ANALYSIS OF THE INDICATORS OF THE BANKING SYSTEM OF MONTENEGRO

System-level indicators, referring to 13 licenced banks, point to a very stable performance, which, inter alia, is characterized by:

- Solvency ratio of 17.29% as at 31 December 2018 being significantly above the minimum prescribed level of 10%;

- Level of non-performing loans of 5.04% as at 28 February 2019 with past due loans over 90 days of 2.91%, which is an indicator that can be compared to the level prior to the financial crisis.

I BALANCE POSITIONS IN THE BANKING SYSTEM OF MONTENEGRO RECORD UPTREND

Based of the latest available system level data (28 February 2019 to 28 February 2018), the key balance sheet items recorded annual growth, as follows: assets 7.01%, loans 12.00%, deposits 7.64% and capital 7.37%. Also, compared to end-2016, key balance sheet positions recorded significant growth, specifically: assets 16.72%, loans 24.62%, deposits 21.29% and capital 9.31%. These data refer to all banks that were licensed on the specified dates, i.e. only data on 28 February 2019 does not include data on IBM Bank which licence was revoked in January 2019.

Table 1 - Key balance positions (in thousands)

Key balance sheet positions(000)	28.02.2019.	31.12.2018.	28.02.2018.	31.12.2016.	feb 19/dec 18 (%)	feb 19/feb 18 (%)	feb 19/dec 16 (%)
Assets	4,424,097	4,406,813	4,134,304	3,790,255	0.39	7.01	16.72
Loans	3,010,586	2,929,239	2,687,944	2,415,822	2.78	12.00	24.62
Deposits	3,482,915	3,459,220	3,235,800	2,871,677	0.68	7.64	21.29
Capital	530,917	513,016	494,477	485,715	3.49	7.37	9.31
Net result	10,241	24,807	9,971	5,848	-	2.71	-

II NON-PERFORMING LOANS ARE ON A CONSTANT DECLINE

The share of non-performing loans in total loans amounted to 6.11% at end-February 2019 while in the same period last year their share amounted to 7.35%. The share of non-performing loans in total loans was 10.29% at end-2016. Past due loans also recorded a decrease in the observed period.

Table 2 - Indicators of asset quality and capital adequacy

Indicators (%)	31.12.2016.	28.02.2018.	31.12.2018.	28.02.2019.
Solvency ratio	16.01	-	15.63	-
NPL	10.29	7.35	6.72	6.11
Past due loans over 30 days	11.22	6.75	6.24	6.87
Past due loans over 90 days	8.42	4.58	4.64	4.08

The statistics on non-performing loans at the system level are even more positive if the data for Atlas Bank and IBM Bank are excluded, while past due loans over 90 days at end-February 2019 amouned to 2.91%, which is the level from the period prior to the financial crisis.

Table 3 - Comparison of system data including and excluding Atlas Bank and IBM Bank

Indicators (%)	Actual data		Data without Atlas Bank and IBM	
	31.12.2018.	28.02.2019.	31.12.2018.	28.02.2019.
Solvency ratio	15.63	-	17.29	-
NPL	6.72	6.11	5.24	5.04
Past due loans over 30 days	6.24	6.87	4.58	5.59
Past due loans over 90 days	4.64	4.08	3.10	2.91

III INTEREST RATES TRENDING DOWNWARDS

As at 28 February 2019, the average weighted nominal and effective interest rate on the total loans reported by the banks to the Credit Registry amounted to 5.66% and 6.26%, respectively. At end-2016, the average weighted effective interest rate on total loans amounted to 7.45%, which means it recorded a decline of 1.19 percentage points in the observed period. In February 2019, the deposit weighted average effective interest rate was 0.52%, recording a decline of 0.02 percentage points compared to the previous month, while it fell by 0.13 percentage points compared to February 2018.

*Graph 1: Average effective lending interest rates*
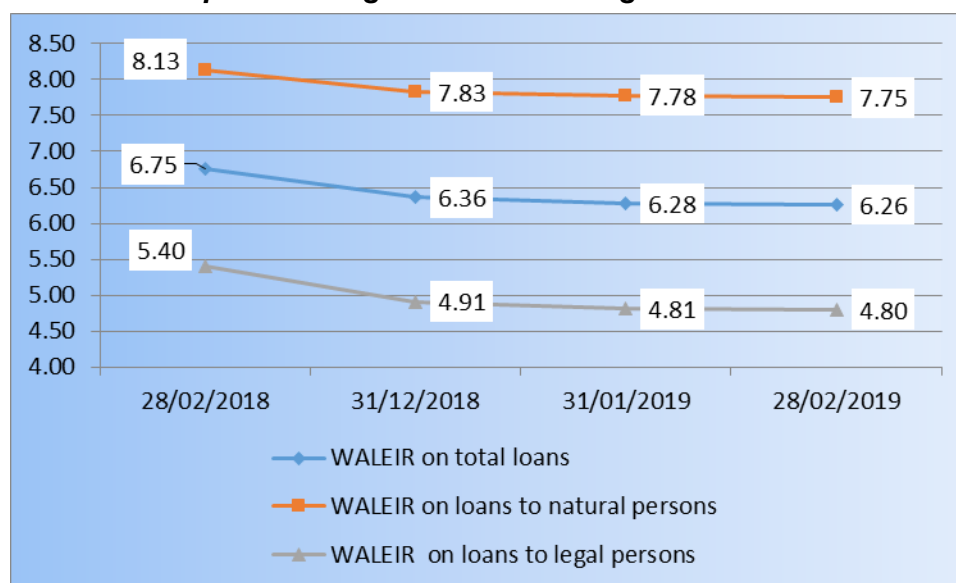
All of these data indicate positive trends in the previous period, characterized by the continuous growth of all significant balance positions (total loans, deposits, capital, financial result). In addition, the strong decline in non-performing loans, accompanied by a continuous downtrend in the average weighted lending interest rates, indicates improvement of the business environment.

IV DEPOSITS RECORD A CONSTANT UPTREND

The moving averages of the monthly trend of deposits as the most evident indicator of the deposits trend (red line) for 13 banks, indicate an uptrend without any systemic fluctuations.

Graph 2: Trend of deposits in the banking system and moving averages 2015-2019
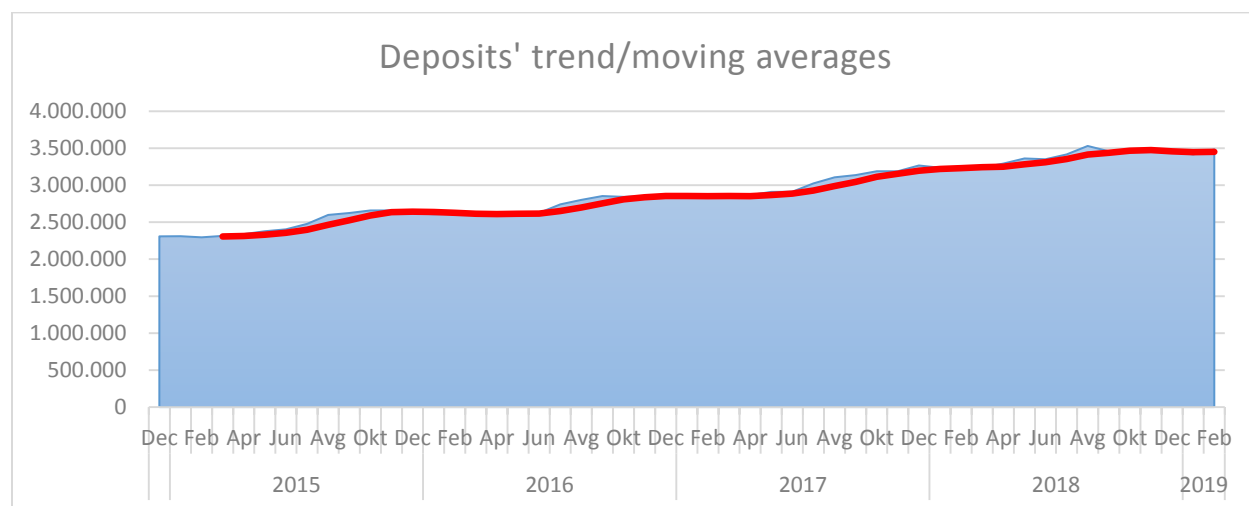
Data relating to the level of total deposits and liquid assets, due to the nature of their volatility, especially when comparing the monthly levels, if seasonal and cyclical effects are not taken into account, are subject to misinterpretation. It is particularly unreasonable to compare incomparable data that contain different number of banks in the system.

The level of seasonal effect, which is particularly characteristic for January, can best be seen in the table showing the seasonal effect of consumption, over the years.

Table 4 - Seasonal effect of January on deposits in the period 2015-2019

	Retail	Non-financial sector	Financial sector	Government	Residents total	Non-residents	Total
I 2016 / XII 2015	-1.1	-0.8	-19.2	-3.8	-1.5	2.8	-0.7
I 2017 / XII 2016	-0.3	-2.5	-9.4	4.5	-1.2	1.2	-0.7
I 2018 / XII 2017	-0.3	-1.8	19.7	-0.4	-0.8	-1.7	-1
I 2019 / XII 2018	-3.2	-1.7	5.8	-6.7	-2.7	4.4	**-1.2**
I 2019 / XII 2018 excluding IBM Bank for data comparability	-2.3	-1.6	8.6	-6.6	-2.2	8.1	**-0.1**

Below is a presentation of the levels, trends and structure of deposits on comparable dates, excluding data for Atlas Bank and IBM Bank.

Observing the development from 30 November 2018, i.e. the latest reporting period prior to the introduction of interim administration in IBM Bank and Atlas Bank, up to 28 February 2019, the uptrend of the deposits from the previous period is evident, despite their seasonal decline at the end-January 2019. Specifically, January in our country is known by increased consumption,

similar to December in the EU or USA. The fact that the January decline in total deposits was a result of seasonal fluctuations rather than distorted trust in the banking system is also shown by the fact that the total deposits at the system level of 15 banks fell in January 2018 compared to the level of total deposits at end-2017 (from EUR 3,279,085 as at 31 December 2017 to EUR 3,248,169 as at 31 January 2018), after which the total deposits continued uptrending long-term.

Based on the data presented, total deposits with 13 banks at end-February 2019 were 2.75% higher compared to end-November 2018, i.e. 2.22% higher compared to total deposits at end-January 2019.

Date	30 Nov 2018	21 Dec 2018	31 Jan 2019	28 Feb 2019	30 Nov 2018/28 Feb 2019	31 Jan/28 Feb 2019
Total Deposits	3.201.752	3.257.289	3.218.347	3.289.896	2.75%	2.22%

When it comes to the structure of deposits, in terms of the distribution of deposit holders to resident and non-resident legal entities and natural persons, from 30 November 2018 to 28 February 2019, the trend is the following:

	30 Nov 2018	28 Feb 2019	28 Feb/30 Nov	%
Legal entities - Residents	1,311,807	1,318,003	6,196	0.47
Legal entities – Non-residents	182,550	266,736	84,186	46.12
Legal entities - Total	**1,494,357**	**1,584,739**	**90,382**	**6.05**
Natural persons – Residents-Retail	1,219,085	1,192,590	-26,495	-2.17
Natural persons - Non-residents	488,310	512,567	24,257	4.97
Natural Persons - Total	**1,707,395**	**1,705,157**	**-2,238**	**-0.13**
Total deposits	**3,201,752**	**3,289,896**	**88,144**	**2.75**

Therefore, in the observed period, there was an uptrend in both categories of non-resident legal entities and resident legal entities, while the decrease in total deposits of resident natural persons was recorded.

The fact that both categories of non-resident deposits are increasing points to a high degree of trust in the banking and financial system, as well as the business system in Montenegro among non-residents, preparing in this way to continue the trend of investing in Montenegro.

V BANKING SYSTEM IN MONTENEGRO IS HIGHLY LIQUID

Regarding the level and structure of liquid assets, it is necessary to point out to the trends that were present in the period from the introduction of the interim administration in IBM Bank and Atlas Bank, i.e. bankruptcy in IBM Bank. Liquid assets in the system, excluding Atlas Bank and IBM Bank, recorded growth if observing 28 March 2019 and the mentioned dates. In accordance with the above, liquid assets with 13 banks in the system on 28 March 2019, which is the latest available data, it is higher by 19,575 thousand euros, or 2.13% compared to the day the interim administration was introduced in IBM Bank and Atlas Bank. Also, liquid assets on 28

March 2019 is higher by 10.267 thousand euros or 1.11% when compared to the day the bankruptcy proceedings were initiated in IBM Bank.

Date	7 Dec 2018	4 Jan 2019	28 Mar 2019	28 Mar 2019/7 Dec 2018	28 Mar/4 Jan 2019
Liquid Assets	916.579	925.887	936.154	2.13%	1.11%

Very strict definition by the Central Bank of Montenegro should be mentioned, according to which liquid assets consist of cash, giro account funds, demand deposits with banks and half amount of the reserve requirement. Bearing in mind the quality of the mentioned categories of liquid assets, i.e. their availability for payment purposes and maintaining an adequate liquid position, there is no analytical sense to follow the trends of certain categories of liquid assets, that is, cash, giro account funds and demand deposits with banks, from the point of view of their impact on the liquid position.