



PROSPECTUS

OF THE SECOND ISSUE OF SUBORDINATED BONDS
OF THE HIPOTEKARNA BANKA JSC PODGORICA
THROUGH A PRIVATE PLACEMENT

 **HIPOTEKARNA
BANKA**

Vama posvećena

PROSPECTUS

OF THE SECOND ISSUE OF SUBORDINATED BONDS OF THE HIPOTEKARNA BANKA JSC PODGORICA THROUGH A PRIVATE PLACEMENT

Interest rate 5,9% per annum, maturity in 2023
Issue price 100%

Hipotekarna Banka JSC Podgorica, with a registered office in Podgorica, at the address Josipa Broza Tita 67, is registered in the Registry of Issuers kept with the Securities and Exchange Commission of Montenegro under number 3, pursuant to the Decision of the General Shareholders Meeting No. 02-2530/5 of 29 June 2017 and the Decision on the Capital Adequacy of Banks ("Official Gazette of Montenegro", Nos. 38/11 and 55/12) ("Decision of the Central Bank of Montenegro"), will conduct the second issue of subordinated bonds through a private placement to raise supplementary equity capital.

The volume of the Issue amounts to EUR 4.000.000,00 (four million euro). The Issue is divided to 40.000 (fourty thousand) pieces of Bonds of the same type and class, each with a face value of EUR 100,00 (one hundred euro), with a maturity period of 6 (six) years.

Bonds included in this Issue are dematerialized, freely transferable debt securities which represent direct and unconditional obligation of the Hipotekarna Banka JSC Podgorica.

The Issuer will pay interest at a fixed rate of 5,9 % per annum (five point nine percent) to Bonds issued, with interest compounded semi-annually and the payment of interest. The interest shall be calculated on pro-rata basis using the actual number of days in the period for which the interest is calculated and the actual number of days in a year.

Bonds will be through a private placement process in accordance with the Law on Securities ("Official Gazette of the Republic of Montenegro", Nos. 59/00, 10/01, 43/05 and 28/06, "Official Gazette of Montenegro", Nos. 53/09, 73/10, 40/11, 06/13), ("Law on Securities"). Bonds secondary market trading will be carried out on the regulated capital market - the Montenegro Stock Exchange JSC Podgorica.

Hipotekarna Banka JSC Podgorica (hereinafter referred to as:"the Issuer") accepts responsibility for the contents of this Prospectus. The Prospectus of the second issue of subordinated bonds of the Issuer through a private placement (hereinafter referred to as"Bonds") contains information about:

- 1. Bonds,*
- 2. Legal status and capital of the Issuer,*
- 3. Business activities of the Issuer,*
- 4. Financial position of the Issuer,*
- 5. Responsible persons of the Issuer,*
- 6. Investment statement*
- 7. Acknowledgement issued by the persons to whom a private placement has been adressed*
- 8. Information about already known buyers or potential investors, and*
- 9. Acknowledgement issued by the responsible persons of the Issuer.*

According to the Issuer's opinion and in accordance with the information and data available to the Issuer, the information in this Prospectus constitute a full and truthful presentation of assets and liabilities, profit and losses, financial position and results of operations of the Issuer and of the rights contained in the securities to be issued, as well as that the facts that could affect the completeness and veracity of this Prospectus are not omitted.

The Issue of Bonds is carried out in accordance with Article 44a paragraph 2 item 4 of the Law on Securities, and the Bonds Issue Prospectus is drawn up in accordance with the Rules on the contents of the Summary prospectus and the method and procedure for registration of private placements of ownership and long-term debt securities ("Official Gazette of the Republic of Montenegro", No. 34/07 of 08.06.2007, "Official Gazette of the Republic of Montenegro", No.39/08 of 25.06.2008) ("the Rules").

The Issuer will make available this Prospectus for inspection to already known buyers or potential investors following the receipt of the Decision issued by the Securities and Exchange Commission of Montenegro (hereinafter referred to as" the Commission") on its registration in accordance with Article 10 of the Rules.

Legal relations arising between the Issuer and the investor, i.e a bondholder, regarding the Issue and bonds trading, exercise of rights and fulfillment of obligations pertaining to Bonds, including disputes, shall be governed by laws of the State of Montenegro. The distribution of the Prospectus and investment in Bonds in certain foreign legal systems may be prohibited or restricted. Investors to which the regulations of such legal systems are applied, are required to adhere to these prohibitions and restrictions and bear sole responsibility failure to comply with any of the foregoing.

No one is authorized to give information and statements related to the offer and sale of Bonds not contained in this Prospectus. Neither the Issuer nor the persons responsible for the contents of this Prospectus have not authorized other persons to provide information and statements related to Bonds which are not contained in this Prospectus. If such information or statements would be given without an authorization, investors should not rely on them like to information and statements made by, or approved by the Issuer. No guarantees, explicit or implicit, have not been given by the Issuer for the accuracy and completeness of information given in such a manner. The Issuer also provides no explicit or tacit confirmation of the authenticity of information given in such a manner or unauthorized statements or the consent to their release nor assumes responsibility for any damage suffered by investors in connection with any of the foregoing.

Neither the distribution of this Prospectus nor the Issue and listing of Bonds means that information about the Issuer, its financial position, operating results and other information contained in this Prospectus will be changed after the date of its drawing up. Any material fact contained in the Prospectus which may affect the Bond price, and which arises or is acknowledged in the period from submission of the Prospectus for inspection to already known buyers or potential investors

until the expiry of the period for subscription and payment of Bonds, will be stated or altered in the Supplement to the Prospectus which will be available for inspection to already known buyers or potential investors in the same manner as the Prospectus, with the prior approval of the Securities and Exchange Commission.

This Prospectus should not be considered a recommendation to buy or sell Bonds, investment advice or recommendation, legal or tax advice by or on behalf of the Issuer.

The Issuer shall refer every investor that considers the possibility of purchase and sale of Bonds to the need and desirability of its own testing, assessment and analysis of all information about the facts, risks, trends, estimates and forecasts relating to the Issuer, Bonds and business environment.

The Issuer also refers potential investors to request, according to their own need and assessment and at their own expense, the advice they need from authorized legal, tax, financial and other advisers.

Unless otherwise stated, all annual information, including information on financial statements, are based on calendar years. Numbers in this Prospectus have been rounded up, and therefore, numbers presented for the same type of information may vary and sums might not be arithmetic aggregates. Reference in this document to "EUR" means Euro.

 **HIPOTEKARNA
BANKA**

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1. INFORMATION ABOUT BONDS

1.1 Volume and series of the Issue

Volume of Bonds issue amounts to EUR 4.000.000,00 (four million euro), second series. Bonds ISIN is MEHBO2KA1PG9.

1.2 Designation of type, class and series

The subject matter of the Issue are dematerialized, long-term, transferable securities, of bond type, of a subordinated bonds class.

1.3 Total number and a face value

The Issue consists of 40,000 (forty thousand) bonds, each with a face value of EUR 100.00 (one hundred euro).

1.4 Description of the rights attached to Bonds

Bonds included in the Issue are dematerialized, freely transferable debt securities which represent direct and unconditional obligation of the issuer. The Bond principal amount is paid back to the bondholder at maturity, plus the agreed interest. These bonds are registered in the legal owner's name.

According to the Decision of the Central Bank of Montenegro, subordinated debt, i.e. Bonds which are the subject matter of the Prospectus, are issued under the following conditions:

1. Debt is unsecured, i.e. the Issuer does not guarantee the debt by his own guarantee, mortgage or otherwise;
2. Debt is unsecured, i.e. the Issuer does not guarantee the debt by his own guarantee, mortgage or otherwise;
3. Debt can only be used for the payment of creditor's claims in bankruptcy or liquidation procedure of the Issuer;
4. Debt repayment to creditors or a redemption by the Issuer prior to maturity may be made only in the following cases:
 - » in case of conversion of subordinated debt to shares, excluding cumulative preference shares,
 - » in other cases, with the approval of the Central Bank of Montenegro, if the debt repayment does not deteriorate the Issuer's capital adequacy ratios;
5. Bonds cannot be considered deposit.

Subordinated bonds are part of Issuer's its own assets.

Subordinated bonds will be included in the computing of the solvency ratio in accordance with Article 6 of the Decision of the Central Bank of Montenegro.

Redemption or payment of subordinated bonds by the Issuer, before maturity, shall not be possible, nor their conversion to shares.

1.5 Method of Bonds pricing and trading

A face value of a bond amounts to EUR 100,00 (one hundred euro). The selling price is determined as 100% (one hundred percent) of the nominal amount. Payment of Bonds is accepted in cash only.

1.6 Bonds subscription and payment period, place, manner and time of subscription and payment

Payment of Bonds included in the Issue shall be made on the business account of the Issuer, at the address: Josipa Broza Tita 67, to a special purpose account number: 907-52001-93, reference number: 520-7320000000006-26, opened for the purpose of Bonds issue.

Subscription of Bonds shall be made by the Central Depository Agency JSC Podgorica (hereinafter referred to as: "the CDA") at the address Novaka Miloševa bb, Podgorica.

Subscription and payment of Bonds shall be made no later than 30 days following the receipt of the Decision issued by the Securities and Exchange Commission on registration of the Simplified prospectus for a private placement of securities.

1.7 Threshold of successful issue and the right of the issuer to terminate subscription and payment

The Issuer will be considered the Issue successful if the total amount of bonds issued, i.e. 100% of the entire issue, is subscribed and paid.

The Issuer reserves the right to cancel subscription and payment of Bonds prior to the date determined for completion of subscription and payment of Bonds if the Issuer sells the total amount of bonds included in this Issue. Termination of Bonds issue does not mean withdrawing from the Issue e.

1.8 Pre-emption right, trade and turnover limits

No pre-emption right nor bonds purchase and turnover limits exist.

1.9 Interest rate, a method of interest rate calculation and payment period

The Issuer will pay interest at a fixed rate of 5,9 % per annum (five point nine percent) to Bonds issued, with interest compounded semi-annually and the payment of interest.

The interest shall be calculated on pro-rata basis using the actual number of days in the period for which the interest is calculated, i.e. for the period from, and including, the maturity date of the previous coupon up to, but not including, the maturity date of the next coupon.

Issuer's claims on the basis of Bonds' interest rate expire within three (3) years following the date of maturity of the individual interest amount. In case of accrued but unpaid interest, the Issuer is obliged to calculate and pay the bondholders a statutory interest rate on the amount of accrued but unpaid regular interest.

The Bond principal amount will be a lump-sum payment at a face value at the Bonds' final maturity date.

Issuer's claims arising from Bonds principal amount shall expire within the period of five (5) years

from the principal maturity date. in case of payment made or accrued on a bond in respect of its principal amount, the Issuer is obliged to calculate and pay the bondholders a statutory interest rate on the amount of accrued but unpaid principal amount.

Default interest rate shall be determined in the amount of a base default interest rate plus seven percentage points. The base default interest rate shall be the sum of the interest rate applied by the European Central Bank to its most recent main refinancing operation carried out before the first calendar day of the half-year in question. The statutory rate shall be determined half-yearly and calculated annually. Statutory interest rate shall be determined for a half-year beginning on 1 January and ending on 30 June and for a half-year beginning on 1 July ending on 31 December.

Should the date of principal maturity, interest or other amounts arising from the Bonds, be a non-working day, the payment will be made on the next working day. This means that the payment has been duly made as of its due date. Working day means a day defined as a working day for the Central Depository Agency and banks in Montenegro.

When calculating statutory interest a calculation for the number of calendar days shall be applied and the following mathematical expression used:

For the year which is not a leap year

$$Zk=(C*p*d)/36.500$$

For a lap year

$$Zk=(C*p*d)/36.600$$

Where the symbols have the following meaning:

Zk = statutory interest

C = principal

p = statutory interest rate for the half-year in question

d = number of days.

Assuming that subscription and payment of the Bonds shall be made on 1 August 2017, interest will be paid according to the following payment plan:

Date of payment	For the period beginning on and including as at:	For the period ending on, but not including:
24.01.2018.	24.07.2017.	24.01.2018.
24.07.2018.	24.01.2018.	24.07.2018.
24.01.2019.	24.07.2018.	24.01.2019.
24.07.2019.	24.01.2019.	24.07.2019.
24.01.2020.	24.07.2019.	24.01.2020.
24.07.2020.	24.01.2020.	24.07.2020.
24.01.2021.	24.07.2020.	24.01.2021.
24.07.2021.	24.01.2021.	24.07.2021.
24.01.2022.	24.07.2021.	24.01.2022.
24.07.2022.	24.01.2022.	24.07.2022.
24.01.2023.	24.07.2022.	24.01.2023.
24.07.2023.	24.01.2023.	24.07.2023.

Existing dates of repayment plan will be changed while maintaining the above mentioned proportions between the date of payment and the period of interest calculation, depending on the date of registration of the Issue into the Register of Issuers kept with the Securities and Exchange Commission and subscription of Bonds to the accounts of customers with the Central Depository Agency.

In case of changes to the date of repayment plan in accordance with the preceding paragraph, the Issuer will comply with all provisions of the Prospectus and shall notify the public about the change to the date of repayment plan so as to make the change public in accordance with the provisions of the preceding paragraphs of this Article, via its website at <http://www.hipotekarnabanka.com/>.

1.10 The right to early redemption and payment and performance guarantees

The Issuer is not entitled to early redemption of Bonds which are the subject matter of this Issue.

Bondholders are not entitled to early repayment of Bonds which are the subject matter of this Issue.

There are no guarantees for meeting obligations arising from Bonds to which the Prospectus relates.

1.11 Name and address of institutions through which the Issuer settles obligations towards buyers of Bonds

Hipotekarna banka JSC Podgorica, Josipa Broza Tita 67, 81000 Podgorica, Montenegro.

1.12 Investment statement

The aim of the use of collected funds is further growth of Issuer's total assets and the expansion of lending and investment activities. The Issuer believes that there is ample room in the Montenegrin market for further growth of own total assets, revenues and profits.

1.13 Offer conditions

Offer conditions	
Name	The Second Issue of Subordinated Bonds of the Hipotekarna banka JSC Podgorica Through Private Placement
Notional value of the Issue:	EUR 4.000.000,00 (four million euro)
Face value of a single bond:	EUR 100,00 (one hundred euro)
Deposit and withdrawal currency:	Euro
Annual fixed interest rate:	5,9%
Payment of coupons:	Half-yearly
Maturity:	2023
Bond price:	100% of a face value
Bond yield:	5,9% fixed, annually
Year of the Issue:	2017

2. INFORMATION ABOUT LEGAL STATUS AND CAPITAL OF THE ISSUER

2.1 General information about the Issuer

Hipotekarna Banka JSC Podgorica

Registered office address:	Josipa Broza Tita 67, 81000 Podgorica, Montenegro
fax:	+382 (0)77 700 071
e-mail:	hipotekarna@hb.co.me
Transaction account:	907-52001-93
web:	http://www.hipotekarnabanka.com/
S.W.I.F.T.:	HBBAMEPG
Legal form:	Joint Stock Company
Incorporation date:	14. novembar 1991. godine
Registration number:	02085020;
Number of certificate of registration in the CRCE:	4-0004632/067;
Activity code:	64.19. Other monetary intermediation
Registration number in the Registry of Issuers kept with the Securities and Exchange Commission	Number: 3
Responsible person of the Issuer for contact and coordination of the activities related to Bonds issue	Esad Zaimović Chief Executive Officer

Business network of Hipotekarna banka JSC Podgorica

Hipotekarna banka JSC Podgorica - Head Office

Address: Josipa Broza Tita 67
Tel: +382 (0) 77 700 001;
Fax: +382 (0) 77 700 071

Branch offices

Branch office Podgorica

Address: Slobode 91
Phone: +382 (0) 77 700 080; 081; 082; 083; 084; 085; 086; 087;
Fax: +382 (0) 77 091

Branch office Nikšić

Address: Trg Save Kovačevića 6
Phone: +382 (0) 77 700 180; 182; 183; 184;
Fax: +382 (0) 77 700 185

Branch office Bar

Address: Maršala Tita 15
Phone: +382 (0) 77 700 131; 130; 132; 133;
Fax: +382 (0) 77 700 135

Branch office Budva

Address: Mediteranska 4
Phone: +382 (0) 77 700 122; 120; 121; 123; 124;
Fax: +382 (0) 77 700 125

Branch office Kotor

Address: SC Kmalija, Trg M. Petrovića bb
Phone: +382 (0) 77 700 110; 112; 113; 114;
Fax: +382 (0) 77 700 115

Branch office Herceg Novi

Address: Njegoševa 52
Phone: +382 (0) 77 700 140; 141; 142; 143;
Fax: +382 (0) 77 700 145

Branch office Bijelo Polje

Address: Slobode bb
Phone: +382 (0) 77 700 171; 172; 173;
Fax: +382 (0) 77 700 175

Branch office Berane

Address: Mojsija Zečevića bb
Phone: +382 (0) 77 700 168; 167; 166;
Fax: +382 (0) 77 700 165

Branch office Ulcinj

Address: 29. Novembra bb
Phone: +382 (0) 77 700 210; 211; 212;
Fax: +382 (0) 77 700 215

Branch office Danilovgrad

Address: Baja Sekulića 8
Phone: +382 (0) 77 700 230; 231;
Fax: +382 (0) 77 700 232

Sub-branches

Sub-branch Podgorica

Address: Bulevar Svetog Petra Cetinjskog 130
Phone: +382 (0) 77 700 101; 103; 104;
Fax: +382 (0) 77 700 105

Sub-branch Podgorica

Address: Đoka Miraševića M3
Phone: +382 (0) 77 700 200; 201; 202; 203;
Fax: +382 (0) 77 700 204

Sub-branch Podgorica

Address: Josipa Broza Tita 67
Phone: +382 (0) 77 700 032; 033; 034; 039; 058; 059; 077;
Fax: +382 (0) 77 700 038

Sub-branch Podgorica

Address: Cetinjski put bb, Donja Gorica
Phone: +382 (0) 77 700 127;
Fax: +382 (0) 77 700 129

Sub-branch Tivat

Address: Porto Montenegro, Obala BB/Teuta
Phone: +382 (0) 77 700 235; 236; 237;
Fax: +382 (0) 77 700 238

Sub-branch Tivat

Address: 21. Novembra 21
Phone: +382 (0) 77 700 151; 150; 152; 153; 154;
Fax: +382 (0) 77 700 155

Sub-branch Tuzi

Address: Tuzi bb
Phone: +382 (0) 77 700 097; 098; 096;
Fax: +382 (0) 77 700 095

Sub-branch Cetinje

Address: Bajova 74
Phone: +382 (0) 77 700 160; 161; 162;
Fax: +382 (0) 77 700 163

2.2 The amount of total and share capital as of the date of the last interim financial account and the last annual financial statement

Capital (in thousands EUR)	31.05.2017	31.12.2016
Share capital	16.006	16.006
Issue premium	7.444	7.444
Retained earnings / (Accumulated loss)	7.501	5.462
Other capital	10.069	9.930
Total capital	41.019	38.842

2.3 Share capital ownership structure as of three days before filing a request

	First and last name / Business name	Residential address / commercial address (place, street and number)	Data on shares	
			Number of shares	Percentage share
1.	CK - UCBA / Generali Financial Holdings FCP-SIF	Josipa Broza Tita 67	5.281	16,8695
2.	CERERE S.p.A.	Via di Torrebianca 43, Trieste, Italy	4.360	13,9275
3.	GORGONI LORENZO	Corso Piave 16, Lecce, Italy	4.063	12,9788
4.	GORGONI ANTONIA	Cutrofiano, Via Umberol, Italy	3.131	10,0016
5.	TODOROVIĆ MILJAN	Salita Alla Madonna di Gretta 2/5 Trieste, Italy	2.316	7,3982
6.	PODRAVSKA BANKA JSC	Opatička 3, Koprivnica, Croatia	2.047	6,5389
7.	IBIS SRL	Via Tondi 10, Lecce, Italy	1.524	4,8682
8.	MONTINARI DARIO	Piazza Libertini 10, Italy	1.445	4,6159
9.	MONTINARI SIGILFREDO	Via P.Cecere 3, Lecce, Italy	1.445	4,6159
10.	MONTINARI ANDREA	Via Tondi 2, Lecce, Italy	1.444	4,6127
11.	MONTINARI PIERO	Via Tondi 4, Lecce, Italy	1.444	4,6127
12.	GORGONI PAOLO	Milano, Via Carducci, Italy	628	2,0061
13.	GORGONI MARIO	Cutrofiano, Via Umberto I, Italy	395	1,2618
14.	OTHERS		1.782	5,6922
	TOTAL		31.305	100,0000

2.4 Number of shares of each class of the initial and share capital, nominal value of shares and the amount paid for shares

Issue type	Date	Number of shares issued	Nominal value of a share (in EUR)	Amount paid per issue (in EUR)
Ownership transformation	21.04.2001.	16.988	511,29	8.685.794,52
Issue of shares	26.04.2002.	5.000	511,29	2.556.450,00
Issue of shares through public offering	11.04.2003.	4.229	511,29	2.162.245,41
Withdrawal	16.10.2003.	-895	511,29	- 457.604,55
Rights Issue of Shares	08.06.2004.	983	511,29	502.598,07
Issue of shares to already known buyers	07.12.2007.	5.000	511,29	2.556.450,00
TOTAL:		31.305		16.005.933,45

2.5 Capital relationship with other legal persons.

The Issuer has a share of 6,656% in the capital of the Atlas Bank JSC Podgorica, ISIN MEATBARA1PG6.

3. INFORMATION ABOUT BUSINESS ACTIVITY OF THE ISSUER

3.1 Activity description

The Issuer has been registered as a joint stock company in the Central Registry of Commercial Entities of the Tax Administration under a registration number 4-0004632. The Issuer has been registered in the Registry of Issuers kept with the Securities and Exchange Commission under number 3 (Decision No. 02/3-1/2-01). The Central Bank of Montenegro, by its Decision No. 0101-75/1-2002 dated 18 December 2002 granted the license to the Issuer.

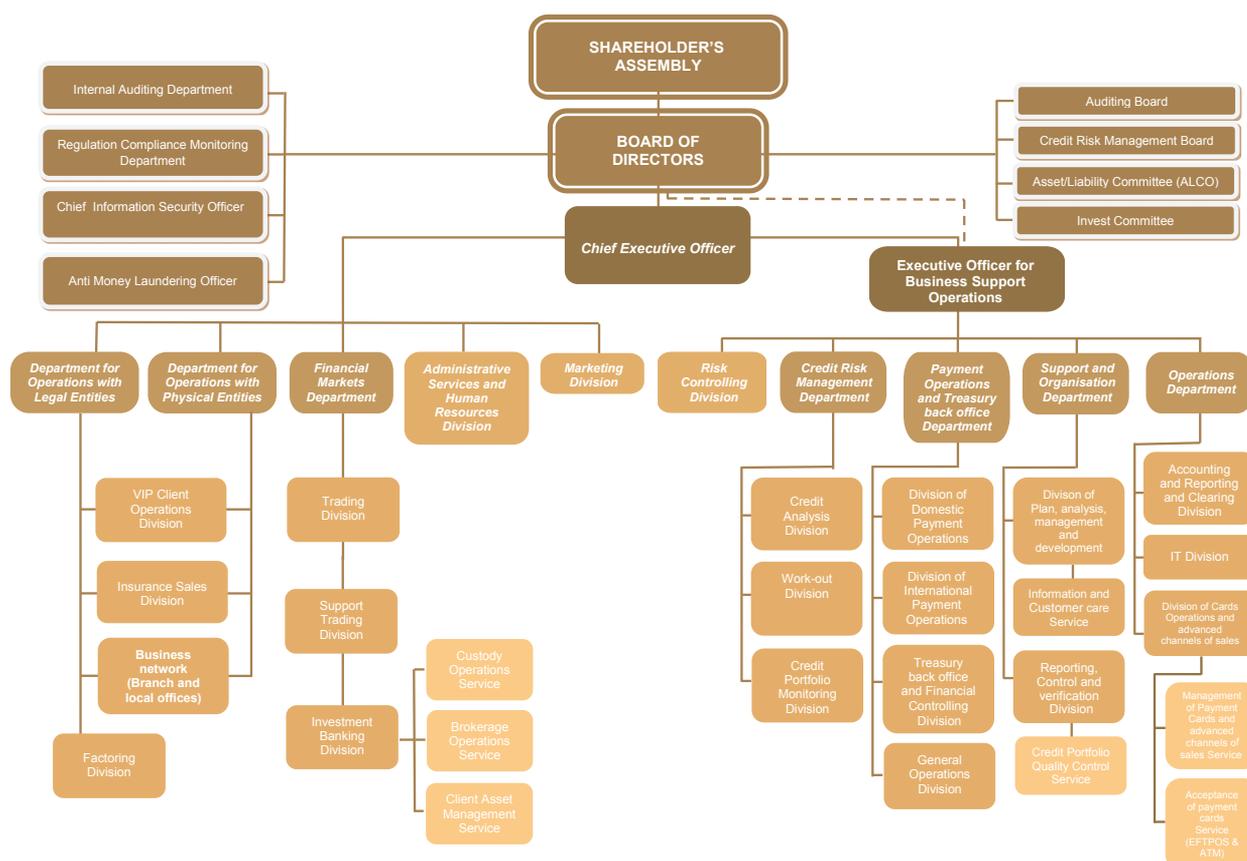
In accordance with the Law on Banks, the Agreement Establishing the Bank, the Articles of Association and the Decision of the Central Bank of Montenegro, the Issuer conducts activities related to receiving cash deposits and granting loans for its own account.

In addition to banking activities referred to in the preceding paragraph, the Issuer is authorized to conduct the following activities:

- » Issuance of guarantees and fulfilling other off-balance sheet commitments,
- » Purchase, sale and collection of receivables (factoring, forfeiting etc.),
- » Issuance, processing and registering of payment instruments,
- » Payment system in the country and abroad
- » Financial leasing,
- » Securities operations,
- » Trading on its own behalf and for its own account or for customer's account as follows:
 - » foreign exchange trading activities, including currency exchange operations,
 - » financial derivatives trading,
- » Depository activities,
- » Conducting analysis and providing information and advice on business organizations and entrepreneurs creditworthiness and other issues related to business operations,
- » Rental of safe deposit boxes,
- » Activities which are part of core banking activities, ancillary services related to Bank's operations and activities directly related to Issuer's operations, in accordance with the Articles of Associations,
- » The Issuer may, with the prior approval of the Central Bank of Montenegro, also perform other activities in accordance with the law.

Management bodies of the Issuer are: the General Shareholders Meeting and the Board of Directors. The Board of Directors of the Issuer has two permanent bodies, namely: the Audit Committee and the Credit Risk Management Committee. Board of Directors' members are appointed by the General Shareholders Meeting. The Board of Directors is composed of 5 (five) members, most of whom are independent members.

ORGANIZATIONAL CHART



3.2 Overview of major current investments

The Bank has no current capital investments. All activities take place in a continuous and planned manner, all in accordance with adopted policies and strategy of the Issuer. The Issuer operates in a stable manner, has a representative customer base, innovative products, adequate and intuitive perception of future activities in the market and accordingly develops and launches products, communicates with the existing and future customers. This approach has already yielded good results for years, so that the Issuer will continue to operate in the same direction.

3.3 Factors relating to business risk

Risk management is primarily focused on identifying, measuring, monitoring and controlling risks, in order to minimize their negative effects on the financial result and the Bank's capital.

Through an active approach to these issues, the Issuer has implemented techniques and procedures with the aim to create a modern system for risk management in accordance with the new legislation of the Central Bank of Montenegro. The aim of this approach is to generate adequate information for making informed business decisions which involve consideration of risk return ratio for any undertaken activity and products.

3.4 Legal disputes

At the time of drawing-up of this Prospectus, there are no any legal or other disputes or other legal proceedings pending for or against the Issuer which could significantly affect the financial position of the Issuer.

4. INFORMATION ABOUT FINANCIAL POSITION OF THE ISSUERA

4.1 Balance sheet and income statement data for the last fiscal year, with the certified auditor's opinion

BALANCE SHEET (in thousand EUR)	31.12.2016.
ASSETS	
Cash and deposit accounts held by depository institutions	99.455
Loans and advances to banks	15.481
Loans and advances to customers	216.049
Investment securities	
available for sale	75.809
held to maturity	16.785
Investments in associates and joint ventures by the equity method	8
Property, plant and equipment	1.501
Intangible assets	1.498
Current tax assets	48
Deferred tax assets	33
Other financial receivables	842
Other operating receivables	1.281
TOTAL ASSETS	428.790
LIABILITIES	
Customers deposit	303
Bank deposits	333.350
Other borrowings	35.331
Provisions	2.004
Current tax liabilities	389
Deferred tax liabilities	114
Other liabilities	8.490
Subordinated debt	9.967
TOTAL LIABILITIES	389.948
CAPITAL	
Share capital	16.006
Issue premium	7.444
Retained earnings	5.462
Other provisions	9.930

TOTAL CAPITAL	38.842
TOTAL CAPITAL AND LIABILITIES	428.790
OFF-BALANCE SHEET ITEMS	542.974

INCOME STATEMENT (in thousand EUR)	31.12.2016.
Interest income	17.704
Interest expense	5.316
NET INTEREST INCOME	12.388
Dividend income	71
Depreciation expense	2.811
Costs of provisions	670
Fee and commission income	10.644
Fee and commission expenses	4.463
NET FEE AND COMMISSION INCOME	6.181
Net gains on investment securities	203
Net foreign exchange gains	775
Employees expenses	4.622
General and administrative expenses	7.008
Amortization expenses	849
Other expenditures	218
Other income	545
OPERATING PROFIT	3.985
Income tax	361
NET PROFIT	3.624
Earning per share / in EUR	116

4.2 Audit reports



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TO SHAREHOLDERS OF
THE HIPOTEKARNA BANKA JSC, PODGORICA

Independent Auditor's Report

We have audited the accompanying financial statements of Hipotekarna banka JSC Podgorica (hereinafter referred to as: „the Bank“), which comprise the balance sheet as at 31 December 2016, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give true and fair view in accordance with the applicable financial reporting framework in Montenegro, 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 audits. We conducted our audits in accordance with generally accepted auditing standards in Montenegro. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 our 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 true 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, in all material respects, of the financial position of the Bank as at December 31, 2016, and (of) its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework in Montenegro.

Other Issues

The financial statements of the Bank as at and for the year ended December 31, 2015, were audited by another auditor who, in his report dated 31 May 2016 expressed an unqualified opinion on these financial statements.

Podgorica, 31 May 2017

(Round-shaped seal of the Company for consulting and auditing
„KPMG“ LLC Podgorica affixed)

KPMG LLC Podgorica

Branko Vojnović

Independent Auditor

Audit reports are available on the Issuer's website at: <http://www.hipotekarnabanka.com/izvjestaji/izvjestaji-revizora>

The Issuer does not draw up consolidated financial statements.

The issuer does not set up a reserve fund.

4.3 Legal person's business name and the first and last name of the natural person who conducted the audit

Company for consulting and auditing „KPMG“ LLC Podgorica

4.4 Bank-specific indicators

Indicator	2014	2015	2016
Return on Assets ratio (RoA)	0,84%	0,66%	0,85%
Return on Equity ratio (RoE)	7,76%	7,93%	9,33%
The earning assets to total assets ratio	167,05%	158,74%	139,40%
The loan to deposit ratio	145,25%	163,87%	150,03%
Number of large exposures to a single counterparty or group of connected counterparties	15	12	19
The sum of large exposures in relation to first class capital	276,72%	269,38%	385,85%
Total provisions for potential credit losses	EUR 5.240 thousand	EUR 6.296 thousand	EUR 6.255 thousand
Total provisions to other assets	EUR 576 thousand	EUR 2.142 thousand	EUR 4.204 thousand
Bank's investments in other legal persons	Item 4.5 of the Prospectus.		

4.5 Issuer's investments in other legal persons

The Issuer does not have over 10% share in other legal persons.
The Issuer has not suffered losses during the previous three years.

5. INFORMATION ABOUT RESPONSIBLE PERSONS OF THE ISSUER

1. Sigilfredo Montinari

Sigilfredo Montinari, residing at Via P. Cecere 3, Lecce, the Italian Republic occupies the position of the Chairman of the Board of Directors of the Issuer. Mr. Montinari holds a university degree and 23 years of relevant work experience. He is the owner of 4, 62% i.e. 1.445 ordinary shares of the Issuer and 5, 76% i.e. 38,529 shares of Podravska banka JSC Koprivnica, Croatia. Mr. Montinari is a Deputy Chairman of the Supervisory Board of Podravska banka JSC Koprivnica, Croatia.

2. Božana Kovačević

Božana Kovačević, residing at Vinodolska no. 51, Koprivnica, Croatia, is the Deputy Chairman of the Board of Directors of the Issuer. Ms. Kovačević holds a university degree and has more than 32 years of relevant work experience.

3. Renata Vinković

Renata Vinković, residing at Križevačka 31b, Koprivnica, Croatia, is a member of the Board of Directors of the Issuer. Ms. Vinković holds a university degree and has more than 18 years of relevant work experience.

4. Mr. Goran Varat

Mr. Goran Varat, residing at Grada Kaštela 8, Zaprešić, Croatia, is a member of the Board of Directors of the Issuer. Mr. Varat holds a master's degree and more than 13 years of relevant work experience.

5. Esad Zaimović

Esad Zaimović, residing at Bulevar Džordža Vašingtona 92 / VII, Podgorica, Montenegro, is a member of the Board of Directors and the Chief Executive Officer of the Issuer. Mr. Zaimović holds a university degree and has more than 25 years of relevant work experience. He is the owner of 26, 76% shares in Western Balkan Capital JSC Podgorica.

6. Božo Đurašković

Božo Đurašković, residing at Bulevar Džordža Vašingtona 18, Podgorica, Montenegro, the Acting Executive Director for business operations support, the Director of the Department for administrative affairs and human resources management and the Secretary of the Issuer. Mr. Đurašković holds a university degree and has more than 15 years of relevant work experience in the banking sector.

There are no agreements or other arrangements with the Issuer where the said persons have a material interest.

6. INVESTMENT STATEMENT

6.1 Description of investment objectives, a manner of utilization of capital which will be obtained through the issue and the expected effects of investing

The aim of the use of collected funds is further growth of Issuer's total assets and the expansion of lending and investment activities. The Issuer believes that there is ample room in the Montenegrin market for further growth of own total assets, revenues and profits.

6.2 Risk factors relating to business operations of the Issuer

When investing into securities, the investor, in accordance with its own preferences of risk and return on investment ratio, knowingly accepts certain types of risk. Before considering investing in bonds of the Issuer, the potential investor should take into account the risk factors set forth below, but the investor is also referred to its own assessment and judgment about Issuer's financial position, the terms of issue, available conditions and alternatives, as well as other factors and information that may affect the success of the Issue.

Credit risk

The Issuer is exposed to credit risk of its customers. The principal and/or interest which are not paid by the customers may negatively affect the financial position of the Issuer. In this regard, it is essential to implement good practices in accordance with the development strategy, internal policies and procedures and external regulations related to measuring, monitoring and managing credit risk. Issuer's credit risk is managed at two levels - at the level of an individual customer and at portfolio level. Special attention is paid to transition matrices, the analysis of non performing loans (NPL), as well as the analysis of large debtors, i.e. all customers and groups of related customers towards which the total exposure is greater than 10% of Issuer's own assets.

Market risk

The Issuer is exposed to market risk in relation to changes in interest rates, price of securities. Exposure to Issuer's market risk is relatively low. The Issuer implements investment activity as a measure of activation of excess liquidity and the achievement of a moderate yield. For all market risk exposures the Issuer allocates sufficient amount of capital for coverage of unexpected losses, in accordance with the Decision of the Central Bank of Montenegro in the internal policies and procedures compliant with the recommendations of Basel II.

Operational risk

Risks related to the operation of information systems, implementation of procedures, the human factor, disputes against the Issuer, monitoring documentation and processes, result from daily operations of the Issuer. The Issuer is constantly exposed to this type of risk. Non-performance of operational factors may negatively affect the financial position of the Issuer.

Operational risks management of the Issuer is regulated both by secondary legislation of the Central Bank of Montenegro and internal documents, policies and procedures. In addition to the above mentioned, the Issuer regularly performs activities for identifying and assessing operational risks in certain business processes. The Board of Directors is regularly informed on a monthly and quarterly basis about all activities and issues related to operational risk.

Liquidity risk

Liquidity risk arises from an asset–liability mismatch of the Issuer, which leads to inability to meet obligations. Inconsistency of assets and liabilities structure of the Issuer may negatively affect the financial position of the Issuer. Issuer’s liquidity management, both operational and structural, is regulated by the Strategy, Policies and Procedures of Liquidity Management. In accordance with the secondary legislation the Issuer has Liquidity management plan in extraordinary situations and the policy of implementation of liquidity stress testing.

Competitive risk

The Issuer operates in a competitive environment. All banks want to position themselves in the market and want a larger market share. Due to recession and stagnation in recent years in the banking market, systematic banks were not expanding and the room which could be covered with modern services and distribution left.

Changes in legal regulations risk

The Issuer adjusts its business operations to changes in legal regulations, governing operations of the banking sector, including the application of IFRS and the provisions of Basel II. Further changes in the Montenegrin and European laws may affect the financial position and results of Issuer’s business operations. The Issuer seeks to develop a flexible structure and dynamics of adaptation so as to proactively and strategically takes direction towards proactive implementation of laws and channeling in accordance with the strategic objectives.

Risks relating to general economic, financial and other business conditions

General economic conditions, state of financial markets, interest rate trends, currency movement and other operational conditions are the factors important for business operation and result of the Issuer. All the above mentioned factors may affect the level of demand for products and services of the Issuer, creditworthiness of both the borrower and lender, liquidity, level of investment and market position. The recession may affect decrease in demand for loans and increase in the number of customers who do not meet their obligations. The recession also affects the banks to look for alternative markets and to use financial engineering more.

The risk of maintaining the required capital adequacy ratio

In accordance with regulations of the Central Bank of Montenegro, ICAAP internal policy and reporting, the Issuer is required to maintain a minimum capital adequacy ratio at 10%. The Issuer adopted the Strategy, Policies and Procedures for monitoring capital adequacy and stress testing enabling the Issuer proactive monitoring of capital adequacy, as well as the procedure to be followed in case projections indicate a decline compared to the prescribed capital adequacy ratio. Regardless of procedures, the ability of the Issuer to provide capital may be limited by certain factors such as: the required approvals of regulatory authorities, shareholders’ decisions, general market conditions and future financial condition, business operations results and cash flows of the Issuer.

Force Majeure

“Event of Force Majeure” means events such as, but not limited to: acts of war, invasion, terrorist attacks, fires, floods and other climate and natural phenomena that can cause

damage to the Issuer. The above mentioned events may negatively affect the financial position of the Issuer.

6.3 Risk factors related to Bonds

When investing in securities and bonds, the investor, according to his own preferences of risk reward ratio, takes certain types of risk. When considering and deciding to invest in Issuer's bonds, the investor should take into account all the above factors and investment risks related to bonds set forth in the Prospectus.

Interest rate risk

Bondholder with a fixed rate coupon is exposed to risk of falling price of such a bond as a result of changes in current market interest rates. Although the interest rate on bond is fixed, market interest rates changes. Market interest rates and bond prices generally move in opposite directions. When interest rates go up, bond prices fall in order to have the effect of equalizing the interest rate on the bond with prevailing rates, and vice versa.

Market risk

The market price of bonds is affected by many factors, and some examples include changes in market interest rates, economic trends, central banks policies, but also the changes in demand for certain category of bonds. Taking into account the interaction of all market factors, a bondholder may be exposed to the risk of falling market prices of bonds if sells them before they mature.

Liquidity risk

The capital market in Montenegro is still relatively shallow and underdeveloped comparing to developed markets, although in recent years significant progress in improving the European standards and regulations of the domestic capital market has been made. Notwithstanding the admission of Bonds on the Stock Exchange, there are no guarantees that active trading in bonds will develop on the secondary market, which would last a whole period until maturity of Bonds. In case that active trading in the secondary market fails to develop, such a fact could have a negative effect on bond price, and in particular to its liquidity.

7. ACKNOWLEDGEMENT ISSUED BY THE PERSONS TO WHOM A PRIVATE PLACEMENT HAS BEEN ADRESSED

The bond offer through a private placement will be addressed only to the maximum of 30 already known persons who obliged themselves to buy the entire issue, and who are well aware of the investment risks and results of Issuer's business operations

8. INFORMATION ABOUT ALREADY KNOWN BUYERS OR POTENTIAL INVESTORS¹

The Prospectus approved by the Decision on registration of Bonds Issue issued by the Securities and Exchange Commission will be available for inspection to already known buyers or potential investors no later than 30 (thirty) days following the date of the Decision on registration of Bonds Issue issued by the Securities and Exchange Commission and will contain information only about an already known buyer or a potential investor to whom it was forwarded by the Issuer, while other already known buyers or potential investors will be jointly referred to as “Others”.

¹ Information about already known buyers or potential investors will be entered in the Prospectus submitted to the Securities and Exchange Commission and in order to obtain the Commission’s Decision on registration of Bond Issue. To comply with the provisions of the Law on Personal Data Protection (“Official Gazette of Montenegro”, Nos. 79/08 of 23.12.2008, 70/09 of 21.10.2009, 44/12 of 09.08.2012) the Prospectus will be available for inspection to already known buyers or potential investors, containing information only about an already known buyer or potential investor to whom it was forwarded by the Issuer, while other already known buyers or potential investors will be jointly referred to as “Others”, and the Prospectus which the Issuer will possibly make available to the public will not include information about already known buyers or potential investors.

9. INFORMATION ABOUT THE DEVELOPMENT AND PERSPECTIVES OF BUSINESS OPERATIONS OF THE ISSUER

9.1 Significant trends related to business operations of the Issuer

Trend of the Issuer in the last five (5) years is a CAGR of 19,79 % CAGR (Compounded Annual Growth Rate 2016/2012). A similar trend is expected in the future period as well and the Issuer seeks to strengthen its long-term resources with the intention to support the increase of its assets. The strategic plan is the balance sheet growth of up to 10 % per annum also in the future period.

9.2 Information about financial and business perspectives of the Issuer for, at least, current fiscal year

The perspective of the Issuer, expected for the next financial year is the balance sheet growth of about 10 % per annum, while maintaining and improving the profitability indicator, greater economy of scale and portfolio diversification, sale of modern services system, improving the quality of services at a higher level and long-term positioning of the Issuer as a modern and prospective banking institution.

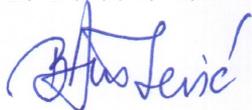
9.3 The date of entry into agreements and contracting parties to major agreements

The Issuer has not entered into any agreement resulting in any obligation or entitlement which might affect the fulfillment of Issuer's obligations to bondholders.

10. ACKNOWLEDGEMENT ISSUED BY THE RESPONSIBLE PERSONS OF THE ISSUER

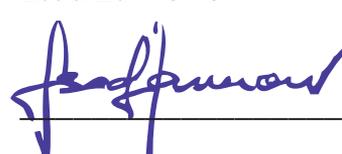
In accordance with the information and data at our disposal we hereby declare that all information in this Prospectus constitute a full and truthful presentation of assets and liabilities, profit and losses, financial position and results of operations of the Issuer and of the rights contained in the securities to be issued, as well as that the facts that could affect the completeness and veracity of this Prospectus are not omitted.

Božo Đurašković



Acting Executive Officer
for business operations support

Esad Zaimović



Chief Executive Officer

 **HIPOTEKARNA
BANKA**

Vama posvećena

2017.