

HIPOTEKARNA BANKA A.D., PODGORICA

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 2015**

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Building a better
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*This is English translation of the Report
originally issued in Montenegrin language
(For management purposes only)*

INDEPENDENT AUDITOR'S REPORT

TO THE OWNERS OF HIPOTEKARNA BANKA A.D., PODGORICA

We have audited the accompanying financial statements of Hipotekarna banka A.D., Podgorica (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing and the regulations of the Central Bank of Montenegro governing financial reporting of banks, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing and the regulations of the Central Bank of Montenegro governing financial reporting of banks.

Podgorica, 31 May 2016

Ernst & Young Montenegro d.o.o.
Podgorica, Crna Gora

Stephen Fish
Partner



Danijela Jović
Authorized auditor

INCOME STATEMENT for the year ended Decembar 31, 2015
(Thousands of EUR)

	Note	2015	2014
Interest income	5a	17,337	14,383
Interest expense	5b	(5,647)	(5,318)
Net interest income		11,690	9,065
Dividend income		36	52
Impairment losses	6a	(3,272)	(1,574)
Provision charges	6b	(557)	379
Fee and commission income	7a	9,237	7,173
Fee and commission expense	7b	(3,730)	(2,707)
Net fee and commission income		5,507	4,466
Net gains on investment securities		172	197
Foreign exchange gains, net		630	412
Staff costs	8	(4,601)	(4,358)
General and administrative expenses	9	(6,068)	(5,142)
Depreciation/amortization charge	10	(811)	(783)
Other expenses	11	(120)	(329)
Other income	12	420	344
OPERATING PROFIT		3,026	2,729
Income taxes	13	(297)	(275)
PROFIT FOR THE YEAR		2,729	2,454
Earnings per share / EUR	34	87,17	78,39

Notes form an integral part of these financial statements

These financial statements were approved by the management of Hipotekarna banka A.D., Podgorica, in Podgorica, on May 26, 2016.

Approved by and signed on behalf of Hipotekarna banka A.D., Podgorica by:



Esad Zaimović
Chief Executive Officer



Aleksandar Mitrović
Executive Director for Business Support

STATEMENT OF OTHER COMPREHENSIVE INCOME for the year ended December 31, 2015
(Thousands of EUR)

	Note	2015	2014
Net profit		2,729	2,454
Total other result			
Unrealized net gains on financial assets available for sale, before tax		45	315
Actuarial gains on long-term benefits to employees		-	-
Taxes on income for the total other result		-	-
Total other result for current year		45	315
TOTAL OTHER RESULT		2,774	2,769

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Aleksandar Mitrović
Executive Director for Business Support

STATEMENT OF FINANCIAL POSITION as of December 31, 2015
(Thousands of EUR)

	Note	December 31, 2015	December 31, 2014
ASSETS			
Cash and deposit accounts held with central banks	14	124,783	67,725
Loans and receivables due from banks	15	22,710	46,203
Loans and receivables due from customers	16	188,289	145,977
Investment securities			
- available for sale	17a	66,035	26,560
- held to maturity	17b	3,719	1,666
Investments in associates and joint ventures at equity method		8	8
Property, plant and equipment	18	1,880	2,032
Intangible assets	19	1,079	939
Deferred tax assets	13c	25	24
Other financial receivables	20	780	601
Other operating receivables	21	1,167	937
TOTAL ASSETS		410,475	292,672
LIABILITIES			
Deposits due to banks	22	692	597
Deposits due to customers	23	317,533	215,318
Borrowings from other customers	24	41,142	29,674
Provisions	25	1,294	711
Current tax liabilities		294	253
Deferred tax liabilities	13c	33	29
Other liabilities	26	5,130	4,520
Subordinated debt	27	9,952	9,939
TOTAL LIABILITIES		376,070	261,041
EQUITY			
Share capital	28	16,006	16,006
Share issue premium		7,444	7,444
Retained earnings		2,729	2,454
Other reserves		8,226	5,727
TOTAL EQUITY		34,405	31,631
TOTAL EQUITY AND LIABILITIES		410,475	292,672
OFF-BALANCE SHEET ITEMS	30	550,355	537,148

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This version of the financial statements and the accompanying notes is translation of the original which were published in Montenegrin language. All possible care has been taken to ensure that the translation is accurate representation of the original. However, in all the matters of interpretation of information, views and opinions, the original language version of the documents takes precedence over this translation

STATEMENT OF CHANGES IN EQUITY for the year ended December 31, 2015
(Thousands of EUR)

	Share Capital	Share Issue Premium	Retained earnings	Other Reserves	Total
Balance at January 1, 2014	16,006	7,444	3,678	1,734	28,862
Effects of fair value adjustment of available-for sale securities	-	-	-	315	315
Transfer of profit	-	-	(3,678)	3,678	-
Profit for the year	-	-	2,454	-	2,454
Balance at December 31, 2014	16,006	7,444	2,454	5,727	31,631
Effects of fair value adjustment of available-for sale securities	-	-	-	45	45
Transfer of profit	-	-	(2,454)	2,454	-
Profit for the year	-	-	2,729	-	2,729
Balance at December 31, 2015	16,006	7,444	2,729	8,226	34,405

Notes form an integral part of these financial statements

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Aleksandar Mitrović
Executive Director for Business Support

STATEMENT OF CASH FLOWS for the year ended December 31, 2015
(Thousands of EUR)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts and similar income	17,173	14,295
Interest paid and similar expenses	(5,133)	(4,621)
Fee and commission receipts	9,237	7,173
Fees and commissions paid	(3,730)	(2,707)
Payments to and on behalf of employees and to suppliers	(13,158)	(11,367)
Increases in loans and other assets	(42,730)	(23,214)
Inflows from deposits and other liabilities	102,233	51,722
Income taxes paid	(921)	(664)
Other inflows (Note 31)	(34,417)	(20,076)
Net cash inflow from operating activities	<u>28,554</u>	<u>10,541</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(522)	(931)
Purchase of intangible assets	(345)	(263)
Treasury bills	(3,117)	9,212
Sales of tangible and non-current assets	40	-
Net cash (outflow)/inflow from investing activities	<u>(3,944)</u>	<u>8,018</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in borrowings	11,619	14,175
Net cash inflow from financing activities	<u>11,619</u>	<u>14,175</u>
Effect of foreign exchange differences on cash and cash equivalents	630	412
Net increase in cash and cash equivalents	36,859	33,146
Cash and cash equivalents at the beginning of the year	<u>112,107</u>	<u>78,961</u>
Cash and cash equivalents at the end of the year (Note 31)	<u>148,966</u>	<u>112,107</u>

Notes form an integral part of these financial statements

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

1. BANK'S FOUNDATION AND ACTIVITY

Hipotekarna banka AD, Podgorica (hereinafter: the "Bank") was registered in 1995 as a shareholding company with the Central Registry of the Commercial Court under reg. number 4-0004632. The Bank is included in the Register of Security Issuers maintained by the Securities Commission under the number 3 (Decision no. 02/3-1/2-01). On December 18, 2002, the Central Bank of Montenegro issued a Decision no. 0101-75/1-2002 thereby granting the Bank an operating license.

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

- issue guarantees and undertake other off-balance commitments;
- purchase, sell and collect receivables (factoring, forfeiting, etc.);
- issue, process and record payment instruments;
- perform payment transactions in the country and abroad in accordance with the regulations governing payment transfer;
- perform finance lease operations;
- engage in operations involving securities in accordance with the relevant regulations;
- trade in its own name for its own account or for the account of a customer:
 - with foreign payment instruments including exchange operations and
 - with financial derivatives;
- perform depositary operations;
- prepare analyses and provide information and advice on the company and entrepreneur creditworthiness and other business matters;
- rent safety deposit boxes;
- perform other ancillary operations and activities related to the Bank's core operations in accordance with the Statute;
- the Bank may perform other operations in accordance with the law upon obtaining prior approval from the Central Bank of Montenegro.

The Bank's governing bodies are: Shareholder Assembly and Board of Directors. The Board of Directors has two standing committees – Audit committee and Credit risk Management Committee. Members of the Board of directors are appointed by the Shareholder Assembly. The Board of Directors has 7 (seven) members, most of whom are not employees of the Bank.

The Bank is headquartered in Podgorica, at no. 67, Josipa Broza Tita Street. As at December 31 2015, the Bank had 176 employees (December 31, 2014: 182 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis for Preparation and Presentation of the Financial Statements

The Bank is obligated to maintain its accounting records and prepare its statutory financial statements in conformity with the Law on Accounting and Auditing of Montenegro (Official Gazette of Montenegro no. 69/05, no. 80/08 and no. 31/11), with Decision on direct implementation of International Accounting Standards (IAS) in Montenegro (Official Gazette of Montenegro no. 69/2002) and regulations of the Central Bank of Montenegro governing financial reporting of banks.

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

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

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

2.1. Basis for Preparation and Presentation of the Financial Statements (Continued)

The last official translation of International Accounting Standards and International Financial Reporting Standards has been published on December 31, 2009. The translation includes only the base text of the standards and interpretations and does not include basis for conclusion, illustrative examples, instructions for application, comments, opinions and other explanatory material. Also, the above mentioned translation does not include the translation of the Regulatory Framework for the Preparation and Presentation of Financial Statements.

The Bank's financial statements have been prepared in accordance with the Decision on Chart of Accounts for Banks, Microcredit Financial Institutions and Credit Unions adopted by the Central Bank of Montenegro on October 23, 2012. Therefore, all banks and micro-credit institutions are obligated to prepare financial statements in accordance with this Decision since January 1, 2013. Also, the Decision of the Council of the Central Bank of Montenegro (Official Gazette of Montenegro no. 15/12, 18/13) prescribes the content of financial statements of banks as well as the method of preparation and deadlines for submission of financial statements.

In addition to the presentation of financial statements, for the preparation of these financial statements, the Bank has adopted policies that are in line with regulations of the Central Bank of Montenegro in recording of receivables for which there are acquired conditions for exclusion from the balance sheet, which differ from the requirements of IFRS and IAS applicable on the day December 31, 2015.

Due to the effects of differences in accounting rules in Montenegro from IAS and IFRS which may have on the presentation of financial statements of the Bank, the accompanying financial statements in this section are different and differ from IFRS and IAS and cannot be treated as financial statements prepared in accordance with IFRS and IAS.

The financial statements have been prepared in accordance with the historical cost basis, unless otherwise is stated in the accounting policies.

For preparation of these financial statements Bank applied the accounting policies described in Note 3.

The financial statements are presented in thousands of euros (EUR), which is the functional currency of the Bank and the official currency in which financial statements are submitted in Montenegro. Unless otherwise indicated, all amounts are stated in thousands of EUR.

2.2. Use of Estimates

Presentation of the financial statements requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the reported amounts of assets and liabilities, as well as disclosures of contingent assets and liabilities as at the financial statements preparation date, and income and expenses arising during the accounting period. These estimates and assumptions are based on information available at the date of the financial statements and mostly refer to the assessment of impairment of loans and interest, impairment of deposits with other banks, impairment of permanent investments and off-balance sheet items. The real value of assets and liabilities may differ from the value of which is estimated in this way.

The most significant estimates and assumptions were made in the following balance sheet positions:

2.2.1 Impairment of financial assets

The Bank reviews its credit portfolio to assess the amount of impairment of assets at least quarterly. While determining if the expense arising from the impairment of the assets in the loan portfolio is to be recorded, the Bank assesses if there are indicators which would suggest that the expected future cash flows arising from the loan portfolio are measurably reduced, before the reduction can be identified in the

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

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

2.2.1 Impairment of financial assets (Continued)

individual loan in the loan portfolio. This evidence may include any indicators of the existence of a negative change in the creditworthiness of the debtor, and local economic conditions which are in correlation with the default of the debt. The Management of the Bank uses estimates based on historical losses for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when planning its future cash flows. Methodology and assumptions used in the assessment of the amount and timing of future cash flows are revised regularly as to eliminate any differences between assessed and actual losses.

2.2.2 Impairment of securities available for sale

In the case of available for sale financial instruments, at the reporting date, the Bank assesses if there is objective evidence that the assets are impaired based on the same criteria used for assets measured at amortized cost.

If there is evidence of impairment of available for sale debt securities, the cumulative loss, measured as the difference between the amortized cost and the fair value reduced for losses due to impairment previously recognized in the profit and loss statement, is transferred from the equity to the profit and loss statement. The eventual increase in value after the impairment is recognized through profit and loss statement. When subsequent events suggest that the amount of the impairment is reduced, loss previously recognized is reversed through the profit and loss statement.

In the case of available for sale investments in equity instruments, objective evidence is considered a "material" or "prolonged" fall in the fair value of the equity instrument below its cost value. In that case, cumulative loss is determined as the difference between the cost value and fair value of the instrument, and the loss is transferred from equity to the profit and loss statement. When subsequent events suggest that the amount of the impairment is reduced, the amount of previously recognized impairment is reversed and recognized in equity.

2.2.3 Fair value of financial instruments

For the purpose of determining the fair value of assets and liabilities for which there are no observable market prices, different valuation techniques are used. For financial instruments which are not traded frequently and which have a low price transparency, fair value is less objective and requires a certain degrees of variation in the assessment which depend on liquidity, concentration, uncertainty of market factors, price assumptions and other risks that influence the financial instrument.

2.2.4 Long term employee provision

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

2.2.5 Useful life of intangible assets and PP&E

The Bank reviews the assumed useful lives of intangible assets and PP&E in every reporting period.

2.2.6 Litigations

The Management of the Bank assesses the amount of provision for the outflow of economic resources relating to litigations based on the estimate of legal representatives of the Bank, the probability that the outflow will actually occur based on constructed or legal obligations from previous periods.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

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

2.3. Going concern

The financial statements have been prepared in accordance with the going concern concept, which assumes that the Bank will continue to operate over an unlimited period of time in the foreseeable future.

2.4 Consolidation

The Bank has no control over any entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest, Fee and Commission Income and Expense Recognition

Interest income and interest expense are recognized in the income statement for all instruments at amortized cost using the effective interest rate method.

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

Income from fees and commissions for other banking services (payment transactions, custody services, card transactions) are generally recognized on accrual basis in the period when the services are performed. Fees for unused loan facilities are deferred (together with related expenses) and recognized as loan effective interest rate adjustments.

3.2. Operating lease expense

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

3.3. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into EUR at the middle exchange rate determined at the Interbank Foreign Exchange Market, at each transaction date. Assets and liabilities denominated in foreign currencies are translated into EUR by applying the official middle exchange rate determined at the Interbank Foreign Exchange Market at the statement of financial position date.

Net foreign exchange gains or losses arising from the business transactions in foreign currency and the translation of items of statement of financial position denominated in foreign currencies are credited or charged to the Income statement as foreign exchange gains or losses. Commitments and contingent liabilities denominated in foreign currencies are translated into EUR by applying the official exchange rates prevailing on the Interbank Foreign Exchange Market, at the statement of financial position date.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Taxes and Contributions

Income Taxes

Current Income Tax

Income taxes are calculated and paid under Article 28 of the Corporate Income Tax Law (Official Gazette of Montenegro, no. 65/01, 12/02, 80/04, 40/08, 86/09, 73/10, 40/11, 14/12 and 61/13) at the proportional income tax rate of 9% applied to the taxable income.

Taxable income is determined based on the profit stated in the Bank's statutory income statement after the adjustments of income and expenses performed in accordance with Corporate Income Tax Law (Articles 8 and 9, regarding the adjustment of income and Articles 10 to 20 pertaining to the adjustment of expenses) and Central Bank of Montenegro's Decision on Chart of Accounts for Banks (Official Gazette of Montenegro, no. 55/12).

Capital losses may be offset against capital gains earned in the same year. In case there are outstanding capital losses even after the offsetting of capital losses against capital gains earned in the same year, the tax payer can carry forward and utilize these outstanding losses against capital gains during the following five years.

Montenegro tax regulations do not envisage that any tax losses of the current period can be used to recover taxes paid within a specific carryback period. However, any current year losses reported in the annual corporate income tax returns may be carried forward and used to reduce or eliminate taxes to be paid in future accounting periods, but only for duration of no longer than five years.

Deferred Income Taxes

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

Indirect Taxes, Contributions and Other Duties Payable

Indirect taxes, contributions and other duties payable include property and other taxes, fees and contributions that are being paid pursuant to various republic and municipal tax regulations.

3.5. Financial assets

3.5.1. Classification

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and financial assets held to maturity. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Financial assets (Continued)

3.5.1. Classification (Continued)

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term or if there is evidence of an actual pattern of short-term profit-taking or if it is decided by the Management.

Derivatives are always categorized as held for trading unless they are designated as hedging instruments.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank borrow funds to the clients or services, without intention to trade with such receivables.

(c) Available-for-sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as one of the remaining three categories of financial assets – held to maturity financial assets, financial assets at fair value through profit and loss or loans. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These financial instruments include equity investments and debt securities.

(d) Held to maturity financial assets

Held to maturity financial assets are financial instruments with fixed or determinable payment deadlines, that the Bank has the positive intention and the ability to hold them to maturity.

3.5.2 Measurement and Recognition

Financial assets are initially recognized at fair value plus, for an item not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition.

Financial assets or liabilities at fair value through profit or loss are initially recognized at fair value. Transaction costs are recognized as expenses in the Profit and loss statement.

Financial assets or liabilities at fair value through profit or loss and financial assets available for sale are subsequently measured at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit and loss in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized as revaluation reserves, until the financial asset is derecognized or impaired, when the cumulative gain or loss previously recognized in other comprehensive income is recognized in the profit and loss.

Loans and receivables are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost, using effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any issuance costs and any discount or premium on settlement. The losses arising from impairment are recognized in the income statement.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Financial assets (Continued)

3.5.2 Measurement and Recognition (Continued)

Financial assets available for sale are subsequently measured at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in revaluation reserves which are a part of equity. If the investment is ceded or transferred, cumulative gain or loss previously recognized as revaluation reserves is recognized in the profit and loss. Interest earned during the period in which the entity held the investment is recognized as interest revenue using the effective interest rate method. Dividends earned in the period in which the entity held the investment are recognized in the profit and loss statement in the period in which it obtained the right for dividend payments. Losses arising from the impairment of these assets are recognized in the statement of profit and loss and derecognized from the revaluation reserves.

Held to maturity financial assets are non-derivative financial instruments with fixed or determinable payments that the Bank has the positive intention and the ability to hold them to maturity. Held to maturity investments are subsequently measured at amortized cost using the effective interest rate method, minus any reduction for impairment. Amortized cost is calculated by taking into account any premiums or discounts and fees which form an integral part of the effective interest rate. Amortization is included in the interest revenue. Losses arising from the impairment of these assets are recognized in the profit and loss statement.

3.5.3 Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from financial asset expire, or when the Bank transfer all the risks and rewards of ownership of the financial asset.

Financial liabilities are derecognized when the obligation is discharged, cancelled or expires. Carrying value of financial liabilities derecognized based on debt to equity swap, is extinguished with equivalent value of share capital issued based on market value per share recorded in the Montenegrin stock exchange for the Bank.

If the requirements for excluding of receivables from balance sheet are fulfilled, the Bank is obliged to write off that receivable and keep it in the internal records in the amount of debt, until the end of the repayment process.

3.6 Cash and Cash Equivalent

For purposes of the cash flow statement, cash and cash equivalents include cash on hand, balances on the current account held with the Central Bank of Montenegro, including the obligatory reserve, and balances held on the accounts with other banks in the country and abroad.

3.7. Provisions and Impairment Allowance of Irrecoverable Receivables

The calculation of impairment (for balance sheet asset item), or assessment of the probable loss (for off-balance sheet items)

In accordance with the Central Bank of Montenegro Decision on the Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro no. 22/12, 55/12 and 57/13), the Bank measures items of balance sheet assets and off-balance sheet items in accordance with IAS 39.

Pursuant to the internal policy, the Bank forms provisions for loans, credit cards, approved current account overdraft facilities, guarantee protests, commissions per retail customer accounts and balance sheet assets of the Bank exposed to credit risk as well as off-balance sheet exposures that may be exposed to credit risk.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Provisions and Impairment Allowance of Irrecoverable Receivables (Continued)

The Bank reviews receivables and other investments in order to determine impairment allowance on a quarterly basis. In determining whether the impairment losses on receivables and investments should be recognized in the income statement, the Bank assesses whether there is information and evidence indicative of the existence of a measurable decrease in the estimated future cash flows on a portfolio level before such losses can be identified at an individual level. Information indicating impairment losses include: irregularity and default in liability settlement, local market and economic conditions which cause delays in payment etc. Management's estimates of impairment of receivables and other investments using the estimated future cash flows are based on actual historical losses incurred on financial assets with similar risk exposure and similar impairment causes. The methodology and assumptions underlying the process of defining the amounts and periods of cash inflows from investments are reviewed on an ongoing basis in order to minimize the difference between the estimated and actual losses.

Impairment assessment is performed on an individual level and on a group level.

Individual Impairment Assessment

Impairment assessment is performed on an individual level for each materially significant loan thereby taking into consideration the borrower's financial position, sustainability of the borrower's business plan, borrower's ability to improve performance in instances of financial difficulties, projected revenues, availability of other types of financial support, value of collaterals that may be foreclosed and expected cash flows. If new information becomes available that significantly alter the creditworthiness of the borrower, collateral value and certainty of liability settlement, ad hoc impairment assessment of such loans is performed.

Materially significant receivables are considered to be total gross exposures of the Bank toward a single entity or a group of related entities equal to or exceeding EUR 30,000.

All borrowers/loans meeting the following three criteria are subject to individual assessment for impairment:

1. total gross exposure of the Bank toward a single entity or a group of related entities is equal to or exceeds EUR 30.000;
2. default of over 90 days;
3. receivables matured exceed EUR 20 and EUR 200 for retail and corporate customers, respectively.

The amount of the individual impairment loss of the outstanding unsettled exposure is equal to the gross (balance sheet) exposure less expected future cash flows discounted using the original contractual effective interest rate. Estimated cash flows can be related to cash flows from operating activities of the client, if any, and the cash flows that are expected to arise from the realization of the mortgage over a period of 5 years, with the haircut application on value of the collateral.

Materially significant exposures may be subject to individual assessment in the case where the delay is less than 90 days, in the event that the Management of the Bank believes that there is objective evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Provisions and Impairment Allowance of Irrecoverable Receivables (Continued)

Objective evidence of impairment may be:

- Large financial problems including bankruptcy of the debtor;
- Restructuring of loans (significant changes in conditions, reduction of interest rates, partial grace periods (freezing and pay only the interest) necessary because of credit (financial) ability (not due to market factors or technical changes);
- Impairment coverage, for example. due to lower collateral values (especially in the case of project financing) in the event of a shortage of existing cash flows;
- Protest of guarantee (if the guarantee is withdrawn by a third party that is an indicator of impairment) or a high likelihood of a protest (decreases) guarantee in the near future;
- Lack of cooperation by the customer in the event of proven problems with repayment of debts;
- Lack of regular monthly income (especially important for the segment of natural persons);
- The evident decline in turnover due to reduced business activity for companies;
- Transfer group of related persons in the Department for managing risk assets;
- In the event of material changes in loan impairment (significant changes in the results of the debtor, the value of collateral, other important changes that may affect the extent of security).

Collective Impairment Assessment

Impairment assessment is performed on a group portfolio level for clients that are not individually impaired and for those individually significant loans where there is no objective evidence of individual impairment.

Collective assessment for impairment is performed on a quarterly basis per groups formed based on the internally adopted methodology, the basis of which are the days of delay. Collective impairment percentages are calculated based on statistic models of risk category migrations to the default status per type of borrower or product. The migration percentages obtained are adjusted for the amounts of receivables collected.

Group assessment for impairment is divided into four categories for corporate customers and three categories for retail customers (cash loans, consumer loans and housing loans). At the group level, loans and advances are classified into certain internal risk classes per loan account/sub-account according to the number of days past due.

As the bases for calculating provisions for credit losses per credit products, receivables are decreased by the amount of deposits and guarantees issued in favor of the Bank by a first-class bank or the state as well as by the amount of mortgages with hair-cut by 30% and discounted using the effective interest rate for the particular loan over a 5 years period.

Impairment of loans reduces the value of loans and is recognized as expense within the income statement.

The amounts of the expected cash inflows per loan are estimated based on the proof of projected revenues of the borrower, and in case these are insufficient, cash flows from collateral foreclosure are estimated. Estimates of the number of days past due in collection of a certain receivable from the borrower is determined by considering all the relevant indicators on the time of realization of the projected revenues of the borrower and historical data on the borrower's default.

As a hedge against credit risk exposure, in addition to the regular monitoring of the borrower's business operations, the Bank obtains security instruments (collaterals) to securitize the collection of receivables and minimize credit risk. Depending on the estimated possibilities for settlement of the contractual liabilities, the Bank defines the extent of the securitization of the loan, so that, in the event of the borrower's default, the Bank could actually collect its receivables through collateral foreclosure. The quantity and type of collateral required is dependent on the credit risk estimate.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Provisions and Impairment Allowance of Irrecoverable Receivables (Continued)

Collective Impairment Assessment(Continued)

Properties, goods, equipment and other movables subject to pledge liens must be insured by an insurance company acceptable to the Bank, and insurance policies must be endorsed in favor of the Bank. The Bank monitors the market value of collaterals and, if necessary, it may demand additional collateral in accordance with the relevant loan agreement executed

Restructured loans

Were it is possible, the Bank will try to restructure the loan rather than collecting the collateral. This can include the prolongation of the repayment period and an agreement on new credit terms. After the loan has been restructured it is no longer considered due. The management continuously analyses and monitors restructured loans to ensure compliance with the defined criteria and to ensure future payments. The loan is still a part of the individual or group – level assessment for impairment which is calculated with the use of the initial effective interest rate. Once the loan is restructured, it is treated as a bad placement in the next six months.

Calculation of Provisions for Potential Losses

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

Risk Category	As at December 31, 2015	
	Provisioning %	Number of days past due
A	-	<30
B1	2	31-60
B2	7	61-90
C1	20	91-150
C2	40	151-270
D	70	271-365
E	100	>365

The Bank is required to determine the difference between the amount of provision for potential losses and the sum of allowance for losses on items of the balance sheet assets and provisions for off-balance sheet items calculated in accordance with the Bank's internal methodology by applying the International Accounting Standard 39.

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

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015*All amounts expressed in thousands of EUR, unless otherwise stated***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.8. Property, Plant, Equipment and Intangible Assets**

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

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

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

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

Gains or losses arising on disposal or write off of business premises and equipment are determined as the difference between the sales price and the current carrying value of business premises and equipment, and are recognized in the income statement of the period in which the sale or disposal occurred.

Depreciation/amortization is calculated on a straight-line basis applying the following depreciation and amortization rates to the cost of business premises and equipment in order to write them off over their expected useful lives. The depreciation and amortization rates in use are as follows:

Major groups of assets	Depreciation/Amortization rates (%)
Buildings	2.00
Vehicles	15.00
Furniture and other equipment	15.00 – 20.00
Computer equipment	33.33
Tools and fixtures	50

Period of depreciation of fixed assets begins when they are available for use. Gains and losses on disposals are determined by comparing cash proceeds with carrying amount and are recognized in the income statement.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Property, Equipment and Intangible Assets (Continued)

Intangible Assets

Intangible assets comprise software and licenses. Intangible assets acquired are capitalized at cost value on the transaction date. After initial recognition, intangible assets are carried at acquisition cost less accumulated amortization and accumulated impairment losses, if any.

Expense directly attributable to a particular software and which are expected to generate economic benefits in the period longer than one year are capitalized and treated as intangible assets. Maintenance and development costs are recognized as expense as they are incurred.

Amortization is evenly calculated to cost value of intangible assets over a period of 5 years, with the aim that intangible assets be fully written off during their useful life. The calculation of amortization of intangible assets begins when the assets are put into use.

3.9. The Bank's Equity

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

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

3.10. Employee benefits

Taxes and Contributions for Social Security of Employees

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

Retirement Benefits or Other Long-Term Employee Benefits

In accordance with the Industry Collective Bargaining Agreement, the Bank is under obligation to pay retirement benefits to an employee upon his/her regular retirement in the amount of 6 net average salaries earned by the Bank's employees in the month preceding the month of benefit payment.

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

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

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Fair Value

The fair value is defined as an amount at which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's-length transaction. The determination of fair value is based on the assumption that the transaction has taken place in a primary market of the asset or liability, or, in the absence of the primary market, on the most favorable market.

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

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

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

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

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

Level 1 – Quoted prices (uncorrected) on active markets for identical prices and liabilities

Level 2 – Valuation techniques in which the smallest level of the input data significant for the determination of fair value is directly or indirectly observable

Level 3 - Valuation techniques in which the smallest level of the input data significant for the determination of fair value is directly or indirectly non - observable.

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

3.12. Provisions

Provisions are recognized when:

- the Bank has a present legal or a constructive obligation as a result of the previous events
- if it is probable that a transfer of resource embodying economic benefits will be required to settle the obligation
- and a reliable estimate of its amount can be made

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

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

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Borrowings

Borrowings are initially recognized at fair value excluding any transaction costs that are incurred. In subsequent periods, borrowings are recognized at amortized cost. All differences between the received cash flow reduced for the transaction costs and the amount of payment are recognized in the profit and loss statement as interest expense deferred over the period of repayment using effective interest rate method.

3.14. Issued Debt Securities

Issued Debt Securities are initially recognized at fair value less transaction costs that are directly attributable. Issued debt securities are subsequently measured at amortized cost. Interest, discounts and premiums are recognized in the profit and loss statement as interest expense deferred during the repayment period.

4. FINANCIAL INSTRUMENTS

4.1. Risk Management

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

In its operations the Bank is exposed to various risks. The most significant ones are the following:

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

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

The Risk Management Department is responsible for monitoring the Bank's exposures to certain risks, which is reported to the Board of Directors on a monthly basis. In addition, monitoring of the Bank's exposures to certain risks is the responsibility of Credit Risk Management Committee. Bank tests the sensitivity of the Bank to certain types of risk and aggregate basis, using several types of stress scenarios. Stress scenario include assumptions about changes in market and other factors which may have a material impact on its operations.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk

In its operations, the Bank seeks to do business with customers of good credit standing, in order to reduce as much as possible exposure to credit risk which is a risk that counterparty will be unable to settle liabilities to the bank in full and as due. The Bank makes provisions for impairment losses related to the losses incurred as at the statement of financial position date. While making decisions on borrowing, the Bank takes into account the changes in the economy and certain industries comprising a part of the Bank's loan portfolio could result in the losses different from losses that gave rise to provisions formed as at the statement of financial position date.

The Central Bank of Montenegro adopted the Decision on Minimum Standards for Credit Risk Management in Banks ("Official. Gazette of Montenegro" no. 22/12, 55/12 and 57/13), which was implemented on January 1, 2013, and which involves the use of International financial reporting standards on measurement and disclosure of off-balance sheet items of assets and off-balance sheet items. Pursuant to the above decision, the Bank has established a methodology for assessment of impairment of balance sheet assets and probable losses on off-balance sheet items. The Bank has consistently applied the methodology, reviewed at least annually and, if necessary, adjusted the results of the review, and adjusted the assumptions upon which the methodology is based

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

4.2.1. Credit Risk Management

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

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

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

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

Commitments and Contingent Liabilities

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

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.2. Provisions for Impairment Losses in Accordance with Requirements of IAS 39

As of preparing the statement of financial position date, the Bank assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired in accordance with IAS 39: Objective evidence that there has been a decrease in the value of a financial asset or group of financial assets includes information that the holder of the asset can be observed on the following loss events such as:

- delay in the payment of interest or principal;
- rescheduling of loans;
- breach of contract, the financial difficulties of the debtor;
- high probability of bankruptcy or liquidation proceedings, the process of debt collection by the state;
- initiation of litigation against the debtor;
- default status at the level of the group of related parties.

In line with the adopted methodology, the Bank performs individual assessment as to whether there is objective evidence of impairment of individually significant financial assets.

By calculating the present value of estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from excluding reduction of costs for obtaining and selling the collateral, regardless of whether the exclusion is probable or not.

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

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

Maximal credit risk exposure is given as follows:

	2015	2014
Balance sheet items		
Loans and receivables due from banks	22,710	46,203
Loans and receivables due from clients	186,239	141,686
Interest and other receivables	2,044	1,568
Factoring	6	2,723
Securities available for sale	62,447	24,089
Securities held to maturity	3,719	1,666
	277,165	217,935
Off balance sheet items		
Payment guarantees	44,706	44,856
Performance guarantees	8,736	10,443
Unsecured letters of credit	1,087	1,245
Undrawn loan facilities	13,080	12,228
	67,609	68,772
Total credit risk exposure	344,774	286,707

Total exposure to credit risk

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

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

**4.2.3 Maximum Credit Risk Exposure per Balance Sheet and Off-Balance Sheet Items
(Continued)**

Before approving loans and other investments, the Bank assesses the debtor's creditworthiness, taking into account the criteria established by the internal regulation, and the validity of the estimated value of collateral.

Collateral value is calculated as its net worth, by which is meant the market value less any costs relating to the realization of collateral.

Types of collaterals are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements

Loans and advances are presented in the following tables:

	Neither Past due nor Impaired	Past Due but not Impaired	Individually Impaired	Total. Gross	Individual Impairment Allowance	Group Impairment Allowance	Total Impairment Allowance	Total. Net
December 31, 2015								
Housing loans	778	-	-	778	-	(11)	(11)	767
Current account overdrafts	1,464	88	-	1,552	-	(67)	(67)	1,485
Customer loans	31,479	444	33	31,956	(33)	(635)	(668)	31,288
Credit cards	653	18	-	671	-	(20)	(20)	651
Special purpose loans	227	50	-	277	-	(15)	(15)	262
Other retail loans secured by mortgages	16,091	182	930	17,203	(470)	(182)	(652)	16,551
Other loans	-	-	-	-	-	-	-	-
Loans to small enterprises	49,911	437	21,199	71,547	(2,649)	(907)	(3,556)	67,991
Loans to medium and large enterprises	45,869	280	19,347	65,496	(550)	(681)	(1,231)	64,265
Loans to Government and municipalities	178	7	1,669	1,854	(30)	-	(30)	1,824
Loans to financial institutions	1,201	-	-	1,201	-	(46)	(46)	1,155
Loans and advances to banks	-	-	-	-	-	-	-	-
	147,851	1,506	43,178	192,535	(3,732)	(2,564)	(6,296)	186,239

This version of the financial statements and the accompanying notes is translation of the original which were published in Montenegrin language. All possible care has been taken to ensure that the translation is accurate representation of the original. However, in all the matters of interpretation of information, views and opinions, the original language version of the documents takes precedence over this translation

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

Loans and advances are presented in the following tables:

	Neither Past due nor Impaired	Past Due but not Impaired	Individually Impaired	Total. Gross	Individual Impairment Allowance	Group Impairment Allowance	Total Impairment Allowance	Total. Net
December 31, 2014								
Housing loans	-	-	-	-	-	-	-	-
Current account overdrafts	1,044	63	-	1,107	-	(41)	(41)	1,066
Customer loans	24,604	413	96	25,113	(34)	(346)	(380)	24,733
Credit cards	600	20	12	632	-	(19)	(19)	613
Special purpose loans	254	105	-	359	-	(83)	(83)	276
Other retail loans secured by mortgages	15,382	413	1,869	17,664	(630)	(380)	(1,010)	16,654
Other loans	-	-	-	-	-	-	-	-
Loans to small enterprises	49,680	1,463	15,548	66,691	(3,096)	(279)	(3,375)	63,316
Loans to medium and large enterprises	26,283	1,192	5,029	32,504	(166)	(149)	(315)	32,189
Loans to Government and municipalities	1,668	7	127	1,802	(1)	(11)	(12)	1,790
Loans to financial institutions	1,054	-	-	1,054	-	(5)	(5)	1,049
Loans and advances to banks	-	-	-	-	-	-	-	-
	120,569	3,676	22,681	146,926	(3,927)	(1,313)	(5,240)	141,686

Loans and receivables neither past-due nor impaired in 2015 and 2014 are classified as 'good assets.'

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

a) Loans and Placements Past-Due but not Individually Impaired

	Up to 30 days past-due	From 31 to 60 days past-due	From 61 to 90 days past-due	From 91 to 180 days past-due	From 181 to 365 days past-due	From 1 to 5 years past-due	Over 5 years past due	Total
December 31, 2015								
Housing loans	-	-	-	-	-	-	-	-
Current account								
overdrafts	34	3	1	13	6	29	2	88
Customer loans	325	21	13	9	22	54	-	444
Credit cards	5	1	2	2	3	5	-	18
Special purpose loans	13	1	-	-	-	36	-	50
Other retail loans secured by mortgages	60	21	3	4	15	79	-	182
Loans to micro and small Enterprises	267	35	7	37	42	49	-	437
Loans to medium and large enterprises	280	-	-	-	-	-	-	280
Loans to Government and municipalities	7	-	-	-	-	-	-	7
Loans to financial institutions	-	-	-	-	-	-	-	-
	991	82	26	65	88	252	2	1,506

	Up to 30 days past-due	From 31 to 60 days past-due	From 61 to 90 days past-due	From 91 to 180 days past-due	From 181 to 365 days past-due	From 1 to 5 years past-due	Over 5 years past due	Total
December 31, 2014								
Current account								
overdrafts	24	6	4	4	6	19	-	63
Customer loans	266	65	-	25	19	38	-	413
Credit cards	3	4	2	-	4	7	-	20
Special purpose loans	2	5	-	6	14	78	-	105
Other retail loans secured by mortgages	236	29	-	9	27	112	-	413
Loans to micro and small Enterprises	1,178	202	8	29	26	20	-	1,463
Loans to medium and large enterprises	1,007	83	102	-	-	-	-	1,192
Loans to Government and Municipalities	7	-	-	0	-	-	-	7
Loans to financial institutions	-	-	-	-	-	-	-	-
	2,723	394	116	73	96	274	-	3,676

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

b) Fair Value of Collaterals

	December 31, 2015	December 31 2014
Deposits	22,874	21,690
Pledge liens	49,601	50,084
Mortgages and fiduciaries	303,069	303,549
Insurance policies	387	404
Guarantees	11,354	9,008
Total	387,285	384,735
	December 31, 2015	December 31 2014
Past due but not individually impaired		
Deposits	22,078	21,514
Pledge liens	34,171	44,538
Mortgages and fiduciaries	236,921	227,054
Insurance policies	386	404
Guarantees	11,354	9,008
Total	304,910	302,518
	December 31, 2015	December 31 2014
Individually impaired		
Deposits	796	176
Pledge liens	15,430	5,546
Mortgages and fiduciaries	66,148	76,495
Policy	1	-
Guarantees	-	-
Total	82,375	82,217

As collateral the Bank accepts mortgages over properties whose fair values defined on an individual case basis, for legal entities, which is under authority of the person making decision on the loan approval, whereas for private individuals the amounts are defined depending on the product type. Properties used as collateral are residential premises, houses and apartment buildings, commercial buildings and business premises, as well as land depending on its location and future use.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

c) Restructured Loans and Placements

The Bank has restructured a loan due to the deterioration in the borrower's creditworthiness if it has:

- a. extended the principal and interest maturity,
- b. replaced the existing loan with a new one,
- c. took over the receivables of the debtor against a third party on behalf of the full or partial loan repayment
- d. reduce the amount of debt principal and interest
- e. decreased the interest rate on the loan approved and
- f. made other concessions to facilitate the borrower's financial position.

Upon restructuring of the loan, the Bank performs financial analysis of the borrower and assesses its capacities to realize cash flows necessary for the repayment of the loan principal, as well as the corresponding interest once the loan is restructured.

During 2015 the Bank restructured loans in the amount of EUR 23,113 thousand (2014: 11,865 EUR thousand).

d) Concentration per Geographic Regions

Concentration per geographic regions of the Bank's credit risk exposure, net of impairment allowance, is presented in the following table:

In thousand EUR	<u>Montenegro</u>	<u>European Union</u>	<u>USA and Canada</u>	<u>Other</u>	<u>Total</u>
Loans and advances to banks	-	18,510	2,502	1,698	22,710
Loans and advances to customers	170,873	15,028	15	2,373	188,289
Securities available for sale	39,266	16,899	-	6,282	62,447
Securities held to maturity	3,719	-	-	-	3,719
December 31, 2015	<u>213,858</u>	<u>50,437</u>	<u>2,517</u>	<u>10,353</u>	<u>277,165</u>
December 31, 2014	<u>159,465</u>	<u>48,586</u>	<u>4,118</u>	<u>5,766</u>	<u>217,935</u>

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

e) Concentration per Industry

Concentration per industry of the Bank's credit risk exposure, net of impairment allowance, is presented in the following table:

	Finance Sector	Transportation, Traffic and Tele-Communication	Accommodation and Catering Services	Wholesale and Retail and Vehicle Repairs	Construction Industry	Power Industry	Ore and Stone Mining	Administration and Service Industry	Real Estate Trade	Agriculture, Forestry and Fishing	Manual-factoring	Other	Retail Clients	Total
Loans and advances to banks	3,078	-	-	-	-	-	-	-	-	-	-	19,632	-	22,710
Loans and advances to customers	2,380	12,586	15,159	45,125	11,114	880	1,793	1,261	10,910	3,244	7,072	25,761	51,004	188,289
Securities - available for Sale	44,310	943	-	-	-	-	-	-	-	-	942	16,252	-	62,447
Securities held to maturity	3,719	-	-	-	-	-	-	-	-	-	-	-	-	3,719
December 31,2015	53,487	13,529	15,159	45,125	11,114	880	1,793	1,261	10,910	3,244	8,014	61,645	51,004	277,165
December 31,2014	17,631	11,735	7,793	44,120	9,342	1,298	757	1,281	8,817	2,599	4,081	65,091	43,390	217,935

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.5. Off-Balance Sheet Items

Maturities of off-balance sheet items exposing the Bank to credit risk were as follows:

	Undrawn Loan Facilities	Guarantees	Letters of Credit	Total
December 31, 2015				
Up to one year	10,935	32,910	1,087	44,932
From 1 to 5 years	1,346	20,522	-	21,868
Over 5 years	799	10	-	809
	13,080	53,442	1,087	67,609

	Undrawn Loan Facilities	Guarantees	Letters of Credit	Total
December 31, 2014				
Up to one year	9,799	40,582	1,245	51,626
From 1 to 5 years	2,429	14,707	-	17,136
Over 5 years	-	10	-	10
	12,228	55,299	1,245	68,772

4.3. Market Risk

The Bank is exposed to market risks. Market risks arise from open positions due to changes in interest rates, foreign currency exchange rates and prices of securities which change according to the market volatility. Market risk exposure limits are prescribed internally and aligned with the limits prescribed by the Central Bank of Montenegro.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.1. Currency Risk

The Bank's financial position and cash flows are exposed to the effects of the changes in foreign currency exchange rates. Currency risk exposure is continuously monitored and reconciled with the limits prescribed by the Central Bank of Montenegro.

The Bank's exposure to foreign currency risk as of December 31, 2015 is presented in the following table:

EUR '000	USD	GBP	CHF	Other	Total
Assets in foreign currencies	12.482	520	1.263	58	14.323
Liabilities in foreign currencies	12.960	459	1.299	52	14.770
Net foreign exchange exposure:					
- December 31, 2015	(478)	61	(36)	6	(447)
- December 31, 2014	(362)	1	(13)	2	(372)
% of the core capital:					
- December 31, 2015	-2%	-	-	-	
- December 31, 2014	-2%	-	-	-	
Aggregate open position:					
- December 31, 2015	(447)				
- December 31, 2014	(372)				
% of the core capital:					
- December 31, 2015	-2.08%				
- December 31, 2014	-1.86%				

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.2. Operational risk

Operational risk is the risk of possible occurrence of negative effects on financial result and equity due to failure (unintentional and intentional) by employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank , as well as due to the occurrence of unforeseen external events , including events with a low probability events .

Exposure to operational risk is regularly monitored by harmonizing them with the limits prescribed by the Central Bank of Montenegro.

4.3.3. Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on cash flows. Interest margins may increase as a result of such changes; however, these may reduce profit or give rise to losses in instances of unexpected fluctuations. Interest rates are based on market rates and the Bank performs regular re-pricing.

The following table presents the Bank's interest bearing and non-interest bearing assets and liabilities as of December 31, 2015:

	Interest Bearing	Non-Interest Bearing	Total
ASSETS			
Cash balances and deposits with the Central Bank	4.605	120.178	124.783
Loans and advances to banks	-	22.710	22.710
Loans and advances to customers	188.252	37	188.289
Securities available for sale	59.927	6.108	66.035
Securities held to maturity	3.719	-	3.719
Total assets	256.503	149.033	405.536
LIABILITIES			
Deposits due to banks	3	689	692
Deposits due to customers	265.471	52.062	317.533
Borrowings from other customers	41.142	-	41.142
Subordinated debt	9.952	-	9.952
Total liabilities	316.568	52.751	369.319
Interest rate GAP:			
December 31, 2015	(60.065)	96.282	36.217
December 31, 2014	(58.487)	91.090	32.603

This version of the financial statements and the accompanying notes is translation of the original which were published in Montenegrin language. All possible care has been taken to ensure that the translation is accurate representation of the original. However, in all the matters of interpretation of information, views and opinions, the original language version of the documents takes precedence over this translation

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015*All amounts expressed in thousands of EUR, unless otherwise stated***4. FINANCIAL INSTRUMENTS (Continued)****4.3. Market Risk (Continued)****4.3.3. Interest Rate Risk (Continued)**

The following table presents annual lending and borrowing interest rates for monetary financial instruments:

Loan type	Interest rate %
Corporate customers:	
- short-term loans from Bank's own funds	2.5-12
- short-term loans from other resources	9.25
- short term loans to banks and other financial authorities	-
- arranging loans	-
- long-term loans from Bank's own funds	3-13
- long-term loans from other resources	4 – 9.5
- loans to SMEs for period up to 24 months	At rates sanctioned by the bank
- loans to SMEs for period over 24 months	At rates sanctioned by the bank
- loans to entrepreneurs for periods of up to 24 months	8.75 - 10
- loans to entrepreneurs for periods of over 24 months	9.5

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.2. Interest Rate Risk (Continued)

Lending interest rates applied to loans granted to retail customers during 2015 were as follows:

Loan type	Interest rate %
Retail customers:	
- cash loans	0.88p.m. – 12p.a
- consumer loans	0.9p.m. - 11.49p.a
- car loans	-
- loans for renovation and financing up to 60 months	-
- loans for renovation and financing over 60 months	-
- housing loans	7.49 - 10

Deposit interest rates applied to corporate customer deposits during 2015 were as follows:

Deposit type	Interest rate %
Demand deposits	0 - 0.4
Short-term deposits	0 - 2.8
Long-term deposits	0 - 3.25

Deposit interest rates applied to retail customer deposits during 2015 were as follows:

Deposit type	Interest rate %
Demand deposits	
Savings demand deposits in EUR	0.01
Term deposits in EUR placed:	
- for a month	0.01-3.3
- for 3 months	0.01-3.3
- for 6 months	1.5 -3.4
- for 12 months	0.01-3.75
- for 24 months	2.6 – 4
- for 36 months	0.6 – 4.25
Term deposits in foreign currencies (USD):	
- for 3 months	0.05
- for 6 months	0.1
- for 12 months	0 – 1.5

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.2. Interest Rate Risk (Continued)

The exposure to risk from interest rate changes as of December 31, 2015 is as follows:

	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Up to 1 year	Total
Sensitive assets						
Interest bearing deposits in other institutions	4,605	-	-	-	-	4,605
Loans and receivables due from banks	-	-	-	-	-	-
Loans and receivables due from clients	20,000	24,852	15,065	33,336	94,999	188,252
Securities available for sale	6	-	3,500	-	213	3,719
Securities held to maturity	58,095	133	1,039	278	382	59,927
Total	82,706	24,985	19,604	33,614	95,594	256,503
% total interest earning assets	32%	10%	8%	13%	37%	100%
Sensitive liabilities	3	-	-	-	-	3
Interest bearing deposits due to banks	124,057	28,066	25,069	51,174	37,105	265,471
Interest bearing deposits due to clients	5,011	-	238	1,478	34,415	41,142
Subordinated debt	(48)	-	-	-	10,000	9,952
Total	129,023	28,066	25,307	52,652	81,520	316,568
% interest bearing liabilities	41%	9%	8%	16%	26%	100%
Interest rate risk exposure						
- December 31, 2015	(46,317)	(3,081)	(5,703)	(19,038)	(14,074)	(60,065)
- December 31, 2014	(42,225)	(2,967)	(3,048)	(7,543)	(2,704)	(58,487)
Cumulative GAP:						
- December 31, 2015	(46,317)	(49,398)	(55,101)	(74,139)	(60,065)	
- December 31, 2014	(42,225)	(45,192)	(48,240)	(55,783)	(58,487)	

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.3.2. Interest Rate Risk (Continued)

Sensitivity measurement of economic value of equity on changes of interest rate is performed for every of significant currencies. It starts from assumptions of parallel changes in interest rate for 200 basis points (2 percentage points).

Influence of increase in interest rates by 200 basis points on equity measured as of December 31, 2015 is shown in the following table:

Securities AFS - fixed rate	Amount	Changes in interest rate	Weighted average b.p.	<i>In thousand EUR</i>	
				Changes in EUR	Mark
Short-term	16.194	50 b.p.	17	81	+/-
Mid-term	29.418	100 b.p.	62	294	+/-
Long-term	2.071	200 b.p.	9	42	+/-
Total	47.683		88	417	+/-

Securities AFS - variable rate	Amount	Changes in interest rate	Weighted average b.p.	<i>In thousand EUR</i>	
				Changes in EUR	Mark
Short-term	12.244	50 b.p.	-	-	+/-
Mid-term	-	100 b.p.	50	61	+/-
Long-term	-	200 b.p.	-	-	+/-
Total	12.244		50	61	+/-

4.4. Liquidity Risk

Liquidity risk includes both the risk of the Bank being unable to provide cash to settle liabilities upon maturity and the risk that the Bank will have to obtain funds at reasonable prices and in a timely manner to be able to settle its matured liabilities.

4.4.1. Liquidity Risk Management

The matching and controlled mismatching between the maturities and interest rates of assets and of liabilities are fundamental to the management of the Bank. It is uncommon for banks to have complete matching since business transactions are often made for indefinite term and are of different types. A mismatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability of the Bank to obtain sources of funding upon maturity of liabilities at an acceptable cost are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and foreign exchange rates.

Liquidity requirements to support calls on guarantees and standby letters of credit are considerably less than the amount of the commitments because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments for approved loans with extended maturities does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk (Continued)

4.4.1. Liquidity Risk Management (Continued)

The Bank is exposed to daily calls on its available cash resources which influence the available cash held on the current accounts or as deposits. The Bank does not maintain cash to meet all of these needs since historical experience demonstrates that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty.

The expected maturity matching of financial assets and liabilities as of December 31, 2015 was as follows:

	In thousand EUR						
	Up to a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Financial assets							
Cash balances and deposits with the Central Bank	124,783	-	-	-	-	-	124,783
Loans and advances to banks	21,758	952	-	-	-	-	22,710
Loans and advances to Customers	20,033	24,853	15,064	33,337	62,804	32,198	188,289
Securities held to maturity	64,225	131	1,027	275	377	-	66,035
Securities available for sale	6	-	3,500	-	213	-	3,719
Total	230,805	25,936	19,591	33,612	63,394	32,198	405,536
Financial liabilities							
Deposits due to banks	692	-	-	-	-	-	692
Deposits due to customers	173,518	28,320	25,343	51,856	36,128	2,368	317,533
Borrowings from customers	5,011	-	238	1,478	7,504	26,911	41,142
Subordinated debt	(48)	-	-	-	-	10,000	9,952
Total	179,173	28,320	25,581	53,334	43,632	39,279	369,319
Maturity GAP							
- December 31, 2015	51,632	(2,384)	(5,990)	(19,722)	19,762	(7,081)	36,217
- December 31, 2014	47,965	(2,967)	(2,193)	(7,498)	4,904	(7,608)	32,603
Cumulative GAP:							
- December 31, 2015	51,632	49,248	43,258	23,536	43,298	36,217	
- December 31, 2014	47,965	44,998	42,805	35,307	40,211	32,603	
% of total funds:							
- December 31, 2015	12.73%	-0.59%	-1.48%	-4.86%	4.87%	-1.75%	
- December 31, 2014	16.65%	-1.03%	-0.76%	-2.60%	1.70%	-2.64%	

The structure of the Bank's financial assets and liabilities as classified into their relevant maturity groups as of December 31, 2015 indicates the existence of a liquidity gap in maturity period from 1 to 3 months, 3 to 6 months, 6 to 12 months and over 5 years. The Bank's liquidity, which is its ability to settle its liabilities as due, depends on one hand on the balance sheet structure, and on the other hand, on the matching between cash inflows and outflows. The cumulative gap shows maturity matching. As of December 31, 2015 demand deposits in the table above are presented by the expected maturity using the model based on the Bank's historical data. The Bank has applied this approach for liquidity management since December 31, 2012.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk (Continued)

4.4.2. Outstanding Maturities of Financial Liabilities(Not the discounted cash flows)

	Demand	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2015							
Liabilities							
Deposits due to banks	692	-	-	-	-	-	692
Deposits due to customers	167,150	6,368	28,320	77,199	36,128	2,368	317,533
Borrowings from other customers	-	5,011	-	1,716	7,504	26,911	41,142
Subordinated debt	-	(48)	-	-	-	10,000	9,952
	167,842	11,331	28,320	78,915	43,632	39,279	369,319
December 31, 2014							
Liabilities							
Deposits due to banks	597	-	-	-	-	-	597
Deposits due to customers	96,229	4,386	17,339	61,366	33,309	2,689	215,318
Borrowings from other customers	-	1,030	748	3,050	14,116	10,730	29,674
	-	(112)	-	51	-	10,000	9,939
	96,826	5,304	18,087	64,467	47,425	23,419	255,528

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Fair Value of financial assets and liabilities

:

	Carrying Value		Fair Value	
	2015	2014	2015	2014
Financial assets				
Loans and advances to banks	22,710	46,203	22,710	46,203
Loans and advances to customers	188,289	145,977	188,289	145,977
Securities available for sale	66,035	26,560	66,035	26,560
Securities held to maturity	3,719	1,666	3,719	1,666
	<u>280,753</u>	<u>220,406</u>	<u>280,753</u>	<u>220,406</u>
Financial liabilities				
Deposits due to customers	317,533	215,318	317,533	215,318
Borrowings from other customers	41,142	29,674	41,142	29,674
	<u>358,675</u>	<u>244,992</u>	<u>358,675</u>	<u>244,992</u>

Fair value of financial instruments is the amount for which an asset could be sold, or a liability settled, between knowledgeable, willing parties during the transaction. However, there is no available market price for a certain part of the Bank's financial instruments. In conditions where there are no available market prices, fair value is estimated by using discounted cash flows or other models. Changes in the assumptions that form the basis of estimates, including discount rates and estimated future cash flows, significantly affect the estimates. For this reason, the assessment of fair market value can not be realized in a current sale of the financial instrument.

In the estimation of fair value of financial instruments for which these values can be determined, the following methods and assumptions were used:

a) Loans and Advances to Banks

Loans and advances to banks include inter-bank loans and advances and items in the course of collection.

The fair values of floating rate investments and overnight deposits approximately equal to their carrying amounts at the statement of financial position date.

b) Loans and Advances to Customers

In order to determine the fair value of loans to customers with fixed interest rate, measured at amortized cost, the Bank compared the its interest rates on loans and advances to customers to the available information on the current market interest rates in the banking sector of Montenegro (i.e. weighted average market rates by business activities).

According to the Bank's management, amounts in the financial statements represent the most valid and the most useful amounts for the purposes of financial reporting under the current circumstances.

c) Available-for-Sale Securities

The fair value of available-for-sale securities is based on market prices. Where this information is not available, fair value has been estimated using market prices for quoted securities with similar characteristics.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Fair Value of financial assets and liabilities (Continued)

d) Deposits and Borrowings

The estimated fair values of demand deposits and deposits with remaining contractual maturities of less than one year approximate their carrying amounts.

The estimated fair values of interest bearing deposits at fixed interest rates with remaining contractual maturities of over a year, without quoted market prices, are based on discounted cash flows using interest rates for new debts with similar remaining maturities. According to the Bank's management, the Bank's interest rates are harmonized with the current market rates and the amounts stated in the financial statements represent fair value for the purposes of financial reporting under the current circumstances.

The carrying values of borrowings with floating interest rates approximate their fair values at the statement of financial position date.

e) Fair Value Hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or not. Inputs reflect market data obtained from independent sources; entries that are not available include the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 - Listed value (non-adjusted) in active markets for identical assets or liabilities. This level includes listed equity securities.
- Level 2 – Amounts other than quoted included in Level 1, which are available and refer to given asset or liability, either directly (ie. in the form of price / value) or indirectly (in the form of conclusions based on price / value)
- Level 3 - entries for assets and liabilities that are not based on available market data. This level includes investments in the capital market under the assumptions of the Bank (no data are available).

This hierarchy requires the use of available market data when available. The bank, in its evaluation, is taking into consideration the market value whenever possible.

December 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through the statement of comprehensive income	-	-	-	-
Securities available for sale	53,472	3,594	8,969	66,035
Total assets	53,472	3,594	8,969	66,035

Valuation Techniques and Assumptions Used in Valuation of Financial Assets Measured at Fair Value

Fair values of securities available for sale and securities at fair value through other comprehensive income were based on market prices. Unless there were available market prices, market prices of quoted securities with similar characteristics were used. As of December 31, 2015 market prices of securities measured at fair value within the Bank's portfolio were available.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Fair Value of financial assets and liabilities (Continued)

Valuation Techniques and Assumptions Used in Valuation of Financial Assets Not Measured at Fair Value

The fair value of financial instruments not measured at fair value is calculated only for the purposes of disclosure, no effect on the position of the balance sheet or income statement. In addition, due to the fact that there is no active trading in these instruments, the determination of fair value requires the use of their assessment management significantly

Fair value is the price that would be received if asset is sold or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions, regardless of whether the price is directly observable or estimated using another valuation techniques. However, there are no available market price for a certain part of financial instruments. In conditions where there are no available market prices, fair value is estimated using discounted cash flows or other models. Changes in assumptions of estimates, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, assessment of fair market value can not be realized in a current sale of the financial instrument.

4.6. Capital Risk Management

The Bank's capital management objectives are:

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

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

The Bank own funds are comprised of:

- core capital (paid in share capital, undistributed profits from previous years, profit for the year decreased for loss)
- other capital (reserves allocated from profit after tax :legal, statutory and other reserves, subordinated loan)
- both decreased for intangible assets, positive difference between the amount of calculated provisions for potential losses and the sum of impairment allowances per balance sheet assets and provisions for losses on off-balance sheet items as well as for the amount in excess of the limit prescribed by the Central Bank of Montenegro for investments in properties and fixed assets.

Risk-weighted assets are comprised of items of assets and loan equivalents of off-balance sheet items exposed to risk. The loan equivalents of off-balance sheet assets are computed by multiplying the book value of off-balance sheet items with the prescribed conversion factors. Total risk-weighted assets are comprised of assets and credit equivalents of off-balance sheet items exposed to risk (the Bank's risk weighted assets) classified in four categories and multiplied by adequate prescribed risk weights.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.6. Capital Risk Management (Continued)

In accordance with the regulations of the Central Bank of Montenegro, the Bank is under obligation to maintain a minimum capital adequacy ratio of 10%. The Bank is required to maintain certain minimum or maximum ratios with respect to its activities and composition of risk assets in compliance with the Law on Banks of the Republic of Montenegro and with the Central Bank of Montenegro Regulations. As of December 31, 2015 the capital adequacy ratio calculated by the Bank for statutory financial statements equaled 12,85% (December 31. 2014: 15,25%), exceeding the prescribed minimum.

4.7. Sensitivity analysis

4.7.1. Sensitivity analysis (foreign currency risk)

In addition to analysis of receivables and liabilities denominated in foreign currencies, exposure to foreign exchange risk includes sensitivity analysis of changes in exchange rates. The following table shows a scenario of change of the exchange rate in the range of + 10% to -10% compared to the EUR:

	Total	2015. Amount in foreign currency	In thousands EUR Change in exchange rates	
			10%	-10%
Assets				
Cash and deposit accounts with central banks	124,783	862	86	(86)
Loans and advances to banks	22,710	8,361	836	(836)
Loans and advances to customers	188,289	1,471	147	(147)
Securities available for sale	66,035	3,576	358	(358)
Other financial receivables	780	53	5	(5)
Total assets	402,597	14,323	1,432	(1,432)
Liabilities				
Deposits due to banks	692	41	4	(4)
Deposits due to customers	317,533	14,376	1,438	(1,438)
Provision	1,294	4	-	-
Other liabilities - Balance	5,130	2	-	-
Other liabilities (guarantees and letters of credit) - Off- Balance Sheet		347	35	(35)
	54,529			
Total liabilities	379,178	14,770	1,477	(1,477)
Net exposure to currency risk:				
- Decembar 31, 2015			(45)	45
- Decembar 31, 2014			(10)	10

On December 31, 2015, assuming that all other parameters remained the same, change in the EUR exchange rate in relation to other currencies to + 10% and -10%, would affect Bank's profit to increase, or decrease in the amount of EUR 45 thousand (December 31, 2014: profit would have increased or decreased by an amount of EUR 10 thousand). The cause of small Bank's exposure to exchange rate changes is the fact that most of the claims and liabilities are denominated in EUR.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Sensitivity analysis (Continued)

4.7.2. Sensitivity analysis (the risk of changes in interest rates)

During the process of risk management of interest rate changes, the Bank analyzes the exposure of assets and liabilities with variable interest rates. The following table shows the effect of fluctuations in interest rates for assets and liabilities denominated in EUR in the range of + 0.4% percentage points to - 0.4% p.p, i.e receivables and liabilities denominated in foreign currencies in the range of + 0.3% percentage points to -0.3% percentage points

	In thousands of EUR		
	2015	Net effect of changes in interest rates	
		+0.4 b.p. EUR IR	-0.4 b.p. EUR IR
		+0.3 b.p. FX KS	-0.3 b.p. FX KS
Assets			
Cash and deposits with central banks	124,783		
-With fixed interest rate	120,178	-	-
-Variable interest rate	4,605	18	(18)
Loans and advances to banks	22,710	-	-
Loans and advances to customers	188,289		
- With fixed interest rate	188,141	-	-
- Variable interest rate	148	1	(1)
Securities available for sale	66,035		
- With fixed interest rate	53,112	-	-
- Variable interest rate	12,399	50	(50)
	3,719	-	-
Securities held to maturity	405,536	69	(69)
Liabilities			
Deposits due to banks	692	-	-
Deposits due to customers	317,533	-	-
Borrowings from other customers	41,142		
- With fixed interest rate	35,071	-	-
- Variable interest rate	6,071	24	(24)
Subordinated debt	9,952	-	-
	369,319	24	(24)
Net exposure to changes			
Interest rate			
Decembar31, 2015	36,217	45	(45)

Assuming that all other parameters remained the same, increase, or decrease in the variable interest rate for receivables and liabilities in EUR by 0.4 percentage points or for claims and liabilities in foreign currency by 0.3 percentage points, would affect Bank's profit to decrease, or increase in the amount of EUR 45 thousand.

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

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

5. INTEREST INCOME AND EXPENSES

a) Interest Income and similar income
In thousands EUR

	2014	2013
Deposits with:		
- foreign banks	91	46
- Central Bank	-	1
	91	47
Loans approved to:		
- state institutions	569	570
- Government of Montenegro	-	31
- corporate customers	10,013	8,429
- retail customers	4,902	4,110
	15,484	13,140
Securities:		
Securities held to maturity	116	232
Securities available for sale	1,661	886
	1,777	1,118
Total interest income	17,352	14,305
<i>Impairment allowances of interest receivables</i>	(15)	78
	17,337	14,383

b) Interest Expenses
In thousand EUR

	2015	2014
Deposits of:		
- financial institutions	172	282
- state institutions	352	290
- corporate customers	684	903
- retail customers	2,655	2,824
	3,863	4,299
Loans and other borrowings	1,171	968
Subordinated debt	613	51
	5,647	5,318

6. IMPAIRMENT LOSSES AND PROVISIONS

a) Impairment losses

In thousand EUR	2015	2014
Net increase in provisions/(reversal of provision) in respect of:	1,798	1,510
- loans	2	7
- fees and commissions		
- AFS securities	1,322	-
- other	150	57
	3,272	1,574

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015

All amounts expressed in thousands of EUR, unless otherwise stated

6. IMPAIRMENT LOSSES AND PROVISIONS (Continued)

b) Provision expenses

In thousand EUR

	<u>2015</u>	<u>2014</u>
Net increase in provisions/(reversal of provision) in respect of:		
- off-balance sheet items	554	(384)
- other	<u>3</u>	<u>5</u>
	<u>557</u>	<u>(379)</u>

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

6. IMPAIRMENT LOSSES AND PROVISIONS (Continued)

c) Movements on the accounts of allowances for impairment of credit risk weighted assets and provisions for off-balance sheet items

Year 2015

In thousand EUR

	Loans and leases (Note 16)	Interest (Note16)	Repossessed assets (Note21)	Provisions for Operational Risk and Country Risk (Note 25)	Other receivables	Provisions for Off- Balance Sheet Items (Note 25)	Impairment of AFS securities (Note 17a)	Total
Balance at the beginning of the year	5.239	50	495	312	140	290	-	6.526
Impairment during the year	1.798	-	-	3	151	555	1,322	3.829
Reverse of provisions with no effect on IS	-	37	85	-	3	-	-	125
Transfer to Off- Balance sheet	(742)	(3)	-	-	-	-	-	(745)
Balance at the end of the year	6.295	84	580	315	294	845	1.322	9.735

Year 2014

In thousand EUR

	Loans and leases (Note 16)	Interest (Note16)	Repossessed assets (Note 21)	Provisions for Operational Risk and Country Risk (Note 25)	Other receivables	Provisions for Off-Balance Sheet Items (Note 25)	Total
Balance at the beginning of the year	4.660	66	342	307	134	674	6.183
Impairment during the year	1.510	-	-	5	64	(384)	1.195
Reverse of provisions with no effect on IS	-	(13)	153	-	(58)	-	82
Transfer to Off- Balance sheet	(931)	(3)	-	-	-	-	(934)
Balance at the end of the year	5.239	50	495	312	140	290	6.526

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

7. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and Commission Income

In thousand EUR	2015	2014
Loan origination and processing fees	1,132	981
Fees and commissions from off-balance-sheet operations	896	687
Fees and commissions from payment transactions and e-banking	2,060	1,466
Fees and commissions for foreign payments	1,179	1,039
Fees and commissions on credit card operations	3,241	2,382
Other fees and commissions	729	618
	9,237	7,173

b) Fee and Commission Expenses

In thousand EUR	2015	2014
Fees and commissions payable to the Central Bank	270	240
Fees and commissions for foreign payment transactions	267	135
Deposit insurance premium fees	1,252	865
Fees paid for borrowings and guarantees	60	48
Visa and Master card fees	1,418	1,083
Other fees and commissions	463	336
	3,730	2,707

8. STAFF COSTS

In thousand EUR	2015	2014
Net salaries	2,258	2,099
Taxes and contributions on salaries	1,765	1,737
Other employee benefits, net	65	69
Retirement benefits	39	6
Remunerations to members of the Board of Directors	145	143
Remunerations to members of the Development committee	17	30
Remunerations to members of the Credit risk committee	60	17
Employee transportation allowance, net	35	33
Business travel costs and per diems	135	148
Employee training costs	7	6
Provisions for employee retirement benefits (Note 25)	32	14
Aid to employees	4	13
Other costs	39	43
	4,601	4,358

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

9. GENERAL AND ADMINISTRATIVE EXPENSES

In thousand EUR	2015	2014
Rental costs	1,081	996
Security services	508	472
Electricity and fuel bills	131	123
Cleaning services	107	93
Computer and other equipment maintenance	183	146
Premises-related taxes	11	14
Vehicle maintenance	55	39
Insurance costs	170	82
External control expense	221	211
Court expenses	7	-
Other professional fees	24	20
Lawyer fees	17	26
Consultant services	123	70
Intellectual services	111	103
Telecommunication costs	108	106
Communication network costs	107	109
Postage	28	21
Office supplies	120	130
Utilities	18	17
Representation expenses	292	184
Advertising and marketing	449	414
Subscriptions and donations	86	113
Miscellaneous expenses – software maintenance	267	235
Miscellaneous expenses – equipment rentals	400	329
Miscellaneous expenses – data processing services	219	202
Miscellaneous expenses – payment card operations	726	478
Other expenses	499	409
	6,068	5,142

10. DEPRECIATION AND AMORTIZATION

In thousand EUR	2015	2014
Property and equipment (Note 18)	624	588
Intangible assets (Note 19)	187	195
	811	783

11. OTHER EXPENSE

In thousand EUR	2015	2014
Direct write off of receivables	9	45
Other charges	31	26
Losses on the sale and write-offs of property, plant and equipment	58	237
Extraordinary expenses	21	20
Other	1	1
	120	329

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

12. OTHER INCOME

In thousand EUR	2015	2014
Gains on the sale of property, plant and equipment	40	-
Gains from the sale of repossessed assets	96	143
Other operating income	95	86
Collected receivables previously written off	86	56
Other income	103	59
	420	344

13. INCOME TAXES

a) Components of Income Taxes

In thousand EUR	2015	2014
Current income tax expense	294	253
Deferred income tax expense/(benefits)	3	22
	297	275

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

In thousand EUR	2015	2014
Profit before taxes	3,026	2,729
Income tax at statutory rate of 9%	272	246
Tax effects of expenses not recognized for tax purposes	22	7
Other	3	22
Income tax reported in the income statement	297	275

The tax rate used in 2015 and 2014 equals 9% and is applied to the taxable profit of legal entities in Montenegro as in accordance with the Corporate Income Tax Law.

c) Deferred Tax Assets/Liabilities

In thousand EUR	2015	2014
Deferred tax based on unrealized losses on AFS securities	(33)	(29)
Deferred tax based on temporary differences between book and tax value for property plant and equipment	25	24

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

14. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

	December 31, 2015	December 31, 2014
Cash on hand:	20,010	4,260
- in EUR	19,068	3,534
- in foreign currencies	942	726
Gyro account	73,746	43,868
Obligatory reserves held with the Central Bank of Montenegro	30,701	19,353
Other	326	244
	124,783	67,725

As of December 31, 2015 the Bank's obligatory reserves were set aside in accordance with the Regulation of the Central Bank of Montenegro on Bank which refers on Reserve Requirement to Be Held with the Central Bank of Montenegro (Official Gazette of Montenegro no.73/15), stipulating that banks calculate the obligatory reserve applying the following rates:

- 9,5% to the base comprised of demand deposits and deposits maturing within a year. i.e. 365 days; and
- 8,5% to the base comprised of deposits with maturities of over a year. i.e. 365 days.

The rate of 9,5% is also applied to deposits with contractually defined maturities of over a year. i.e. 365 days, with contractual clause on early withdrawal option(within less than 365 days).

The obligatory reserve is to be calculated by applying the aforesaid rates to the average amount of deposits during the previous week, two days before the expiry of the maintenance period.

The Bank sets aside the calculated reserves to the obligatory reserve accounts held with the Central Bank of Montenegro in the country and/or abroad. Required reserves are held in euro.

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

If the Bank is planning to withdraw funds from the account of required reserves of the Central Bank held abroad, in the amount of more than EUR 500,000 is obliged to announce and on written notice to the Central Bank not later than three working days before the withdrawal of the required reserve (Friday).

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

Exceptionally, until December 31, 2016:

- The Bank can up to 25% of required reserves set aside and keep in the form of treasury bills issued by Montenegro.
- The fee prescribed the Central Bank pays to banks on the amount which is the difference between 50% of the total required reserves and the amount of funds that were allocated in the form of Treasury bills, but are maximum of 25% of the total funds required reserves.

On the day of implementation of this decision by December 21, 2015, the Bank who had set aside and kept more than 25% of the required reserve in T-bills can continue to keep T-bills as part of the required reserves up to the date of their maturity. Banks that as at December 31, 2016 had set aside and held the required reserve in T-bills can continue to keep- T bills as part of the mandatory reserve until their due date, but not later than June 30, 2017.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

15. LOANS AND RECEIVABLES DUE FROM BANKS

In thousand EUR	December 31, 2015	December 31, 2014
Correspondent accounts with foreign banks	21,758	42,425
Deposits held with resident banks and other depository institutions	-	9
Deposits held with non-resident banks and other depository institutions	952	3,769
	22,710	46,203

16. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

In thousand EUR	December 31, 2015	December 31, 2014
Due loans:		
Government of Montenegro		
- municipalities (public organizations)	-	-
- privately-owned companies	1,140	8
- state owned companies	7,117	5,396
- retail customers	-	94
- others	1,032	1,450
Short-term loans:		
Government of Montenegro		
- municipalities (public organizations)	546	-
- privately-owned companies	42,443	33,063
- state owned companies	1,096	1,079
- retail customers	6,608	5,002
- others	14,836	1,342
Long-term loans:		
Government of Montenegro		
- municipalities (public organizations)	69	1,794
- privately-owned companies	65,626	53,992
- state owned companies	6,976	4,482
- retail customers	44,797	38,424
- others	246	796
	192,535	146,926
Interest receivables:		
- loans	1,537	1,373
Accruals:		
- interest on loans	235	62
- fees	(1,121)	(948)
Factoring	7	2,736
Deposits with other depository institutions	1,473	1,090
Activated guarantees	9	42
	2,140	4,355
Less:		
Impairment allowance of loans, activated guarantees and factoring (note 6c)	(6,295)	(5,239)
Impairment allowance of interest receivables(note 6c)	(84)	(50)
Impairment allowance of accruals	(7)	(15)
Impairment allowance	(6,386)	(5,304)
	188,289	145,977

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NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

16. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

The concentration of the Bank's gross loans extended to customers per industry was as follows:

In thousand EUR	December 31, 2015	December 31, 2014
Agriculture, forestry and fishing	3,244	2,598
Mining	1,793	757
Processing industry	7,072	4,087
Water supply	880	1,299
Construction industry	11,114	9,342
Trade	45,125	44,062
Transport and storage	12,586	11,774
Accommodation and catering services	15,159	7,854
Information and communications	1,801	2,515
Finance and insurance sector	2,380	2,040
Real estate trade	10,910	8,817
Professional, scientific and technical activities	7,900	2,617
Administrative and support service activities	1,261	1,283
Public administration, defense and compulsory social security	68	424
Education	54	164
Health and social care	607	769
Art, entertainment and recreational activities	455	305
Other services	368	790
Non-resident legal entities	14,508	1,090
Retail customers	51,004	43,390
	188,289	145,977

17. INVESTMENT SECURITIES

a) Securities Available for Sale

In thousand EUR	December 31, 2015	December 31, 2014
Debt Securities		
Government of Montenegro	40,435	14,063
Non-residents	23,333	10,026
	63,768	24,089
Allowance for Impairment of debt securities available for sale (Note 6c)	(152)	-
	63,616	24,089
Equity Securities		
Residents	2,785	2,182
Non-residents	804	289
	3,589	2,471
Allowance for Impairment of equity securities available for sale (Note 6c)	(1,170)	-
	2,419	2,471
	66,035	26,560

Securities classified as available for sale amounting to EUR 40,435 thousand as of December 31, 2015, refer to public bonds issued by the Ministry of Finance of the Government of Montenegro, with nominal value of

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

EUR 38,930 thousand, maturing from April 2016 to March 2020, with interest rate mostly amounting 3M EURIBOR+595bps.

17. INVESTMENT SECURITIES (Continued)

Debt securities of residents classified as available for sale amounting to EUR 23,333 as of December 31, 2015, with nominal value of EUR 22,500, maturing from February 2016 to November 2020 with interest rate from 4.00% to 10.38%.

b) Securities held to maturity

Securities held to maturity amounting to EUR 3,719 thousand as at 31 December 2015 (December 31, 2014: EUR 1,666 thousand) relate to:

1. Treasury bills by Government of Montenegro with face value of EUR 3,500 thousand and maturity of six months from the purchase date, with annual interest rate of 0.5%, and
2. Bonds of the Montenegro Labor Fund totaling EUR 213 thousand maturing as of July 27, 2017 with the interest rate of 7%.

18. PROPERTY, PLANT AND EQUIPMENT

Movements on property, equipment and other assets for 2015 and 2014 are presented in the following table:

In thousand EUR	<u>Buildings</u>	<u>Computer equipment</u>	<u>Other equipment</u>	<u>Investments In progress</u>	<u>Total</u>
Cost					
Balance as at January 1, 2014	197	1,068	2,929	151	4,345
Additions	-	81	81	723	885
Transfers	-	117	742	(859)	-
Sales and disposals	-	(37)	(181)	-	(218)
Balance as at Decembar 31, 2014	<u>197</u>	<u>1,229</u>	<u>3,571</u>	<u>15</u>	<u>5,012</u>
Additions	3	41	329	145	518
Transfers	90	22	12	(124)	-
Sales and disposals	-	(131)	(170)	-	(301)
Balance as at Decembar 31, 2015	<u>290</u>	<u>1,161</u>	<u>3,742</u>	<u>36</u>	<u>5,229</u>
Accumulated Depreciation					
Balance as at January 1, 2014	52	969	1,514	-	2,535
Depreciation (Note 10)	4	107	477	-	588
Sales and disposals	-	(36)	(107)	-	(143)
Balance as at Decembar 31, 2014	<u>56</u>	<u>1,040</u>	<u>1,884</u>	<u>-</u>	<u>2,980</u>
Depreciation (Note 10)	6	106	512	-	624
Sales and disposals	-	(131)	(124)	-	(255)
Balance as at Decembar 31, 2015	<u>62</u>	<u>1,015</u>	<u>2,272</u>	<u>-</u>	<u>3,349</u>
Net book value:					
- at December 31, 2015	<u>228</u>	<u>146</u>	<u>1,470</u>	<u>36</u>	<u>1,880</u>
- at December 31, 2014	<u>141</u>	<u>189</u>	<u>1,687</u>	<u>15</u>	<u>2,032</u>

As of December 31, 2015 the Bank doesn't have any property under mortgage as a collateral for repayment of loans and other liabilities.

Investments in progress mainly relate to investments in equipping new branch in Bar in the amount of EUR 25 thousand.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

19. INTANGIBLE ASSETS

Intangible assets are mostly comprised of licenses and software. The movements on intangible assets in the course of 2015 and 2014 were as follows:

In thousand EUR

	Other intangible assets	Licences	Softver	Investment in Progress	Total
Cost					
Balance as at January 1, 2014	526	634	883	36	2,079
Additions	-	81	62	106	249
Transfers	-	9	62	(71)	-
Balance as at Decembar 31, 2014	526	724	1,007	71	2,328
Additions	-	70	184	74	328
Transfers	-	-	53	(53)	-
Sales and disposals	-	-	(32)	-	(32)
Balance as at Decembar 31,2015	526	794	1,212	92	2,624
Accumulated Amortization					
Balance as at January 1,2014	414	201	579	-	1,194
Amortization (Note 10)	53	26	116	-	195
Otuđenja i rashodovanja	-	-	-	-	-
Balance as at Decembar 31,2014	467	227	695	-	1,389
Amortization (Note 10)	36	24	127	-	187
Sales and disposals	-	-	(31)	-	(31)
Balance as at Decembar 31, 2015	503	251	791	-	1,545
Net book value:					
- at December 31, 2015	23	543	421	92	1,079
- at December 31, 2014	59	497	312	71	939

Additions to intangible assets during 2015 related mainly to activation of the licenses in the amount of EUR 70 thousand (the largest part refers to Microsoft Office licenses amounting to EUR 54 thousand) and implementation of new applications within the application software Dabar, amounting to EUR 77 thousand. Investments progress in intangible assets amount to EUR 92 thousand. These investments mainly relate to software projects related to card and ATM operations. In accordance with IAS 38 licenses with an unlimited lifetime are not amortized. Useful lives are reviewed at the end of each reporting period.

20. OTHER FINANCIAL RECEIVABLES

In thousand EUR

	December 31, 2015	December 31, 2014
Receivables from custody operations	27	18
Advances paid	199	6
Other fee and commission receivables	281	189
Receivables from state funds	55	79
Accounts receivable	65	30
Receivables from card operations	46	37
Receivables from employees	33	34
Other financial receivables	225	213
Allowance for Impairment (Note 6c)	(151)	(5)
	780	601

21. OTHER OPERATING RECEIVABLES

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NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

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In thousand EUR	December 31, 2015	December 31, 2014
Reposessed assets	597	518
Other operating receivables	346	278
Prepaid expenses	805	646
Impairment (Note 6c)	(581)	(505)
	1,167	937

Assets acquired through collection in the amount of EUR 597 thousand as at December 31, 2015 (December 31, 2014: EUR 518 thousand) relate to assets acquired based on the foreclosure of collaterals, which are owned by the Bank for a period exceeding 12 months. Proceeds from collection of receivables are stated at the lower of the total amount of receivables and the estimated value.

Decision of the Central Bank of Montenegro on minimum standards for bank investments in real estate and fixed assets ("Off. Gazette of Montenegro" no. 24/09, 66/10, 58/11, 61/12, 13/13, 51/13 and 16 / 15), stipulates that the amount of investment in real estate and fixed assets exceeding 50% of the bank's own funds is treated as a deduction in the calculation of the total amount of own funds.

For property which is acquired in exchange for receivables in the process of debt restructuring, in bankruptcy or liquidation of the debtor, in the process of reorganization of the debtor in accordance with the regulations governing bankruptcy or procedure for the settlement of claims, the bank is obliged to include in the calculation of the total amount of investments and fixed assets the value of the property at the following minimal percentages:

- 1) 0%, if no more than four years have passed from the date of acquiring the property;
- 2) 30%, if more than four but not more than five years have passed
- 3) 50%, if more than five but not more than six years have passed;
- 4) 75%, if more than six years have passed from the date of acquiring the property."

Allowance for impairment of the other assets refers to the reposessed assets in the amount of EUR 580 thousand (31 December 2014: EUR 495 thousand).

22. DEPOSITS DUE TO BANKS

Deposits from Banks in the amount of EUR 692 thousand as at 31 December 2015 (31 December 2014: EUR 597 thousand) completely relate to demand deposits, of which EUR 3 thousand relates to interest-bearing deposits from domestic banks, while EUR 689 thousand relates to non-interest bearing demand deposits from foreign banks

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

23. DEPOSITS DUE TO CUSTOMERS

In thousand EUR	December 31, 2015	December 31, 2014
Demand deposits:		
- financial institutions	748	577
- privately-owned companies	69,427	37,900
- companies with majority state ownership	7,387	3,273
- municipalities (public organizations)	4,559	3,094
- funds	364	947
- retail customers	56,055	34,271
- non-profit organizations	4,247	2,020
- others	24,252	12,853
	<u>167,039</u>	<u>94,935</u>
Funds on the escrow account	111	1,454
Short-term deposits::		
- financial institutions	515	3,876
- privately-owned companies	10,571	14,178
- companies with majority state ownership	2,000	6,083
- municipalities (public organizations)	759	4,598
- funds	-	600
- retail customers	12,363	38,187
- non-profit organizations	102	129
- others	607	1,168
	<u>26,917</u>	<u>68,819</u>
Long-term deposits::		
- financial institutions	2,750	1,673
- privately-owned companies	19,009	9,810
- companies with majority state ownership	24,023	876
- municipalities (public organizations)	296	40
- funds	-	-
- retail customers	68,468	30,818
- non-profit organizations	2,177	498
- others	4,028	3,890
	<u>120,751</u>	<u>47,605</u>
<i>Interest and other liabilities</i>		
Accrued interest on deposits	<u>2,715</u>	<u>2,505</u>
	<u>317,533</u>	<u>215,318</u>

Demand deposits of retail customers denominated in EUR were placed at interest rates ranging from 0% to 0.5% annually.

Short-term and long-term deposits of retail customers denominated in EUR were placed at interest rates ranging from 0% to 7.5% annually depending on the selected savings package and the amount deposited (up to EUR 30 thousand or over EUR 30 thousand). Short-term and long-term deposits of retail customers denominated in foreign currencies were placed at interest rates ranging from 0% to 3% annually depending on the currency

Short-term and long-term deposits of corporate customers denominated in EUR were placed at interest rates ranging from 0% to 7.25% annually, depending on the term of deposit placement and the amount deposited (up to EUR 100 thousand or over EUR 100 thousand). Corporate short-term and long-term deposits denominated in other foreign currencies were placed at interest rates ranging from 0.5% to 1.3%.

Demand deposits of public and other organizations bear interest ranging from 0% to 0.5% per annum.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

24. BORROWINGS FROM OTHER CUSTOMERS

In thousands of EUR

	Period/ Year	Annual interest rate	December 31, 2015	December 31 , 2014
European Investment Bank (2009)	12	4.032%	1,617	1,851
European Investment Bank (2009)	12	3.923%	904	1,035
European Investment Bank (2010)	12	3.604%	2,759	3,130
European Investment Bank (2010)	12	3.168%	1,472	1,657
European Investment Bank (2010)	12	3.019%	1,454	1,638
European Investment Bank (2011)	12	3.841%	2,433	2,708
European Investment Bank (2011)	12	3.181%	711	788
European Investment Bank (2012)	12	2.398%	1,745	1,916
			<u>13,095</u>	<u>14,723</u>
European Bank for Reconstruction and Development (2014, 2015)	4-7	3% - 4.8%	6,071	5,000
The European Fund for Southeast Europe („EFSE”) Montenegro B.V. (2014, 2015)			-	1,250
Investment Development Fund Montenegro AD, Podgorica (2005 to 2015)	1.9-12	1% - 7.64%	21,489	7,964
Directorate for Development of Small and Medium Enterprises(2007 to 2010)	5-8	0% - 1%	422	521
			<u>41,077</u>	<u>29,458</u>
Accruals:				
Invoiced interest expense			-	-
Non-Due interest expense			65	216
Total			<u>41,142</u>	<u>29,674</u>

As of December 31, 2015, the Bank has liabilities towards European Investment Bank (“EIB”) relating to long term loans in the amount EUR 13,095 thousand (December 31,2014: EUR 14,723 thousand). Loans were granted with the aim to stimulate and develop small and middle enterprises in Montenegro, with a grace period no longer than two years. The loans are covered with the guarantee of the State of Montenegro.

European Bank for Research and Development („EBRD”) has granted a loan to the Bank in the amount of EUR 5,000 thousand on November 5, 2012 with the annual interest rate of 4.75% plus the official inter-banking interest rate 6M EURIBOR on period of 5 years (loan is due on 15 January 2018). In addition, on November 20,2014 two loan agreements were concluded with the Bank in the amount of EUR 2.500 thousand with a variable annual interest rate plus 6M EURIBOR of 3% and 3.3 % (until November 19, 2018, 3.8 % until November 19, 2019 and 4.3 % until January 15, 2022), on period of 5 and 7 years, respectively (loans are due on January 15, 2020 and January 15, 2022 respectively). The Bank is obligated to use these funds for the development and the stimulation of micro, small and middle enterprises in Montenegro, as well as grant “mortgage” loans to individuals.

In accordance with the Article 5.03 of the Loan Agreement and Article 11.3 of the Loan between the Bank and EBRD (“Issuing Bank Agreement”), the Bank has made a commitment to its result of operations comply with certain financial covenants. On December 31, 2015, the Bank is in breach of Loan Portfolio Concentration Ratio), which gives the creditor the opportunity to declare their claims due in full amount. The Bank obtained approval from EBRD by which the creditor waives the right to require the Bank’s debt maturities at December 31, 2015 in its entirety. Accordingly, the Bank classified the liabilities towards EBRD in accordance with repayment schedules.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

25. PROVISIONS

In thousand EUR	December 31, 2015	December 31, 2014
Provisions for potential losses per:		
- off-balance sheet exposures (note 6c)	845	290
- operational risk (note 6c)	315	312
Provisions for employee retirement benefits and jubilee awards	134	109
	1,294	711

Provisions for employee retirement benefits totaling EUR 134 thousand as of December 31, 2015 were made based on the present value of the expected future payments of retirement benefits to the employees upon fulfillment of retirement criteria.

The present value of the expected future payments of retirement benefits to the employees upon fulfillment of retirement criteria was determined by an independent certified actuary as of December 31, 2015 in accordance with the rules of the actuarial profession, using the projected unit credit actuarial valuation method. Technical basis used for the calculation of the present value of the expected future payments entailed the use of:

- a) commutative numbers obtained from the calculated survivorship probability of the Montenegro population from the 1980 – 1982 census; and
- b) annual interest rate of 8% for discounting future payments to the employees.

Assumptions used to assess the present value of the expected future payments of retirement benefits to the employees are presented below:

	Assessment as at	
	December 31, 2015	December 31, 2014
	%	%
Discount rate for retirement benefits	8.00	10.00
Employee turnover ratio	(2.22)	6.00
Inflation rate	1.50	(0.70)
Expected salary growth rate	-	-

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

In thousand EUR	2015	2014
Balance, beginning of year	109	99
Charge for the year (Note 8)	32	14
Usage of provisions	(7)	(4)
	134	109

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

26. OTHER LIABILITIES

In thousand EUR	December 31, 2015	December 31, 2014
Liabilities from consignment operations	374	558
Advances received	1,984	1,265
Other taxes payable	33	22
Liabilities relating to deductions from salaries	9	8
Accounts payable	186	54
Accrued liabilities	389	442
Custody operation liabilities	1,652	1,695
Suspense accounts	224	225
Other liabilities	279	251
	5,130	4,520

27. SUBORDINATED DEBT

As at December 1, 2014 the Bank has issued 100,000 subordinated bonds with the nominal value of EUR 100 which mature in 7 years (December 1, 2021). Bonds have a fixed interest rate of 6% p.a. with semi-annual coupon payments. Bonds have been issued in a public offering. As at November 28, 2014, the Securities Commission of Montenegro has issued a Statement on the success of the bond issue.

28. CAPITAL

The ownership structure of the Bank's share capital as of December 31, 2015 and 2014 was as follows:

Shareholder	December 31, 2015			December 31, 2014		
	Share count	In thousand EUR	% Ownership	Share count	In thousand EUR	% Ownership
Generali Financial Holdings FCP-FIS - Sub-Fund 2	5,281	2,700	16.87	5,281	2,700	16.87
Cerere s.r.l	4,360	2,229	13.93	4,360	2,229	13.93
Gorgoni Lorenzo	4,063	2,077	12.98	2,591	1,325	8.28
Gorgoni Antonia	3,131	1,601	10.00	3,131	1,601	10.00
Todorović Miljan	2,316	1,184	7.40	2,316	1,184	7.40
Other shareholders	12,154	6,215	38.82	13,626	6,967	43.52
Total	31,305	16,006	100.00	31,305	16,006	100.00

29. COMPLIANCE WITH THE REGULATIONS OF THE CENTRAL BANK OF MONTENEGRO

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

In accordance with the Decision on Capital Adequacy in Banks ("Official Gazette of Montenegro." no. 38/2011. 55/2012), the Bank's capital is comprised of the Bank's core capital and supplementary capital, minus deductible items. The Bank's capital as of December 31, 2014 amounted to EUR 31,481 thousand (December 31, 2014: EUR 29,968 thousand).

The Bank's core capital formed in accordance with the Decision on Capital Adequacy of Banks as of December 31, 2015 amounted to EUR 21,481 thousand (December 31, 2014: EUR 19,979 thousand). The Bank's capital as of December 31, 2015 was comprised of the following components: paid-in share capital at nominal value, collected share premiums decreased by the amount of prior period losses and amount of intangible assets and unrealized loss on fair value adjustment of financial assets available for sale, at fair value, as well as the positive difference between the amount of the calculated reserve for potential losses and the sum of the amounts of impairment allowance per balance sheet assets and provisions per off-balance sheet items.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

29. COMPLIANCE WITH THE REGULATIONS OF THE CENTRAL BANK OF MONTENEGRO
(continued)

Additional elements of Bank's capital that are included in the supplementary capital as of December 31, 2015 amounted to EUR 10,000 thousand relate to subordinated debt for which the requirements of Article 6 of the Decision on the capital adequacy of banks are fulfilled, ie. subordinated bonds issued by the Bank with a face value of EUR 10,000 thousand, whereby, in accordance with Article 4 of the Decision, the Bank shall, in calculating Bank's capital, adhere to the following:

- 1) the total amount of additional capital may not exceed the amount of Bank's core capital;
- 2) the total sum of subordinated debt and cumulative preference shares may not exceed 50% of the Bank's core capital.

Pursuant to Decision on Capital Adequacy of Banks effective as of December 31, 2014 the Bank is required to maintain the minimum capital adequacy ratio of 10%. As of December 31, 2015 the Bank's capital adequacy ratio equaled 12.85% (December 31, 2014: 15.25%) and was above the prescribed minimum. As of December 31, 2014 all of the Bank's performance adequacy ratios were in compliance with the prescribed minimum values required by the regulations of the Central Bank of Montenegro.

30. OFF-BALANCE SHEET ITEMS

In thousand EUR	December 31, 2015	December 31, 2014
Undrawn loan facilities	13,080	12,228
Irrevocable documentary letters of credit issued for payments abroad	120	354
Other letters of credit for payments abroad	967	891
Guarantees issued		
- Payment guarantees	29,261	29,355
- Performance guarantees	8,736	10,443
- Other types of guarantees	15,445	15,501
	67,609	68,772
Collaterals securitizing receivables	387,285	384,735
Other items of the Bank's off-balance sheet exposures	94,817	82,946
Broken-period interest	644	695
Total	482,746	468,376
Total	550,355	537,148

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

31. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statement, cash and cash equivalents entail all assets with maturities of up to three months as follows: cash and available assets held with the Central Bank of Montenegro, other banks and depositary institutions.

In thousand EUR	December 31, 2015	December 31, 2014
Cash on hand	19,068	3,534
Foreign currency cash on hand	942	726
Assets in the course of settlement	326	245
Gyro account	73,746	43,868
Correspondent accounts with foreign banks	21,759	42,425
Deposits placed with the Central Bank of Montenegro	30,701	19,353
Deposits placed with banks and other depositary institutions – Residents	37	11
Deposits placed with banks/central banks and other depositary institutions – non-residents	2,387	1,945
	148,966	112,107

32. RELATED PARTY TRANSACTIONS

The Law on Banks (“Official Gazette of Montenegro.” no. 17/2008, 44/2010 and 40/2011) defines that significant influence on the Bank’s operations is exercised by those entities/persons appointing at least one representative in the Board of Directors or some similar board, either through shareholding, through agreement with the owners or otherwise. In accordance with the Law on Banks, related party transactions are presented in the following tables:

In thousand EUR	December 31, 2015	December 31, 2014
<i>Receivables</i>		
Todorović Mijan	1	1
Montinari Dario	377	341
Jugopetrol a.d. Kotor	-	1
Podravska banka d.d., Koprivnica	2,141	4,943
	2,519	5,286
<i>Payables</i>		
<i>Demand deposits:</i>		
Miljan Todorović	5	3
Sigilfredo Montinari	1	1
Jugopetrol a.d. Kotor	-	176
Nereo Finance SA	-	-
Podravska Banka d.d. Koprivnica	160	438
Gorgoni Lorenzo	47	24
Cerere s.r.l.	3	3
Gorgoni Paolo	3	9
	219	654
<i>Term deposits:</i>		
- Miljan Todorović	285	285
	285	285
<i>Custody:</i>		
Gorgoni Paolo	3	3
	3	3
Total payables	507	942

Expenses from transactions with related parties during 2015 amounted to EUR 389 thousand (2014: EUR 409 thousand), while income totaled EUR 141 thousand (2014: EUR 217 thousand).

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

As of December 31, 2015, receivables from employees amounted to EUR 1,999 thousand (December 31, 2014: EUR 2,117 thousand), relate to the receivables arising from loans approved to employees, authorized current account overdrafts and credit card receivables.

In 2015 total gross remunerations paid to person with special authorities and responsibilities amounted to EUR 650 thousand (2014: EUR 597 thousand).

33. LITIGATION

As of December 31, 2015 there were 25 legal suits filed against the Bank by legal entities and private individuals totaling EUR 596 thousand. The outcome of the pending legal suits cannot be currently anticipated with any certainty. However, the Bank's management and legal counsel do not expect negative outcome of the legal suits that could have material effects on the Bank's financial statements for the year 2015.

As of December 31, 2014 the legal suits involving the Bank as the plaintiff amounts EUR 6,880 thousand.

34. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit / (loss) attributable to shareholders of the Bank divided by the weighted average number of ordinary shares outstanding for the period.

	<u>2015</u>	<u>2014</u>
Basic and diluted earnings per share		
Net profit (In 000 EUR)	2,729	2,454
Weighted average number of ordinary shares outstanding	<u>31,305</u>	<u>31,305</u>
Earnings per share / in EUR	<u>87.17</u>	<u>78.39</u>

35. TAXATION RISKS

Montenegro tax legislation is subject to varying interpretations and legislative changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Bank may not concur with the views of the Bank's management. Consequently, transactions may be challenged by the relevant tax authorities and the Bank could be assessed additional taxes, penalties and interest, which can be significant. The fiscal periods remain open for review by the tax and customs' authorities with regard to the tax-paying entity's tax liabilities for a period of five years from the date on which tax liability arose. The Bank's management is of opinion that tax liabilities recorded in the financial statements are fairly stated.

36. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting date that could have affected the financial position and results reported in financial statements for the year ended December 31, 2015.

37. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of the statement of financial position components denominated in foreign currencies into EUR as at December 31, 2015 and 2014 were as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
USD	1.0926	1.216
CHF	1.0814	1.2028
GBP	0.73799	0.7823

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

38. GENERAL INFORMATION ON THE BANK

In accordance with the Decision on the Contents, Deadlines and Manner of Preparation and Submission of the Financial Statements of Banks (Official Gazette of Montenegro no. 15/12 and 18/13), general information on the Bank is presented below:

Bank's registered name:	Hipotekarna banka AD, Podgorica;
Registered address:	Ulica Josipa Broza Tita broj 67, 81000 Podgorica;
Bank's ID number:	02085020
Telephone/Fax number:	+382 77 700 001
Web page:	http://www.hipotekarnabanka.com
E-mail address:	hipotekarna@hb.co.me

The Bank has head office and 18 branches and offices.
Number of employees as at 31 December 2015 is 176.
Gyro account: 907-52001-93.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

38. GENERAL INFORMATION ON THE BANK (continued)

Information on the President and members of the Board of Directors until December 31, 2015:

	First name, Last name	Date of bith	Podaci o prebivalištu	
			Place	Address (street, i broj)
1. President	Sigilfredo Montinari	27 May 1966	Lecce, Italy	Via P. Cecere 3
2. Member	Božana Kovačević	20 December 1956	Koprivnica, Croatia	Ul. Vinodolska br. 51
3. Member	Dolly Predović	20 June 1966	Milano, Italy	Via Visconti di Modrone 1
4. Member	Miljan Todorović	22 May 1964	Trieste, Italy	Salita Alla Madonna di Gretta 2/5
5. Member	Renata Vinković	19 September 1971	Koprivnica, Croatia	Križevačka 31b
6. Member	Goran Varat	03 January 1977	Zaprešić, Croatia	Grada Kaštela br.8
7. Member	Esad Zaimović	17 March 1964	Podgorica	Bulevar Džordža Vašingtona br.92/VII

Information on executive management of the Bank until December 31, 2015:

Chief Executive Director	Esad Zaimović	17 March 1964.	Podgorica	Bulevar Džordža Vašingtona br.92/VII
Executive Director authorised for signing	Esad Zaimović	17 March 1964.	Podgorica	Bulevar Džordža Vašingtona br.92/VII

Top ten shareholders of the Bank until December 31, 2015:

Name, Last name / Company name	Residence / Registered address (place, street, number)	Data on shares	
		Share count	% Ownership
Generali Financial Holdings FCP-FIS – Sub-Fund 2	Josipa Broza Tita 67	5,281	16.8695
Cerere S.R.L.	Via di Torrebianca 43, Trieste, Italy	4,360	13.9275
Gorgoni Lorenzo	Cutrofiano, Via Umberol, Italy	4,063	12,9788
Gorgoni Antonia	Corso Piave 16, Lecce, Italy	3,131	10,0016
Todorović Miljan	Salita Alla Madonna di Gretta 2/5 Trieste, Italy	2,316	7.3982
Podravska banka dd, Koprivnica	Opatička 3, Koprivnica, Croatia	2,047	6.5389
IBIS SRL	Via Tondi, Lecce, Italy	1,524	4.8682
Montinari Dario	Piazza Libertini 10, Italy	1,445	4.6159
Montinari Sigilfredo	Via P.Cecere 3, Lecce, Italy	1,445	4.6159
Montinari Andrea	Via V. Tondi, Lecce, Italy	1,444	4.6127

Total amount of share capital as of. December 3, 2015: EUR 16,006 thousand.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

38. GENERAL INFORMATION ON THE BANK (Continued)

Share issues and share issue designations:

Share issue designation	Share par value	Share count
2nd share issue	100,000 RSD	200
2nd share issue	10,000 RSD	1,000
3rd share issue	1,000 USD	1,200
3rd share issue	1,000 USD	300
4th share issue	1,000 novih RSD	900
4th share issue	1,000 novih RSD	100
5th share issue	10,000 novih RSD	300
6th share issue	10,000 novih RSD	500
7th share issue	10,000 novih RSD	1,000
8th share issue	10,000 novih RSD	2,500
Share issue based on profit distribution	10,000 RSD	1,365
9th share issue	1,000 DEM	3,000
Share issue based on profit distribution	1,000 DEM	2,186
10th share issue	1,000 DEM	5,000
Share issue for sales to the shareholders with preemptive rights	1,000 DEM	5,000
First closed issue	511.29 EUR	5,000
Share issue based on profit distribution	1,000 DEM	2,186
Share issue based on profit distribution	1,000 DEM	2,186
Share issue based on profit distribution	1,000 DEM	2,186

The international ID number of the Banks regular shares (ISIN) is MEHIBPRA9PG8.

The stock exchange and quotations where the Bank's shares are listed: Montenegro Stock Exchange Podgorica, Free share market C.

Share prices when traded on the stock exchange:

	Ordinary shares	
	Lowest	Highest
In the previous year	490.00	550.00
In the current year	510.00	520.00

Share prices at the beginning and the end of the reporting period:

	Ordinary shares	
	At the period beginig	At the period end
In the previous year	490.00	520.00
In the current year	510.00	510.00

Net profit per share:

In the previous year	78.39
In the current year	87.13

Market price per share relative to the net profit per share:

In the previous year	6.63
In the current year	4.58

Carrying value per share:

In the previous year	931.99
In the current year	1,123.27

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2015

All amounts expressed in thousands of EUR, unless otherwise stated

38. GENERAL INFORMATION ON THE BANK (Continued)

Performance indicators of the Bank as of December 31, 2015 and 2014 are following:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>	<u>Average</u>
Total asses	410,475	292,672	351,574
Net income	2,729	2,454	2,592
Core capital	21,481	19,979	20,730
Supplementary capital	10,000	9,989	9,995
Own funds	31,481	29,968	30,725
Weighted balance and off balance sheet items	214,350	170,942	192,646
Solvency ratio	12.85%	15.25%	14.05%
Return on asset	0.78%	0.95%	0.87%
Return on capital	8.27%	8.11%	8.19%

The auditing company that audited financial statements for 2014: EY Montenegro d.o.o. Podgorica, Ulica Serdara Jola Piletica, BC Palada, Podgorica.