sheet with its expense as Impairment in Income statement are positions that are subject of different methodologies and management estimates of each bank, which makes them *as excellent tool for managing their profitability* in some period. Some banks can be more conservative in current period and save reserves for worst days, while some banks can make opposite.

ERSTE and CKB had increase in Impairment, while NLB and SOGE had significant release. Measuring with risk cost ratio, NLB had lowest ratio of 0,5%. As in 2013. this bank expensed 22,3 million in Impairment with risk cost of 7,6%, it seems that cleaned bad quality portfolio in previous year, but still with highest provisions coverage. SOGE also had small risk cost ratio of 1,2%, but as already mentioned its provisions coverage are on low level of 4,9%. ERSTE had risk cost of 2,1%, and highest risk cost had CKB of 2,7%.

Provisions expenses

This expense relates to provisions that are in liabilities, and mostly depending on off balance sheet items. NLB had significant release of this provision and recorded income of 1,8 million EUR. Other banks had non-significant share of this expense.

Net fee and commission income, Strength of net fee income

It is evident drop of Net fee income with all banks, except NLB. Highest drop had ERSTE by 12%, while NLB had increase by 7%.

▶ When looking share of net fee income comparing to net interest income, highest share had CKB, even 33%. This means that CKB had significant base of clients with payment transfers and other services (corresponding with its market share also), and not so dependent of interest bearing assets.

NLB and SOGE are far following with 22% and 18% share of fee income.

▶ ERSTE had very low fee income share of only 13%, even decreased from 2013. when it was 17%.

Operating expenses: Personnel expenses, General administrative expenses, Depreciation expense

▶ All banks had increase in these expenses except NLB, where SOGE had highest increase by 6%, following CKB with increase by 5%, and ERSTE 1%.

▶ NLB had decrease by 2%. However, this bank still has highest C/I ratio of 73.7%, which indicates that should additionally improve cost efficiency.

Net Profit/Loss

Highest profit in amount of 5.97 million EUR had ERSTE, followed by SOGE with 5.71 million EUR, and NLB with 5.48 million EUR.

Lowest profit of 3.1 million EUR had CKB .

ROE, ROA

▶ When this profit compares with banks equity and assets, highest ROE and ROA had ERSTE, 13.% and 1.6% respectively, closely followed by SOGE with ROE 12.7% and ROA 1.5%.

▶ The lowest ROE and ROA had CKB, 3.7% and 0.5% respectively, followed by NLB with ROE of 7.9%, ROA 1.1%.

Operating result, Cost/Income ratio

As mentioned before, Impairment can have significant share in banks net profit, and it can fluctuate depending on estimates and judgments of management. So, the profitability ratios that owners are mostly interested in, are ratios on banks result from its operations, which is **Operating result** as difference between operating income and operating expenses, and **C/I ratio** which is relation between them. Here, owners exclude influence of Impairment and Provisions.

▶ Highest C/I ratio of 73,7% had NLB, followed by CKB 68,7%, and ERSTE 60,3%. These banks should improve their cost efficiency or increase their Operating income. The accent definitely should be on cost efficiency and decreasing of Operating expenses as it can be managed internally, while on the market existing limitations regarding significant improvement in Operating income.

▶ The best and lowest C/I ratio had SOGE of 55,4%.

Summary of presented analysis:

Looking at the movements 2013. to 2014. and profitability measurement, the highest net profit, ROE, ROA, Net interest margin had **ERSTE**. However, it should improve its fee income share and C/I ratio. This bank has the highest stability, with Solvency ratio of high 17%. With net interest margin of high 5.2% it has sufficient space to decrease interest rates in order to increase loans and market share in future.

SOGE also had excellent performance. Except high ROE, ROA and Net interest margin, additionally had highest interest income and net interest income increase, best C/I ratio, and lowest risk cost ratio. This bank also has high net interest margin of 4.6%, with sufficient space to decrease interest rates in order to increase loans and market share in future.

CKB and **NLB**, first two leaders in the market share, have worsened position, with unsatisfactory ROE, ROA. They have high C/I ratio. Positively is that they have significant share of fee income. Their market share is in drop. They have evident accumulated loss from previous years, which are consequences of bad loan portfolio. Their owner had to invest more share capital in previous periods in order to keep solvency ratio above prescribed level of 10%. These two banks should invest additional efforts in improving their condition.

5. CONCLUSIONS

Macroeconomic situation in Montenegro is not convenient. In such macroeconomic environment and in small Montenegrin economy there are performing even 12 banks in 2014 (2013: 11), with two new banks in 2015.

Banking sector in Montenegro is stable and highly liquid, with moderate level of risk, and high NPL. Loan activity in 2014. decreased and continued decreasing in 2015. WANIR are declining, but still are too high. Profitability of banks measured with ROE is on low level.

In Montenegro there are criticism and recommendation that banks should increase loan activity and decrease interest rates on loans.

First, we need to ask whether the granting of loans to a greater extent is helpful at all. The answer is positive if that would be useful loans to finance profitable projects, companies and citizens who can repay the loans. The banking sector in Montenegro now has an adequate amount of funds to support good projects and clients. The volume of loans to the economy will be largely increased if the company has good business, good and profitable projects, and the owners of the company invest adequate capital. Lending to citizens is mainly a function of their living standards and the level of their salaries. For all these parameters banks do not have much direct impact, but follow them. A higher credit rating capacity and consequently higher business would have a positive impact and would reduce the grey economy, which is in Montenegro is still high. Bank loans can be granted only on the basis of documented cash flows. Finally, a significant impact on lending activity has the level of loan interest rates, which in Montenegro are still high.

In any case, it is expected a gradual downward trend in interest rates for loans, but not because of the increasing number of banks in the market, but due to the process of accession of Montenegro to the European Union and related reforms.

Interest rates on deposits in Montenegro, despite the decline in previous period, are still higher than in the European Union. Banking deposits are the main source of funding, and directly affected with the loans interest rates - for the Bank's

lending it is significant the differences between the interest rates on loans and the interest rates paid on sources of funding. An important part of the higher interest rates on loans is a result of country risk, which is largely a function of the estimated economic and political stability of the country. Montenegro must borrow at higher interest rates than for example Italy, and it is normal that it reflects on the loan interest rate for clients. A very important impact on the level of loan interest rates has a systematic protection of creditors, which largely depends on the regulations, quality and speed of the courts, the quality and reliability of financial reporting and the quality of the information base on which banks can rely on in the loan approval (related largely to the property, which serve as collateral for loans).

Also, very important for the level of loan interest rates is that they depends on the debtor risk activities. Montenegro's economy is relatively small and directly or indirectly depending on the construction industry, real estate investment and trade, which are themselves above average risk, and banks are exposed to above-average risk and concentrations of credit portfolio by industries. Because of these challenges, banks have the stricter criteria of granting loans or have higher interest rates, because the risks that are taken must be covered.

Lower loan interest rates would increase the demand for loans, increasing the volume of profitable investment from the point of clients, increase the chances of clients to be duly returned, and reduce the risk of bank loans that would not be properly returned because of the burden that clients bear in connection with loan repayments. Increased lending activity, provided to fund healthy clients and projects, in the end mean higher economic growth and a better life for citizens.

The low ROE will unlikely force the owners in the short term to significant changes in the allocation of capital. However, the decision on the allocation of capital to banks in some countries will depend on the expected return on equity. In the international environment, that capital will find no interest to engage or stay engaged in Montenegro if it will make a loss or a significantly lower return on their owners than in other countries with similar levels of investment risk.

Thus, banks in Montenegro even with constraints in possible increase of quality loan portfolio, which is the main resource of banks profitability, still have enough space to decrease interest spread on loans and on that way increase demand and quality loan portfolio. Banks also should increase their cost efficiency.

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5. Teaching slides for Introduction to business economy

APPENDIX: INDIVIDUAL FINANCIAL STATEMENTS OF BANKS

No	ASSETS	ATLAS	CKB	ERSTE	HIPOTEKARNA	HYPO	IBM	KOMERC	NLB	PRVA	SGBM	UNIVERSAL	LOVCEN	TOTAL
1.	Cash and balances with banks and	23,709	88,285	56,593	67,725	38,041	2,383	12,168	97,974	40,668	55,058	10,132	4,835	497,572
2.	Loans and advances to banks, net	62,067	127,653	32,313	46,203	11,917	2,473	11,888	48,551	11,228	6,703	26,103	2,800	389,897
3.	Loans and advances to customers,	126,756	320,259	231,451	145,977	168,472	29,289	53,043	279,217	171,509	274,707	16,715	11,313	1,828,709
4.	Financial assets available for sale	0	0	0	0	0	0	0	0	5,434	300	4,276	0	10,010
5.	Financial assets held for trade	883	2,010	0	0	0	0	0	0	293	0	0	0	3,186
6.	Other assets at fair value through	0	0	0	0	0	0	0	0	0	0	0	0	0
7.	Derivative financial assets as	0	0	0	0	0	0	0	0	0	0	0	0	0
8.	Financial assets:	5,436	14,432	48,047	28,227	2,759	1,669	20,835	81,937	5,991	30,822	167	0	240,321
8.a.	- available for sale	1,321	152	40,130	26,560	0	1,102	18,936	81,937	0	22,449	0	0	192,587
8.b.	- held to maturity	4,115	14,280	7,917	1,666	2,759	567	1,898	0	5,991	8,373	167	0	47,733
9.	Investment in consolidated companies and joint ventures at capital method	2,421	75	0	8	0	1,261	0	0	0	0	0	0	3,766
10.	Investment in dependent companies	5,727	0	0	0	0	2,000	0	0	3,252	0	0	0	10,979
11.	Investment property	0	0	134	0	0	0	0	0	0	0	0	0	134
12.	Property and equipment	7,909	13,414	3,591	2,032	1,484	1,356	1,724	3,308	1,547	11,346	1,514	960	50,185
13.	Intangible assets	191	2,768	2,051	939	259	166	217	862	143	220	212	14	8,042
14.	Current tax assets	0	10	0	0	1,254	0	0	0	0	0	0	0	1,264
15.	deferred tax assets	26	0	0	24	0	0	15	0	203	0	0	7	276
16.	Other financial receivables	458	2,021	417	601	1,055	2,371	616	1,082	2,592	375	272	9	11,869
17.	Other business receivables	4,682	1,104	2,286	936	12,617	1,299	16,135	3,758	33,479	1,272	12	61	77,642
18.	Total Assets	240,264	572,032	376,884	292,672	237,859	44,268	116,641	516,689	276,338	380,801	59,403	19,998	3,133,850

Table 17. Balance sheet of banks in Montenegro, as of 31.12.2014. - Assets

BALANCE SHEET, IN 000 EUR														2014
No	LIABILITIES	ATLAS	CKB	ERSTE	HIPOTEKARNA	HYPO	IBM	KOMERC	NLB	PRVA	SGBM	UNIVERSAL	LOVCEN	TOTAL
19.	Deposits from banks	13,346	186	162	597	0	950	33	1,805	1,520	0	0	430	19,029
20.	Deposits from customers	168,432	459,020	273,906	215,318	122,328	21,822	76,726	396,406	221,634	297,612	47,523	10,128	2,310,856
21.	Borrowed funds form banks	17,493	1,519	23,586	0	47,880	0	0	4,551	0	7,848	10	0	102,887
22.	Borrowed funds from other clients	9,838	2,344	13,157	29,674	16,493	6,147	6,432	24,361	1,605	25,139	4,647	3,989	143,827
23.	Financial liabilities held for trade	0	0	0	0	0	0	0	0	0	0	0	0	0
24.	Financial liabilities at fair value through profit and loss	0	0	0	0	0	0	0	0	0	0	0	0	0
25.	Derivative financial liabilities as hedging instruments	0	0	0	0	0	0	0	0	0	0	0	0	0
26.	Debt securities	0	0	15,025	0	0	0	4	0	0	0	0	0	15,029
27.	Provisions	278	4,123	1,780	711	1,420	2	439	1,445	309	2,003	5	2	12,517
28.	Current tax liability	29	0	621	253	0	0	122	6	0	603	0	0	1,634
29.	Deferred tax liabilities	0	352	244	29	0	7	98	65	0	118	0	0	913
30.	Other liabilities	740	12,846	2,606	4,519	2,696	200	368	4,185	9,650	2,343	133	316	40,603
31.	Subordinated liabilities	1,260	7,048	0	9,939	0	0	0	14,426	9,190	0	1,000	0	42,864
32.	Total Liabilities	211,416	487,438	331,087	261,041	190,817	29,129	84,222	447,250	243,909	335,665	53,318	14,865	2,690,157
	EQUITY													0
33.	Share capital	25,659	136,875	5,339	16,006	117,000	13,844	27,370	64,925	55,428	24,731	13,714	5,700	506,591
34.	Share premium	0	0	1,571	7,444	0	2	0	7,146	0	0	0	0	16,163
35.	Retained earnings	2,285	-87,692	29,474	0	-80,409	0	1,559	-52,453	-33,296	10,222	-7,904	9	-218,204
36.	Current year profit	172	3,094	5,968	2,454	-250	21	1,124	5,476	545	5,714	112	-577	23,855
37.	Other reserves	732	32,316	3,444	5,727	10,700	1,272	2,367	44,345	9,753	4,470	164	0	115,289
38.	Minority interest	0	0	0	0	0	0	0	0	0	0	0	0	0
39.	Total Equity: (33. to 38.)	28,848	84,595	45,796	31,631	47,042	15,140	32,420	69,439	32,429	45,136	6,085	5,133	443,694
40.	TOTAL LIABILITIES AND EQUITY: (32. + 39.)	240,264	572,032	376,884	292,672	237,859	44,268	116,641	516,689	276,338	380,801	59,403	19,998	3,133,850

Table 18. Balance sheet of banks in Montenegro, as of 31.12.2014. – Liabilities and Equity

BALANCE SHEET, IN 000 EUR													2013
		ATLAS	CKB	ERSTE	HIPOTEKA RNA	HYPO	IBM	KOMERC	NLB	PRVA	SGBM	UNIVERSA L	TOTAL
ASSETS													
1.	Cash and balances with banks and Central Bank	23,709	77,290	33,216	26,684	34,479	2,337	13,976	104,022	27,356	46,999	2,255	392,323
2.	Loans and advances to banks, net	62,067	137,227	24,996	51,692	8,043	323	7,330	44,009	5,851	9,296	3,480	354,312
3.	Loans and advances to customers, net	126,756	366,554	259,417	122,734	180,772	25,231	60,968	293,230	169,029	265,875	14,904	1,885,471
4.	Financial assets available for sale	0	0	0	0	10,356	0	0	0	10,617	1,193	3,942	26,108
5.	Financial assets held for trade	883	1,504	0	0	0	100	0	0	294	0	0	2,781
6.	Other assets at fair value through profit and loss	0	0	0	0	0	0	0	0	0	0	0	0
7.	Derivative financial assets as hedging instruments	0	0	0	0	0	0	0	0	0	0	0	0
8.	Financial assets:	5,436	17,647	24,843	18,562	2,083	1,039	11,135	61,891	6,462	10,778	400	160,276
8.a.	- available for sale	1,321	146	18,670	7,719	17	989	9,635	61,891	0	5,237	0	105,625
8.b.	- held to maturity	4,115	17,501	6,174	10,842	2,066	50	1,500	0	6,462	5,541	400	54,651
9.	Investment in consolidated companies and joint ventures at capital method	2,421	38	0	8	0	1,261	0	0	0	0	0	3,729
10.	Investment in dependent companies	5,727	0	0	0	0	2,000	0	0	3,252	0	0	10,979
11.	Investment property	0	0	0	0	0	0	0	0	0	0	0	0
12.	Property and equipment	7,909	13,564	4,424	1,810	1,652	1,417	1,857	3,828	2,021	12,142	667	51,291
13.	Intangible assets	191	3,075	2,299	885	199	207	160	968	37	305	135	8,462
14.	Current tax assets	0	198	0	0	0	0	0	0	0	0	0	198
15.	deferred tax assets	26	0	0	18	0	0	29	0	176	0	0	249
16.	Other financial receivables	458	1,793	461	509	712	2,444	424	1,449	542	456	176	9,424
17.	Other business receivables	4,682	0	1,264	1,175	675	1,279	12,303	2,761	25,652	1,161	476	51,428
18.	Total Assets	240,264	618,890	350,920	224,077	238,971	37,638	108,183	512,158	251,289	348,205	26,436	2,957,031

Table 19. Balance sheet of banks in Montenegro, as of 31.12.2013. - Assets

BALANCE SHEET, IN 000 EUR													2013
		ATLAS	CKB	ERSTE	HIPOTEKA RNA	HYPO	IBM	KOMERC	NLB	PRVA	SGBM	UNIVERSA L	TOTAL
	LIABILITIES												
19.	Deposits from banks	13,346	3,636	144	434	0	5,400	28	1,540	1,508	0	0	26,036
20.	Deposits from customers	168,432	498,321	219,781	163,207	108,217	11,336	64,435	381,624	203,652	256,542	16,671	2,092,219
21.	Borrowed funds form banks	17,493	2,473	62,627	20,357	76,360	5,438	8,950	34,183	0	47,383	2,864	278,129
22.	Borrowed funds from other clients	9,838	6,114	6,214	5,118	3,652	10	1,884	9,980	2,380	113	1,296	46,600
23.	Financial liabilities held for trade	0	0	0	0	0	0	0	0	0	0	0	0
24.	Financial liabilities at fair value through profit and loss	0	5	0	0	0	0	0	0	0	0	0	5
25.	Derivative financial liabilities as hedging instruments	0	0	0	0	0	0	0	0	0	0	0	0
26.	Debt securities	0	0	15,016	0	0	0	9	0	0	0	0	15,025
27.	Provisions	278	4,091	1,431	1,080	150	4	387	3,282	203	1,772	1	12,678
28.	Current tax liability	29	0	600	252	0	0	155	10	0	313	0	1,358
29.	Deferred tax liabilities	0	412	265	1	0	7	28	57	0	311	0	1,082
30.	Other liabilities	740	8,287	2,179	4,765	3,300	321	392	18,358	3,348	2,232	130	44,052
31.	Subordinated liabilities	1,260	14,056	3,030	0	0	0	0	14,262	9,188	0	1,000	42,796
32.	Total Liabilities	211,416	537,395	311,287	195,214	191,680	22,516	76,267	463,296	220,280	308,666	21,963	2,559,979
	EQUITY												0
33.	Share capital	25,659	136,875	5,339	16,006	117,000	13,844	27,370	49,925	55,428	24,731	12,214	484,391
34.	Share premium	0	0	1,571	7,444	0	2	0	7,146	0	0	0	16,162
35.	Retained earnings	2,285	-87,692	24,179	1,311	-77,046	114	1,392	-36,165	-34,172	7,433	-7,904	-206,265
36.	Current year profit	172	6,320	5,283	2,367	-3,362	51	1,355	-16,288	434	4,888	62	1,282
37.	Other reserves	732	25,991	3,261	1,735	10,700	1,111	1,799	44,244	9,319	2,487	101	101,481
38.	Minority interest	0	0	0	0	0	0	0	0	0	0	0	0
39.	Total Equity: (33. to 38.)	28,848	81,495	39,633	28,863	47,292	15,122	31,916	48,862	31,009	39,539	4,473	397,051
40.	TOTAL LIABILITES AND EQUITY: (32. + 39.)	240,264	618,890	350,920	224,077	238,971	37,638	108,183	512,158	251,289	348,205	26,436	2,957,030

Table 20. Balance sheet of banks in Montenegro, as of 31.12.2013. – Liabilities and Equity

Income statement, in 000 EUR														
No	Description	ATLAS	CKB	ERSTE	HIPOTEKA RNA	HYPO	IBM	KOMERC	LOVCEN	NLB	PRVA	SGBM	UNIVERSA L	2014
1.	Interest and similar income	11,706	30,811	26,899	14,383	13,329	2,304	6,171	493	23,970	15,971	25,337	1,698	173,072
2.	Interest and similar expense	5,690	8,272	7,489	5,318	5,789	943	1,851	128	11,115	7,115	7,870	332	61,912
3.	Net interest income (1- 2)	6,017	22,539	19,410	9,066	7,539	1,362	4,320	365	12,855	8,856	17,467	1,365	111,162
4.	Dividend income	0	47	2	52	0	8	0	0	2	0	2	0	112
5.	Impairment	323	8,729	4,745	1,574	-19	31	-321	0	1,275	517	3,290	152	20,297
6.	Provisions expenses	209	809	277	-379	1,269	1	103	0	-1,776	85	220	4	822
7.	Fee and commission income	6,571	17,084	5,152	7,173	2,482	287	1,727	150	8,656	4,137	6,931	1,104	61,454
8.	Fee and commission expense	2,796	6,045	2,165	2,707	1,195	244	631	74	5,022	2,171	3,064	368	26,482
9.	Net fee and commission income (7- 8)	3,775	11,039	2,987	4,466	1,287	43	1,097	77	3,634	1,966	3,867	736	34,973
10.	Net Gains/Losses of financial instrument held for trade	249	323	382	0	0	17		0	575	178	0	0	1,724
11.	instrument at fair value through profit and loss	0	0	0	0	0	0		0		0	0	0	0
12.	Net Gains/Losses on investment	25	0	688	197	51	3		0	3	0	3	0	970
13.	Change of fair value for hedge	0	0	0	0	0	0		0		0	0	0	0
14.	Net Losses / Gains on foreign exchange	245	755	-15	412	110	-18	76	4	-64	-41	275	162	1,902
15.	Personnel expenses	4,446	13,813	7,675	4,358	4,166	670	2,434	658	7,114	4,147	7,256	986	57,724
16.	General administrative expenses	4,609	7,146	4,722	5,142	3,649	503	1,832	297	4,430	5,075	3,635	830	41,871
17.	Depreciation expense	546	2,899	1,322	783	435	165	301	32	989	742	1,077	182	9,473
18.	Other expense	205	743	190	329	152	83	20	32	156	518	416	3	2,848
19.	Other income	158	2,470	1,996	344	416	63	142	0	669	649	580	6	7,494
20.	EBIT (3+4-5-6+9+10+11+12+13+14-15-16-17-18+19)	131	3,034	6,519	2,730	-250	24	1,264	-573	5,487	523	6,300	112	25,301
21.	Income tax	-77	-61	551	275	0	3	140	3	11	-22	586	0	1,410
22.	Net Profit/Loss (20 - 21)	207	3,094	5,968	2,454	-250	21	1,124	-577	5,476	545	5,714	112	23,890

Table 21. Income statement of banks in Montenegro for period 1.1.-.31.12.2014.

Income statement, in 000 EUR													
No	Description	ATLAS	CKB	ERSTE	HIPOTEKAR NA	HYPO	IBM	KOMERC	NLB	PRVA	SGBM	UNIVERSAL	2013
1.	Interest and similar income	11,142	36,606	26,503	12,854	14,178	2,203	6,245	30,223	14,255	23,237	1,698	179,144
2.	Interest and similar expense	5,582	15,359	9,353	4,632	6,537	901	1,573	14,402	7,881	8,283	224	74,728
3.	Net interest income (1- 2)	5,560	21,247	17,151	8,222	7,641	1,303	4,672	15,821	6,373	14,953	1,473	104,416
4.	Dividend income	0	8	1	59	0	10	0	24	422	59	0	584
5.	Impairment	-441	7,511	3,156	1,041	5,623	-74	185	22,363	1,173	4,109	-164	44,481
6.	Provisions expenses	59	-1,283	-75	206	12	2	-58	1,313	-300	399	0	277
7.	Fee and commission income	4,833	17,825	5,020	5,251	2,573	282	1,660	8,372	4,111	6,605	460	56,992
8.	Fee and commission expense	1,850	6,468	1,614	1,581	1,153	191	491	4,985	2,100	2,536	181	23,149
9.	Net fee and commission income (7- 8)	2,984	11,357	3,406	3,670	1,420	91	1,169	3,387	2,010	4,069	279	33,843
10.	Net Gains/Losses of financial instrument held for trade	-161	0	126	0	0	9	0	592	0	0	0	566
11.	Net Gains/Losses of financial instrument at fair value through profit and loss	0	0	0	0	0	0	0	0	0	0	0	0
12.	Net Gains/Losses on investment securities	0	-27	0	497	83	-100	0	66	76	0	0	596
13.	Change of fair value for hedge accounting	0	0	0	0	0	0	0	-10	0	0	0	-10
14.	Net Losses / Gains on foreign exchange	-77	766	240	379	71	12	23	5	130	103	10	1,661
15.	Personnel expenses	4,080	12,988	7,838	4,137	4,578	609	2,385	7,286	4,531	6,941	1,219	56,591
16.	General administrative expenses	4,179	6,933	4,518	4,295	4,105	477	1,721	4,373	4,903	3,280	715	39,499
17.	Depreciation expense	780	2,712	1,161	723	470	184	287	1,153	908	1,092	172	9,641
18.	Other expense	150	898	362	126	280	121	20	148	709	197	131	3,142
19.	Other income	610	2,727	1,996	313	2,409	47	205	460	3,363	2,245	371	14,746
20.	EBIT (3+4-5-6+9+10+11+12+13+14-15-16-17)	108	6,320	5,960	2,612	-3,444	51	1,531	-16,291	451	5,411	62	2,771
21.	Income tax	-64	0	677	245	82	0	176	-3	17	523	0	1,653
22.	Net Profit/Loss (20 - 21)	172	6,320	5,283	2,367	-3,362	51	1,355	-16,288	434	4,888	62	1,282

Table 22. Income statement of banks in Montenegro for period 1.1.-.31.12.2013.