ANNUAL REPORT 2014

Report of the Chairman of the Board of Directors
And Chief Executive Officer Report

HIPOTEKARNA BANKA

Vama posvećena

REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Clients, Partners, Shareholders,

On behalf of the Board of Directors, I have the honour to present the Annual Report of Hipotekarna banka AD Podgorica for the year 2014.

The macroeconomic environment has been marked by strong expansionary efforts of European Central Bank, and did not offer much support as the year saw a continuation of low interest rate levels and slow growth. Spillover effects of unconventional measures of European monetary authorities were felt in the Montenegrin banking sector, but with less effect on more drastic reduction in interest rates level. The main reason is the increase in level of public debt and higher costs of financing compared with the neighboring countries, which had a negative impact on the credit risk of Montenegro from the perspective of international creditors. In these circumstances, the consequences of structural misbalances of the domestic economy became more visible, which had its major repercussion on the decline of the banks' aggregate loan portfolio. The Montenegrin banking sector will continue to face serious challenges associated with global uncertainty, not only of economic, but ever increasingly of political and regulatory nature.

We managed to increase the bottom line across all of our business segments, indicating confidence in our progress despite the macroeconomic challenges in the previous years. As a result of continued faster growth comparing with the Montenegrin banking market, we managed to increase our market share from 7,57% to 9,33%. Net profit rose to € 2.454 million, with the realized rate of return on equity of 7,76%, which shows our ability to strengthen key performance indicators even in a challenging environment. By obtaining the high solvency ratio of 15,25%, we have demonstrated both high quality asset and liability management with new instruments in our balance sheet, and disciplined risk management, which is another indication that the Bank is sticking to its strategic goal of sustainable long-term successful business.

These are the best results achieved since 2006 and give us confidence that we are on track to deliver on our targets.

I would like to thank all of our customers, employees and shareholders and to express my deep appreciation for your continued loyalty and trust.

Sigilfredo Montinari

Chairman of the Board of Directors

REPORT OF THE CHIEF EXECUTIVE OFFICER REPORT

Dear Clients, Partners, Shareholders,

During 2014, economic growth was recorded in almost all leading economies of the world, but slightly less than expected in the countries of the European Union. The effects of increasing liquidity had noticeable repercussions on the structure of the balance of the Montenegrin banking sector through increasing of local banks' potential.

Given the experience from the past period, we must once again highlight how the Montenegrin banking sector remained stable during 2014 and thus it kept the enviable position regarding the overall economic environment in the country. With the stabilization of the banking sector, an increase of competition occurred. After several years of unchanged number of participants the competition in the sector has intensified with the announcement of the arrival of new foreign and domestic banks, some of which already operating in 2014.

Total assets of Hipotekarna banka AD Podgorica increased by 31%, the deposits expanded by 32%, loan portfolio rose by 18% and the portfolio of investment securities surged by 51% compared to the previous year. Due to the constant growth in all relevant parameters of business since 2006, we have recognized the need for change with the transition of our position in the market. The current size of Hipotekarna banka AD Podgorica demanded reorganization of previously established structures and optimization of business processes in the new circumstances in order to enhance the efficiency of our business model and preserve the deeply established organizational culture.

At the end of 2013, along with the involvement of renowned external consultants, we completed the activities regarding development of a new organizational chart and redesigned business processes based on the principles of modern universal bank. In 2014, the new approach caught the attention with market performance in activities related to the increase of our supplementary capital by issuing, in many ways, unique type of subordinated bonds. For the first time in the Montenegrin capital market, a bank had issued subordinated bonds, with longer maturities on its own issuance compared to the maturity of government debt securities, and managed to sell the total amount issued well before the stipulated deadline.

Consequently, 2014 was by many indicators the most successful year in the history of the Hipotekarna banka AD Podgorica.

Our priorities, the safety of our clients as well as the best and most innovative services, by which we are known in the banking market of Montenegro, will remain unchanged in the coming period.

Finally, on behalf of the management of Hipotekarna banka AD Podgorica and my own, I want to thank our clients, shareholders and employees for their support, perseverance and loyalty in a record breaking success in 2014.

Esad Zaimović

Chief Executive Officer

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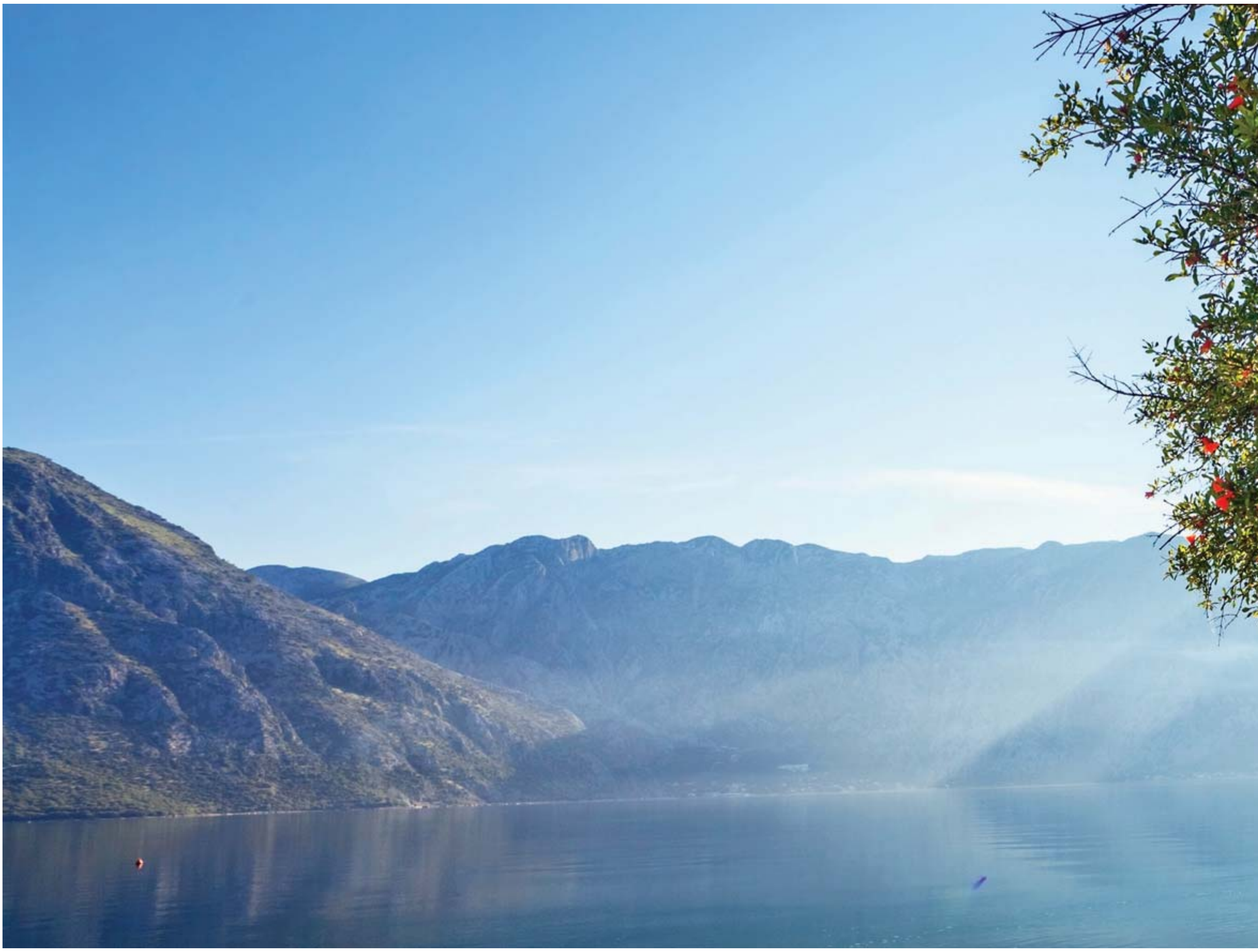


1 MONTENEGRO ECONOMY SURVEY

MACROECONOMY

At macroeconomic level, Montenegro continued with the success experienced in 2013, as after a long period of economic recession, the economy grew by 3.3%. The positive trend continued in 2014, despite the spillover effects of the crisis in the region and Europe. The growth in GDP is estimated at about 2%, which is slightly lower than expected but at the same time higher than in other countries of the region or the average growth in the Eurozone countries and the EU.

GROSS DOMESTIC PRODUCT (GDP)

Inflation amounted to -0,3% in 2014. The number of tourists increased, while the forestry sector also recorded an upward trend. Decline of activities was recorded in industrial production. Deposits, capital and total assets and liabilities of banks increased. The level of granted loans was lower in relation to the previous year whereas the level of interest rates declined in relation to the previous year. The FDI increased substantially.

INIFLATION

Consumer prices recorded a monthly decline of 0,4% in December 2014. The highest decline was recorded in the transportation sector (2,7%), mostly due to the decline of fuels and lubricants (5,6%). Other declines were recorded in housing and routine maintenance (0,4%), food and non-alcoholic beverages and clothes and footwear (0,2% each) and recreation and culture (0,1%). Prices growth was recorded in the category hotels and restaurants by 0,5% and health care by 0,1%. Prices remained unchanged in the following categories: alcoholic beverages and tobacco, water, electricity, gas and other fuels, communication, education and other products and services.

INDUSTRIAL OUTPUT

Industrial output registered a monthly increase in December 2014 of 26,2%. Growth was recorded in electricity, gas and steam (50,1%), manufacturing industry (11,9%) and mining and quarrying sector (11,1 %.).

In 2014, total industrial output declined by 11,4% in relation to 2013. Output decline was recorded in manufacturing industry (6,7%) and electricity, gas and steam supply (19,6%), while mining and quarrying sector recorded a production growth of 14,4%.

In 2014, nine areas of manufacturing industry increased its production: production of food products (3,8%), tobacco products (4,4%), manufacture of wearing apparel (2,6%), manufacture of wood products, cork and alike products (70,2%), paper and paper products (4%), printing and reproduction of recorded media (23,3%), manufacture of other non-metal minerals (0,4%), manufacture of machinery and equipment not elsewhere mentioned (12,9%)

and furniture (21,3%). The highest decline was recorded in the production of metal products, except machines and devices (-86,6%), while the lowest decline was in production of chemical products (-0,3%)

TOURISM

According to Monstat preliminary records, some 1,5 million tourists visited Montenegro in 2014, which represent a 1,7% increase y-o-y. Overnights amounted to 9,6 million, which means an increase of 1,5%. Foreign tourists accounted for 90% of total overnights.

LABOUR MARKET

Monstat records show that 171.158 people were employed in December 2014, showing a 0,6% monthly decrease and a y-o-y increase of 2,4%.

The majority of people were employed in the following sectors: wholesale and retail trade; repair of motor vehicles and motorcycles (21%), public administration and defense, compulsory social security (12,4%), education (7,9%), accommodation and food service activities (7,3%) manufacturing (6,7%), health care and social protection (6,6%) and transport and warehousing (5.,7%).

Monthly decrease in unemployment amounted to 0,1%, and y-o-y growth amounted to 0,5%.

Average gross and net salaries were higher by 1,5% in relation to the previous month. The average real net wage in December 2014 recorded a growth of 1,9% at monthly level.

FOREIGN DIRECT INVESTMENTS (FDI)

According to preliminary data, the net inflow of foreign direct investments amounted to € 353,9 million in 2014, realizing a growth of 9,3% compared to the previous year. In 2014, FDI inflow from equity investments decreased, while inflow from loans between ownership related companies increased. Total FDI inflow amounted to € 498,1 million, which is a y-o-y growth of 3,9%.

2 BANK BUSINESS SURVEY

ORGANIZATION AND STAFF

By 31.12.2014, the Bank had 182 employees who held the necessary skills and information-technological knowledge to perform banking operations. 54% of the total employees are engaged with working with customers ("front office"). The number of employees has increased by 12, if compared to 31.12.2013. The average age of employees in the Bank is 36,1 and the average tenure of employees is 10,6 years.

Continuity in educating and training employees are the primary objectives of the Bank. During the year 2014 a large number of employees from various areas relevant to the Bank participated in numerous internal and external trainings.

The Educational level of employees is the following: 8 employees are Masters of Science, 86 employees obtained high education, 30 employees have a bachelor degree, 9 with a college degree and 49 with secondary education.

GOVERNING BODIES

The governing bodies of the Bank are the General Assembly of Shareholders and the Board of Directors. The General Assembly consists of all shareholders. Members of the Board of Directors, the Bank's management authorities, are elected and appointed by the Assembly of Shareholders.

The structure of the largest shareholders as at 31.12.2014 is:

HB – Custody Account 4/Generali Financial Holdings FCP-FIS – Sub-Fund 2	16,8695%
Cerere S.p.A. Italy	13,9275%
Gorgoni Antonia, Italy	10,0016%
Gorgoni Lorenzo, Italy	8,2766%
Todorović Miljan, Italy	7,3982%
Montinari Dario, Italy	4,6159%
Montinari Sigilfredo, Italy	4,6159%
Montinari Andrea, Italy	4,6127%
Montinari Piero, Italy	4,6127%
Podravska Banka D.D. Koprivnica, Croatia	6,5389%
Nereo finance S.A., Luxembourg	4,8682%
Jugopetrol A.D. Kotor, Montenegro	4,7021%

The Board of Directors of the Bank has 7 members of which the majority is not employed in the Bank.

Standing Bodies of the Board of Directors of the Bank are: Audit Committee and the Credit Risk Management Committee.

LIST OF THE BOARDS, ITS MEMBERS AND EXECUTIVE DIRECTORS OF THE BANK

1.1. The Board of Directors of Hipotekarna banka AD Podgorica up to 31.07.2014.:

- Sigilfredo Montinari, President
- Božana Kovačević, Deputy President
- Dolly Predović, Member
- Miljan Todorović, Member
- Renata Vinković, Member
- Snježana Pobi, Member
- Esad Zaimović, Member

1.2. The Board of Directors of Hipotekarna banka AD Podgorica from 31.07.2014.:

- Sigilfredo Montinari, President
- Božana Kovačević, Deputy President
- Dolly Predović, Member
- Miljan Todorović, Member
- Renata Vinković, Member
- Goran Varat, Member
- Esad Zaimović, Member

1.3. Audit Committee of Hipotekarna banka AD Podgorica:

- Marko Žigmund, Chairman
- Božana Kovačević, Member
- Jovan Papić, Member

1.4. Credit Risk Management Committee of Hipotekarna banka AD Podgorica:

- Renata Vinković, Chairperson
- Sigilfredo Montinari, Member
- Esad Zaimović, Member

2. Executive Directors of Hipotekarna banka AD

- Esad Zaimović, Chief Executive Officer
- Aleksandar Mitrović, Executive Director for Business Suport Operations

SHAREHOLDERS ASSEMBLY

Assembly of Shareholders held one session in 2014 which, considering the materials subject to assessment and to decisions, had the character of a regular (annual) meeting.

At XVI regular meeting (held on 30.06.2014), Shareholders' Assembly reviewed the annual report of Hipotekarna banka AD Podgorica for 2013 together with the report of external auditors, and adopted the Decision on profit allocation for 2013 with which it has been established that realized profit after taxation corresponded to € 2.367.393,35, and that on 31.12.2013 in accordance with Article 49 of the Decision on Minimum Standards for Credit Risk Management in banks Article 49a of the

Decision, the € 3.678.466,11 shall be transferred charging the reserves for estimated losses, as the coverage of a part of determined missing reserves. On this meeting, the Shareholder's Assembly adopted the Decision about election of members of the Board of Directors of the Bank. After legel procedures, and following Ms Snježana Pobi's resignation as a member of the Board of Directros of the Bank due to personal reasons, new members of the Board of Directors of the Bank were elected.

The Board of Directors of the Bank, in accordance with the Law on Banks 2014 a total of 8 regular sessions in old structure and 17 regular sessions in new structure (legal obligation is to maintain the session at least once a month).

The work of the Board of Directors of the Bank was primarily focused on activities that were representing realization of the tasks and objectives set with the strategic and annual planning documents.

BOARD OF DIRECTORS AND GOVERNING BODIES

The Board of Directors of the Bank regularly discussed issues relevant to the Bank (monthly business and financial statements, reports on liquidity, reports on the risks and specifically analyzed the reports related to lending activity and the activity of claims, and any other reports which covered the entire business activity of the Bank).

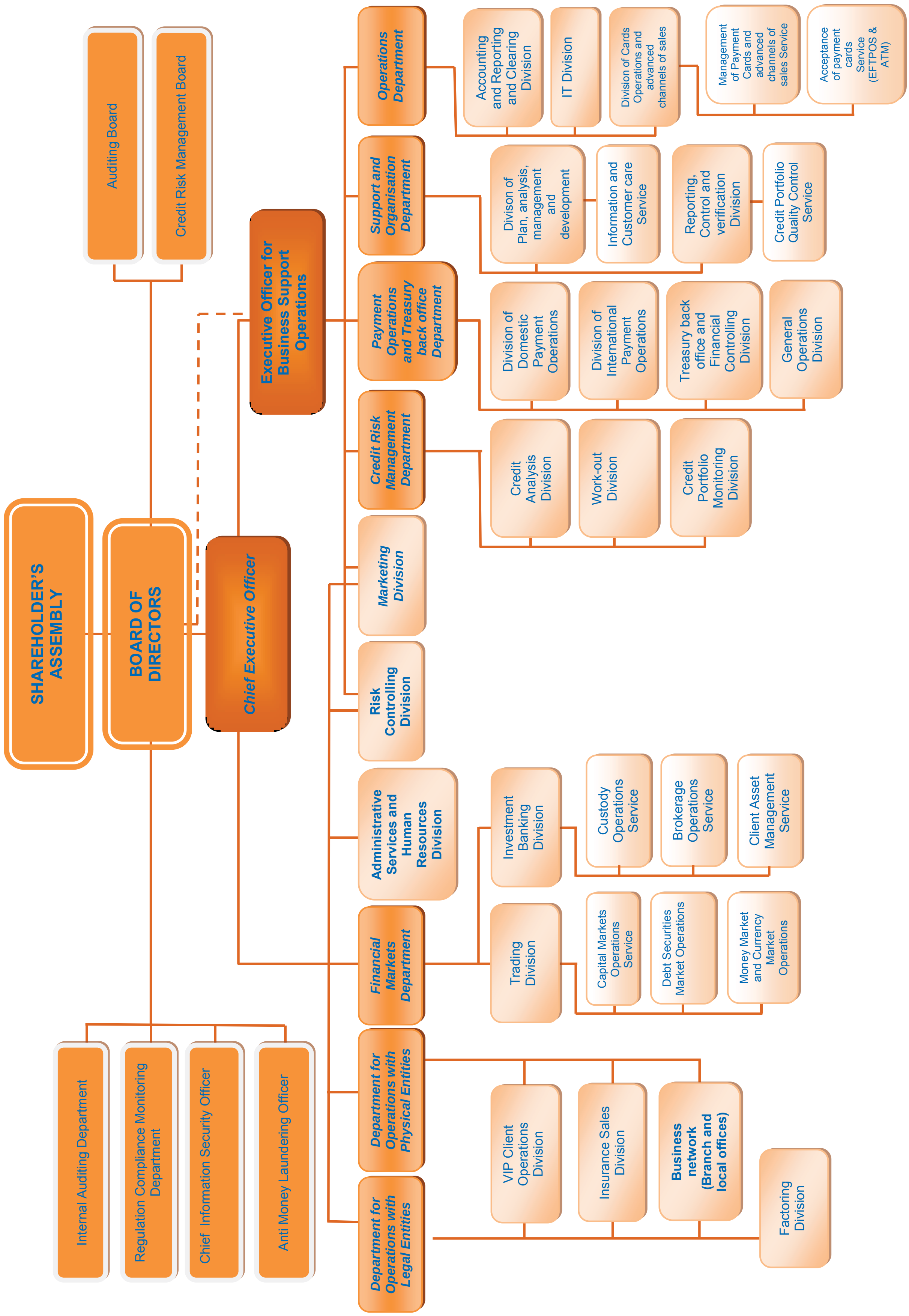
As permanent bodies of the Board of Directors, Audit Committee and Credit Risk Management Committee on risk management have regularly reported to the Board of Directors within its jurisdiction.

In addition to permanent bodies, the Committee on Asset and Liability Management (ALCO), the Committee on Development and management of information system, Committee for management of card business and advanced sales channels and of the Bank set and Committee for development discussed issues within the scope of its work and reported to the Board of Directors of the Bank, once a month.

Relationship between the members of the Board of Directors of the Bank in 2014, according to obligations and duties stemming from laws and regulations of the Bank, exercised, through the necessary cooperation, as well as through attendance and active participation in the sessions of the Board. It was not disputed cases of harmonization of policies and decisions and implementation of business policy of the Bank and the quorum for holding the meeting was not contested.

It follows, from what previously stated, that the Board of Directors in 2014, with clearly defined goals, examined the timeliness and reliability of financial reports, reports on risk management which the Bank is exposed to in its operations and oversee compliance with the Bank's business laws and internal plans, policies and procedures. In considering all the issues that were decided during the meetings, the members of the Board of Directors of the Bank acted conscientiously, with care, respecting the rules of profession and using the powers of authority exclusively for the benefit of the Bank.

ORGANIZATIONAL CHART OF HIPOTEKARNA BANKA



BUSINESS OPERATIONS

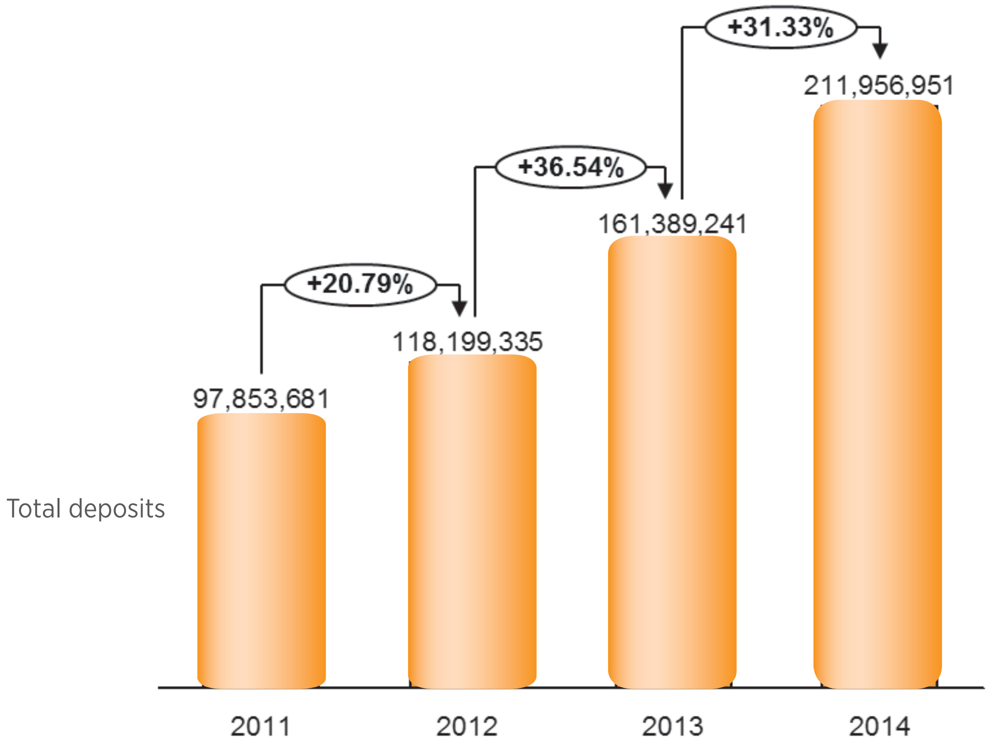
DEPOSITS

In 2014. deposits increased by over 31.33% compared to 2013. This shows that confidence of citizens and corporates improved significantly in 2014. Time deposits increased by 30%, while the growth of sight deposits was equal to 33%.

The Bank also maintained an adequate ratio of time and sight deposits to overall deposits. Moreover, the Bank recorded a 13.08% increase in long-term deposits compared to 2013.

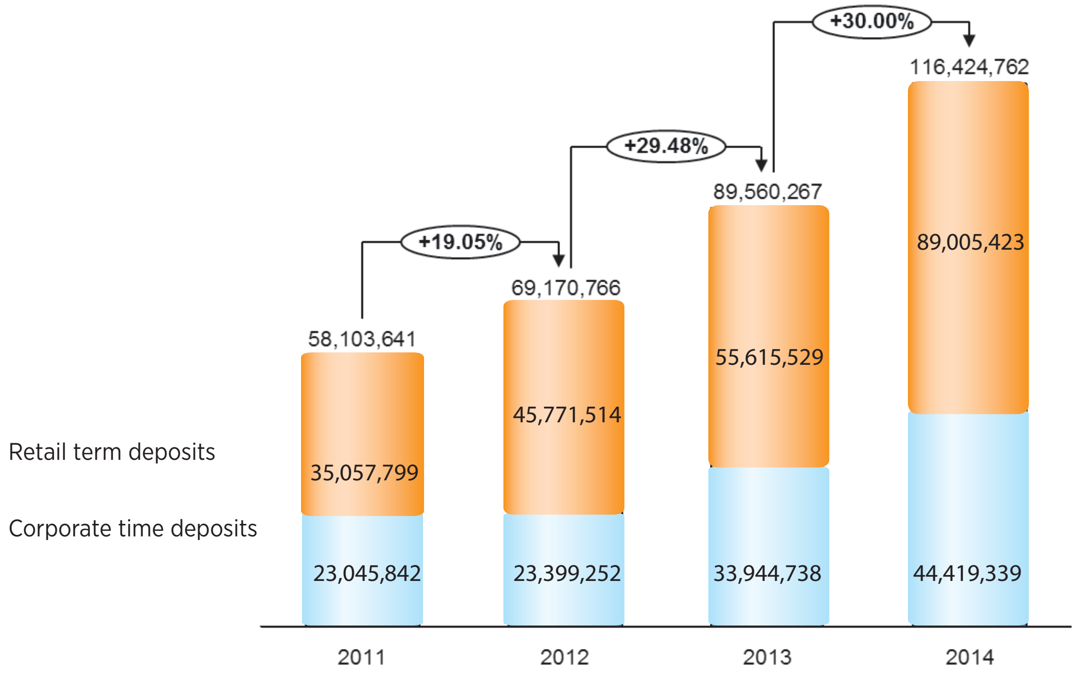
Balance of total deposits in EUR:

	Total deposits	% of change
2011	97.853.681	15,00%
2012	118.199.335	20,79%
2013	161.389.241	36,54%
2014	211.956.951	31,33%

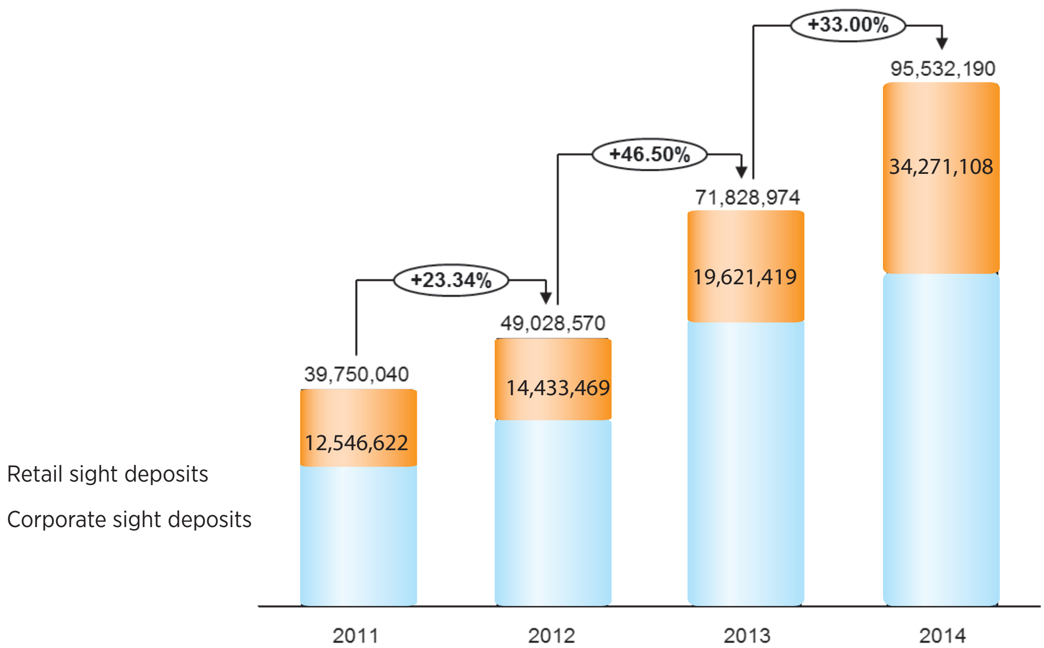


This increase in deposits is the result of a growing number of clients and of their increased confidence in the Bank. Thanks to all strengths that Hipotekarna banka has, such as security, professionalism and the quality of the service offered, the Bank is recognized as a worthy of confidence. All this lead to the increasingly positive trend of deposits to continue.

Both time and sight deposits recorded growth in 2014. compared to 2013. as shown below:



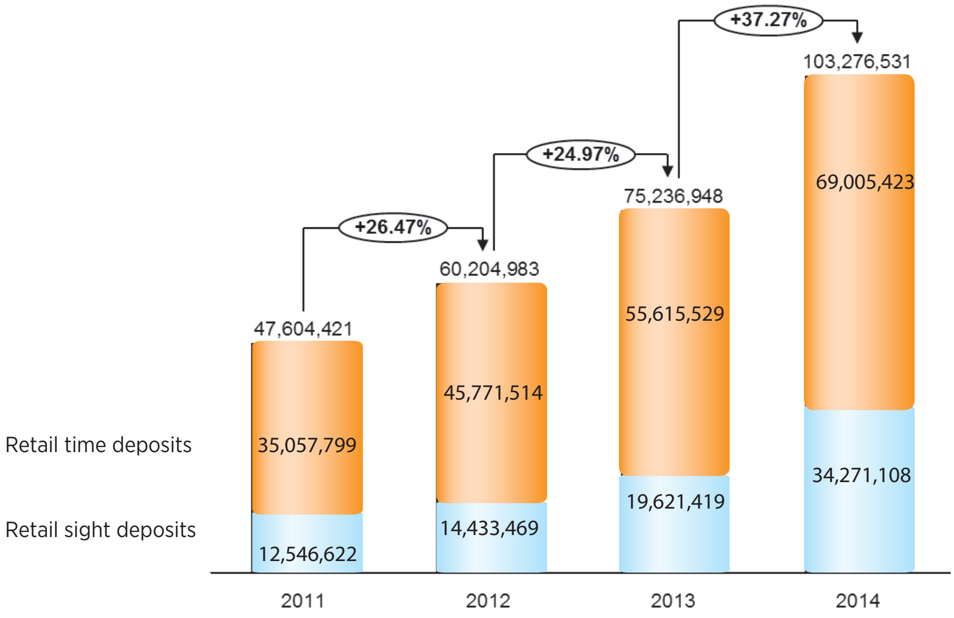
Amounts in EUR	2011	2012	2013	2014
Retail time deposits	35.057.799	45.771.514	55.615.529	69.005.423
Corporate time deposits	23.045.842	23.399.252	33.944.738	47.419.339



Amounts in EUR	2011	2012	2013	2014
Retail sight deposits	12.546.622	14.433.469	19.621.419	34.271.108
Corporate sight deposits	27.203.418	34.595.101	52.207.555	61.261.082

RETAIL DEPOSITS

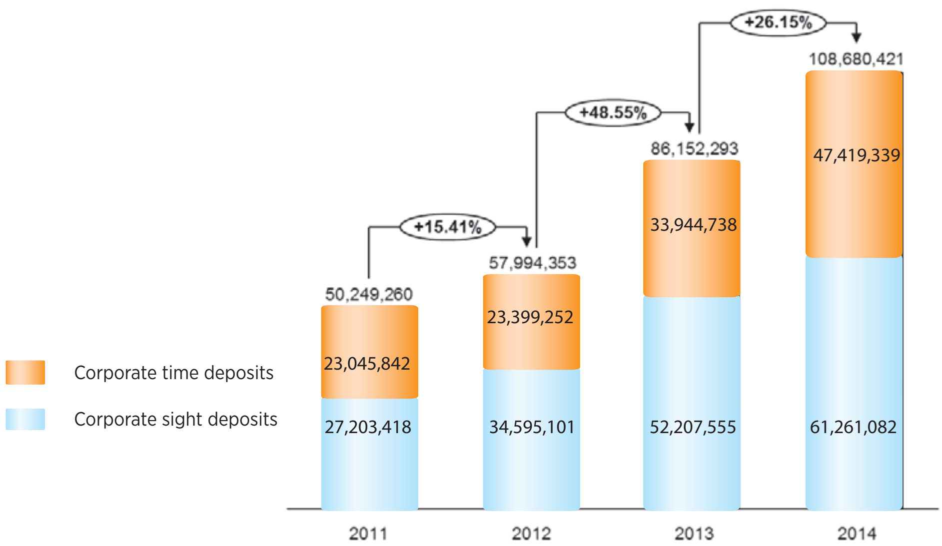
At the end of 2014, an increase of 37,27% in total retail deposits compared to 2013 was recorded. Both sight and time deposits increased significantly in 2014.



Amounts in EUR	2011	2012	2013	2014
Retail deposits	47.604.421	60.204.983	75.236.948	103.276.531

CORPORATE DEPOSITS

Total overall corporate deposits increased by 26,15%. The increase in sight deposits was 17,34%, while time deposits increased by 39,70%.



LOANS

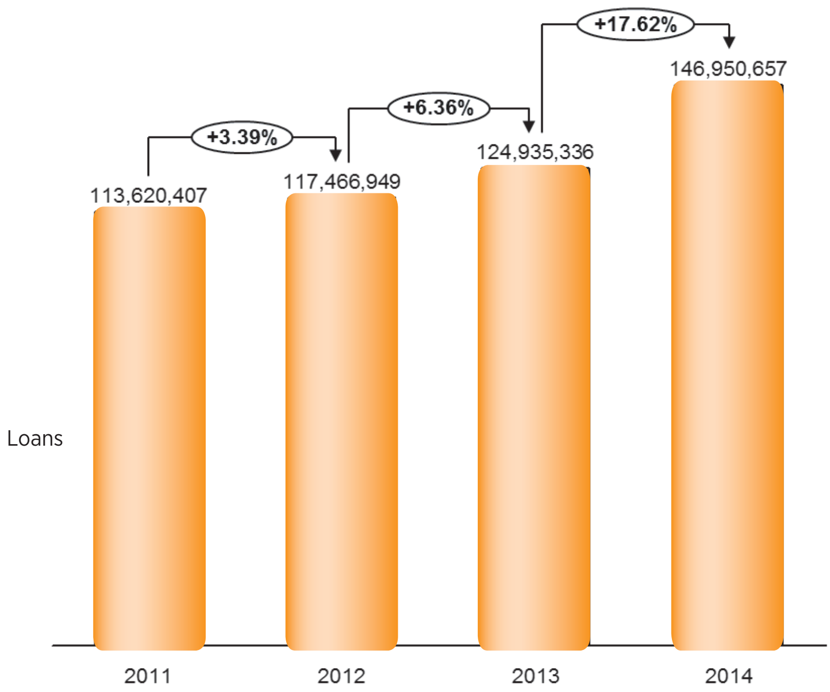
In addition to supporting its existing clients on a continuous basis, Hipotekarna banka also provided loans to a number of new clients in 2014.

The Bank is recognized for the excellence of its service as it provides clients not only with financial support, but also with advisory services, both being aimed at improving business operations and business results of the Bank itself and of its clients.

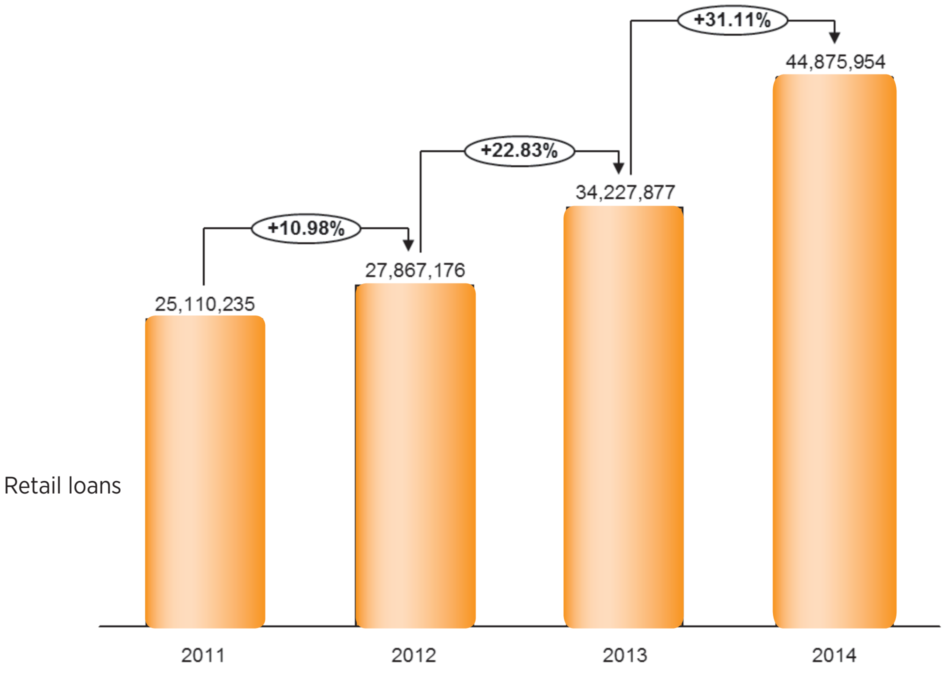
Despite the conservative loans policy, traditionally pursued by the Bank, the total loans portfolio increased 17,62% compared to the year before.

The retail loans portfolio increased 31,11%, while the corporate loans portfolio increased 12,53%.

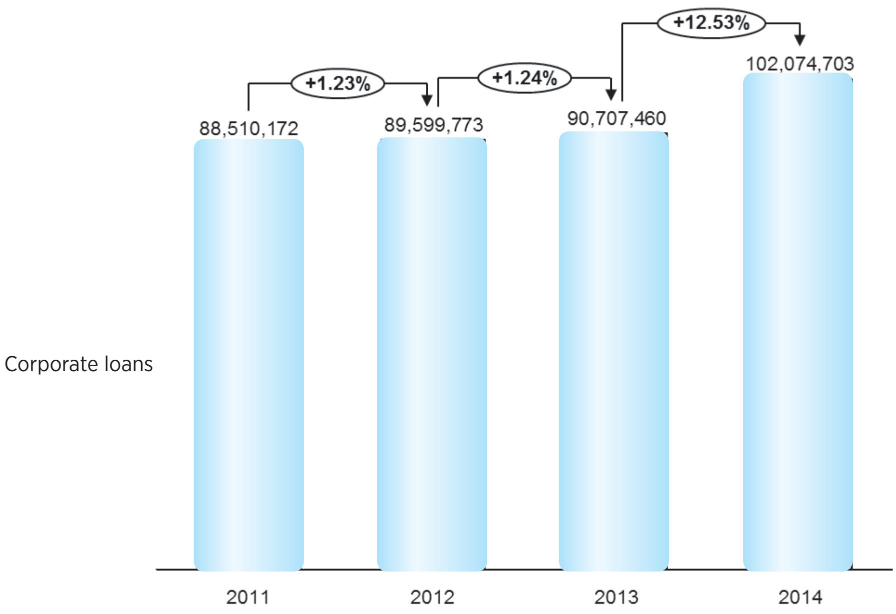
	Loans in EUR	Increase in %
2011.	113.620.407	-
2012.	117.466.949	3,39%
2013.	124.935.336	6,36%
2014.	146.950.657	17,62%



	2011	2012	2013	2014
Loans	113.620.407	117.466.949	124.935.336	146.950.657

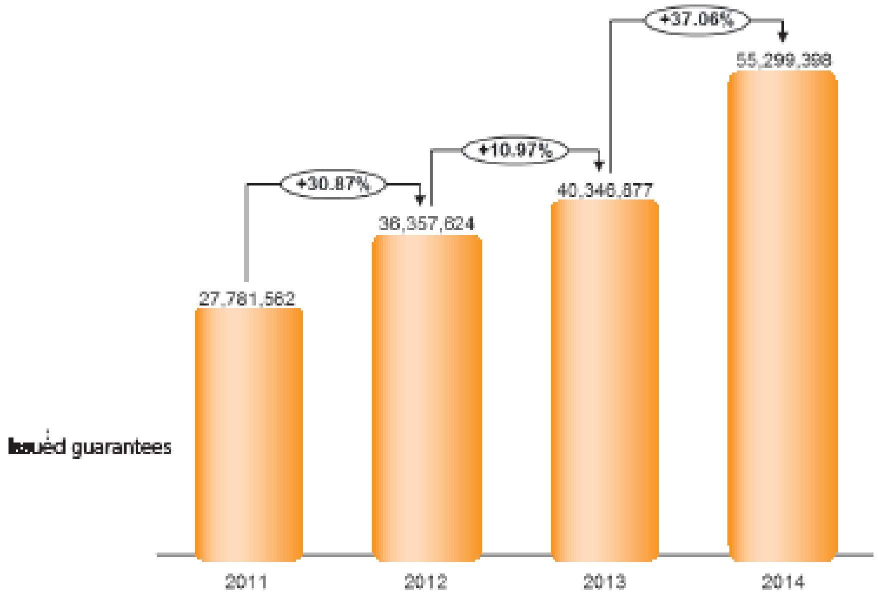


	2011	2012	2013	2014
Retail loans	25.110.235	27.867.176	34.227.877	44.875.954



	2011	2012	2013	2014
Corporate loans	88.510.172	89.599.773	90.707.460	102.074.703

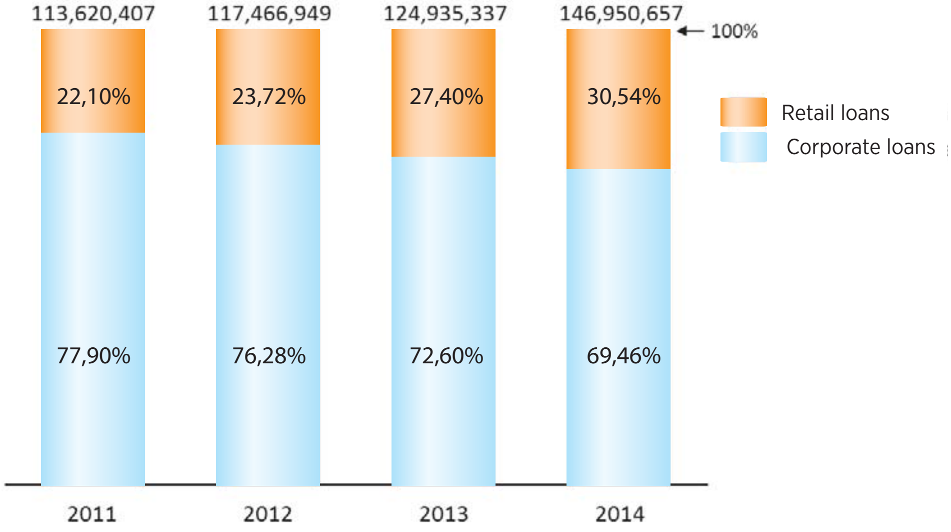
The Bank also recorded a 37,06% increase in the amount of issued guarantees.



	2011	2012	2013	2014
Issued guarantees	27.781.562	36.357.624	40.346.877	55.299.398

STRUCTURE - CLIENTS

The share of retail loans amongst total loans is 30,54%, while corporate loans make up for the remaining 69,46% of the total loans portfolio.



The Bank continued cooperating with the European Bank for Reconstruction and Development (EBRD) by signing a €8 million worth agreement in November 2014.

By signing such financing agreement with its long-time partner Hipotekarna banka, the EBRD launched its Trade Facilitation Programme (TFP) in Montenegro to support the development and diversification of the private sector. Hipotekarna banka became EBRD's first intermediary for this programme.

Under the agreement, a loan of €2.5 million has been provided for on-lending to private micro, small and medium-sized enterprises, as access to long-term finance, especially in rural areas. In addition, a €2.5 million mortgage loan has being extended to support long-term lending to private individuals in order to boost recovery of the housing market through purchase, reconstruction and adaptation of residential properties.

Furthermore, a trade finance line of € 3 million was opened for Hipotekarna banka to finance foreign trade. Through this programme, the EBRD and Hipotekarna banka intend to create opportunities for economic growth as expanding trade is an important way of strengthening the local economy.

The Bank also improved cooperation with the Investment and Development Fund of Montenegro and in this way provided its clients with opportunities for financing of long-term projects under especially favourable conditions.

BUSINESS NETWORK AND DISTRIBUTION CHANNELS

Hipotekarna banka continued to expand its business network and upgrade the existing subsidiaries and branches. A new branch was opened in the luxury yacht homeport and marina village "Porto Montenegro". The branch is equipped in line with the Bank's standards and equipped with cash withdrawal and payment ATMs available 24/7.

Moreover, in July 2014, the Bank opened its most contemporary subsidiary in Podgorica's business district at 130 Svetog Petra Cetinjskog Boulevard. This extremely up to date subsidiary is unique on the Montenegrin market as it is the first subsidiary of any Montenegrin bank offering 24/7 services to citizens and corporates.

By opening new space equipped with adjourned multifunctional terminals within the new subsidiary, Hipotekarna banka allowed its clients to perform financial transactions at any time of day and night throughout the year.

The latest 'Cash In' ATM allows clients to make all types of payments, deposit cash and perform various transactions and money transfers. The new service - Electronic Bank – 24/7 Zone - is designed with the needs of retail and corporate clients in mind and allows secure, comfortable and Swift deposits that are credited to accounts instantly thanks to an on-line payment regime.

In the last quarter of 2014 the Bank launched a new software application covering the majority of business operations. The staff is provided with a more user-friendly insight into the statuses of the clients, more efficient service contracting, account opening, communication with clients etc. Moreover, the documentation accompanying service contracting has been simplified in order to save time to clients and staff.

NEW PRODUCTS AND SERVICES

Super 8 Cash Loans

In the first quarter of 2014, Hipotekarna banka started offering Super 8 Cash Loans to retail clients who receive their salaries through Hipotekarna banka. Loans of up to €8.888 are extended with a monthly interest rate of 0,88% with no surety bond required.
The Bank's clients who also use services of Crnogorski Telekom get a free Premium PayPass MasterCard together with the loan. The card allows

instalment buying in the amount of up to one monthly salary with no interest and no provision.

The card may be used anywhere in the world at POS terminals and ATMs, for payment of bills, cash withdrawals and online shopping.

Platinum MasterCard® PayPass™ Porto Premier Card

In mid-2014 Porto Montenegro and Hipotekarna banka launched a unique Platinum MasterCard® PayPass™ Porto Premier Card. First of its kind, the card is exclusively created for the members of Porto Montenegro Owners Club and their partners. It provides fast, secure and simple payments via MasterCard® PayPass™ contactless technology at approximately 2 million locations in over 63 countries, including 34 European countries.

The main benefits are: cashless payments in Montenegro and abroad, online payments, cash withdrawal from all ATMS bearing MasterCard label, discounts in all Hipotekarna banka partner companies in Porto Montenegro village and around Montenegro, instant 3% – 5% discounts for all purchases, Membership in the MasterCard elite programme and free access to business lounge at Nikola Tesla International Airport in Belgrade and Vienna International Airport.

MasterCard® Premium PayPass™ Sticker

In 2014, Hipotekarna banka continued its tradition of launching new and/or improved products to celebrate the anniversary of its Premium Programme. In October we launched MasterCard Premium PayPass Sticker and reaffirmed our position as innovation leader on the market. The Sticker is a contemporary product that can be placed on the mobile phone or a key ring and used to carry out payments via any PayPass device in the world.

Licence to act as insurance agent

In the last quarter of 2014, the Insurance Supervision Agency of Montenegro licenced Hipotekarna banka to act as insurance agent following Central Bank of Montenegro’s approval. In line with this, Hipotekarna banka will invest efforts in the upcoming period to promote the sale of insurance though its business network and to introduce innovative products that will enrich its traditional offer with insurance products.

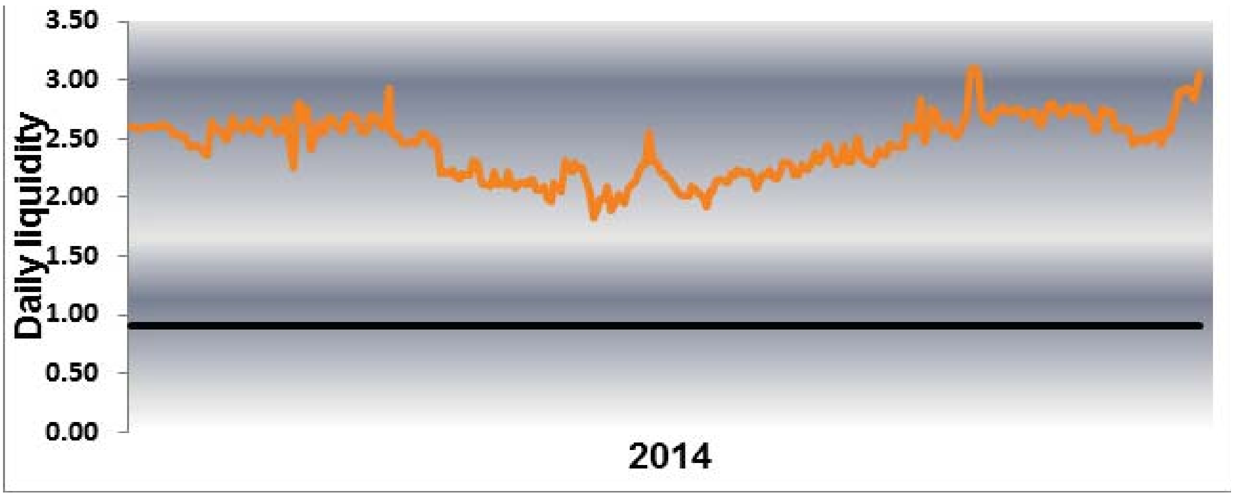
TREASURY

Providing optimal liquidity is a basic requirement for safe and efficient operations of each bank, who has to achieve necessary liquidity by rational management of assets and liabilities in order to maintain an appropriate ratio between liquid assets and total liabilities.

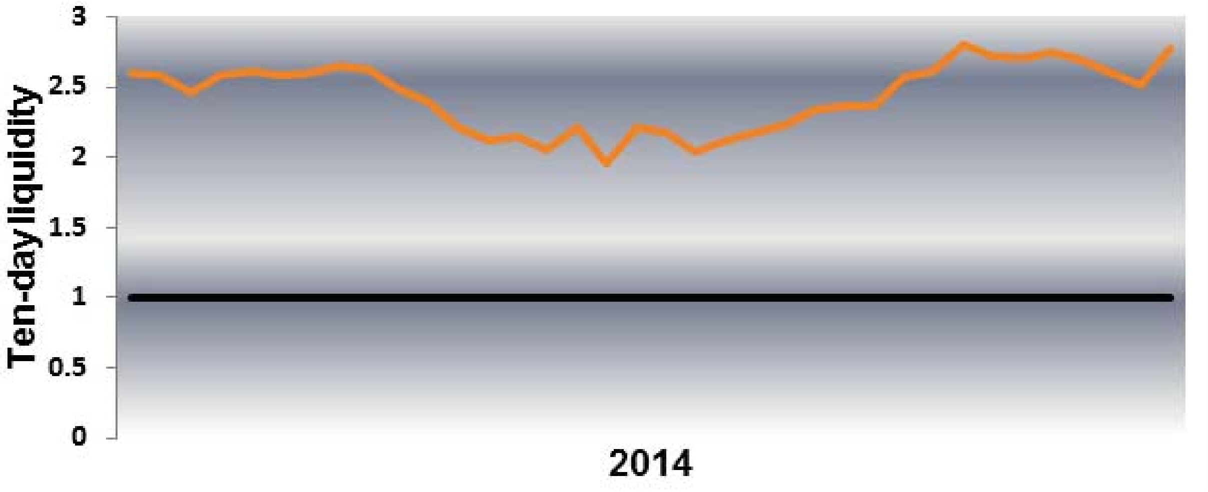
In 2014 the Bank has also put emphasis on stabilizing domestic sources of funding and expanding of its clients' base, reducing short-term in favor of long-term sources of funding and withdrawal of new credit lines from foreign banks and international financial institutions.

Treasury back office and financial controlling department has succeeded to maintain liquid assets and overall liquid position of the Bank at a satisfactory level. In addition to that, the Department has performed reconciliation of sources of funds with placements by daily, weekly, decadal and monthly scheduling of available liquid assets. Adequate allocation of funds was performed through effective cooperation with other divisions and departments in the Bank. All that has allowed the Bank to regularly fulfill its obligations towards creditors, as well as to permit the fulfillment of every customer requirement in the shortest terms.

The daily liquidity ratio, which is calculated by the methodology regulated by the Central Bank of Montenegro, throughout 2014 was considerably above the legally required minimum of 0,90.



Furthermore, the ten-day liquidity ratio was above the legal requirement of 1,00.

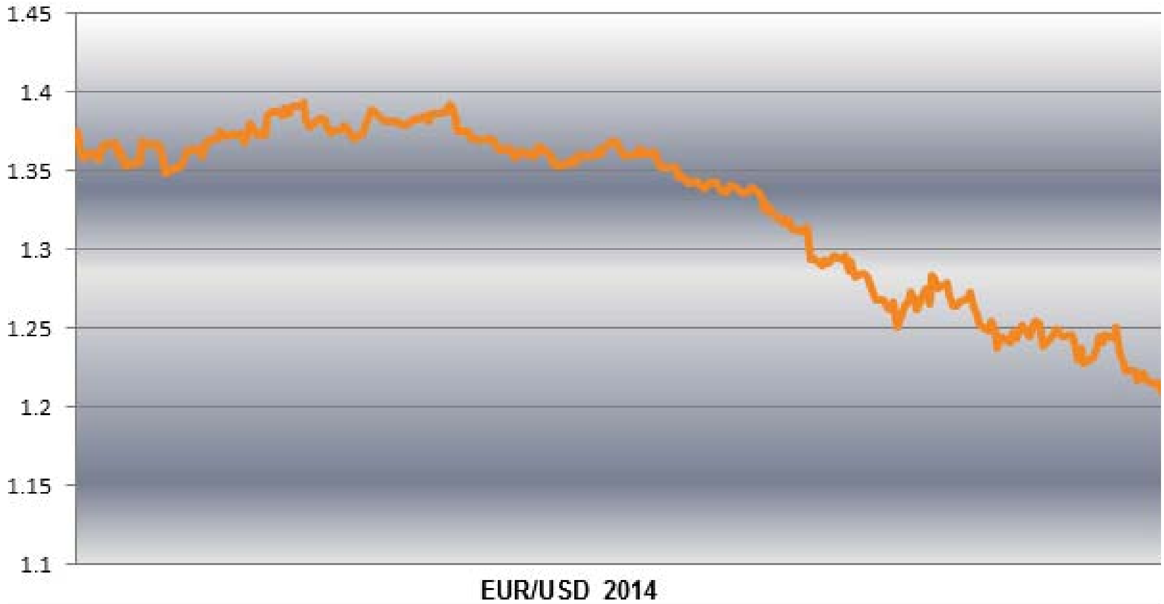


In order to manage tenor liquidity and maintain satisfactory levels, the Bank has regularly monitored indicators of structural liquidity through the tenor adjustment of financial assets and liabilities, the review of maturity dates of larger deposits and through the establishment of a stable part of a-vista deposits thanks to an internally developed model.

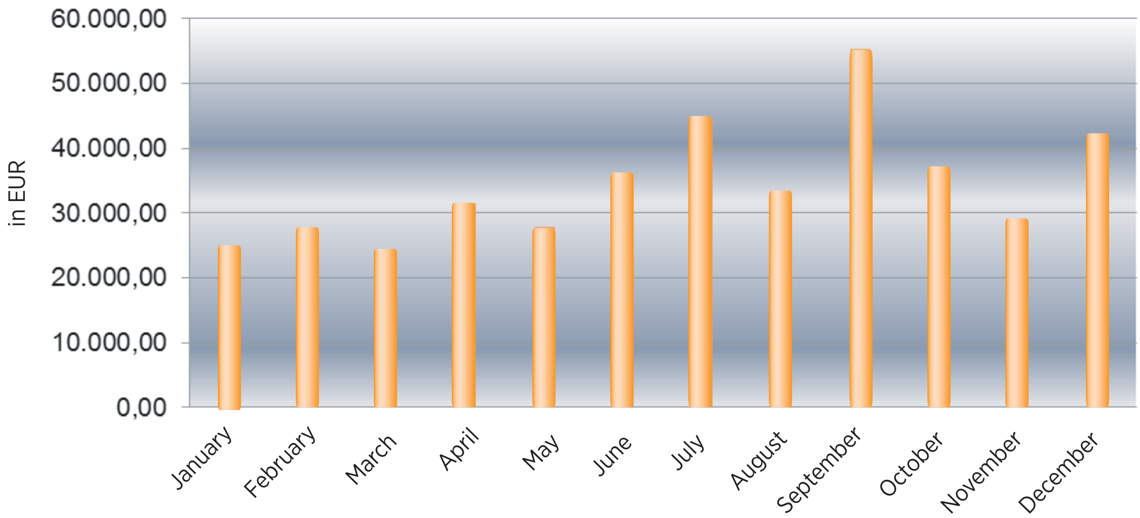
Considering that effects of global economic crisis, which were significantly felt also throughout 2014 and taking into account the customers' cautiousness when it comes to the disposal of their own funds, it can be concluded that in these circumstances, the Bank has been recognized as the most liquid bank in banking system of Montenegro, as well as one of the most reliable. In addition to this statement, the data showed that at the end of 2013 total deposits of the Bank were equal to € 161,7 million and at the end of 2014 total deposits of the Bank were € 213,4 million, representing an annual growth of 32,01%. Liquidity surpluses, except from credit activities, were also placed in marketable securities.

In 2014 the Bank has participated in government securities auctions, and in accordance with the decision of the Central bank of Montenegro, has used them for the coverage of part of obligatory reserve. Also, through activities of the Financial markets department, the Bank has invested assets in other securities that are traded on Montenegro Stock Exchange, as well as other stock exchanges in the region.

In 2014 there has been large fluctuations in exchange rates, in particular in currency EUR/USD currency pair, which has had the greatest impact on the Bank's exposure to exchange rate risk.



Under these circumstances, Treasury back office and financial controlling department has managed to achieve remarkable results regarding income from realized exchange rate differences as a result of adequate exchange rate risk management. At the end of 2014 total revenue from foreign exchange differences amounted to € 412,5 thousand, which had significant impact on the final financial results of the Bank.



Income from exchange rate differences in 2014

PAYMENT OPERATIONS

The Bank overall payment operations in 2014 were characterized by the growth of all parameters which defines business operations of this segment of the Bank. All business plans, which have been previously set up, were completely achieved , clearly demonstrating the Bank's efficiency and progress over the previous year.

DOMESTIC PAYMENTS

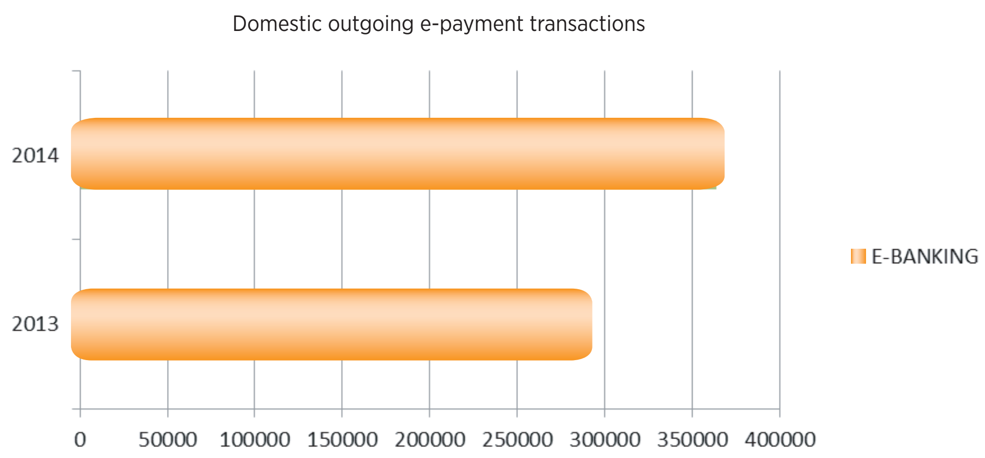
Overall domestic payment operations of the Bank recorded growth in 2014. This shows that the share of clients who carry out their payment transactions by using Hipotekarna banka's payment services increases on a yearly basis.

The total number of payment transactions rose by 11% in comparison to the 2013 of which the highest increase was achieved in the number of external payment transactions between Banks. This growth amounts to 21% in comparision to the previous year.

The increase of these payments was attibutable both to 'low value' payments (< € 1.000 rose by 23%) and to 'high value' payments (> € 1.000 rose by 18%).

The number of incoming payments from the clients of other domestic banks rose by 23% in comparison to the previous year.

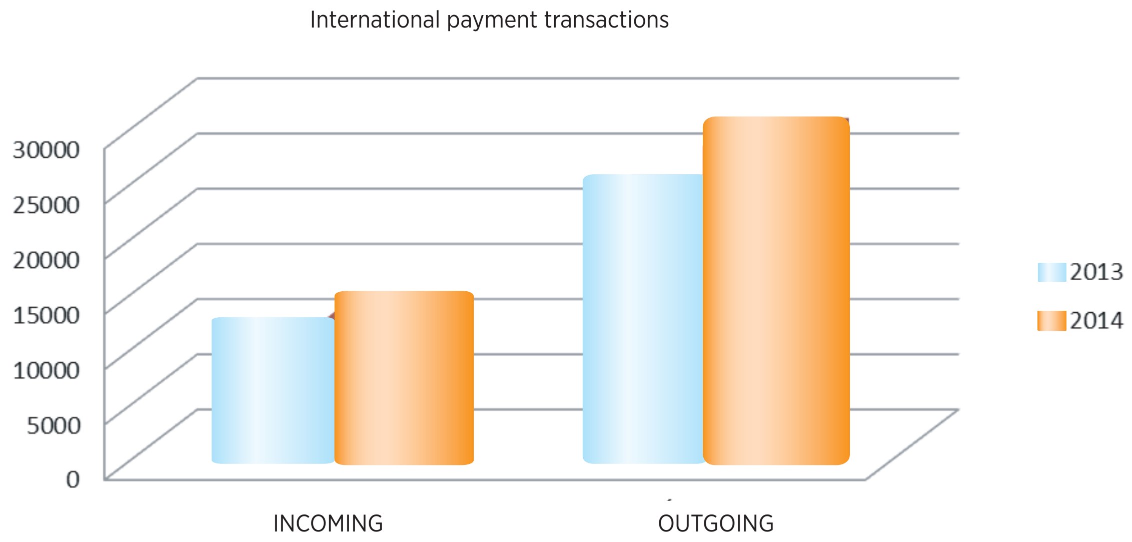
This significant increase was mainly achieved within the electronic outgoing payment transactions (e-banking), meaning that clients used electronic payments orders more often, translating into a 27% increase in comparison to the previous year.

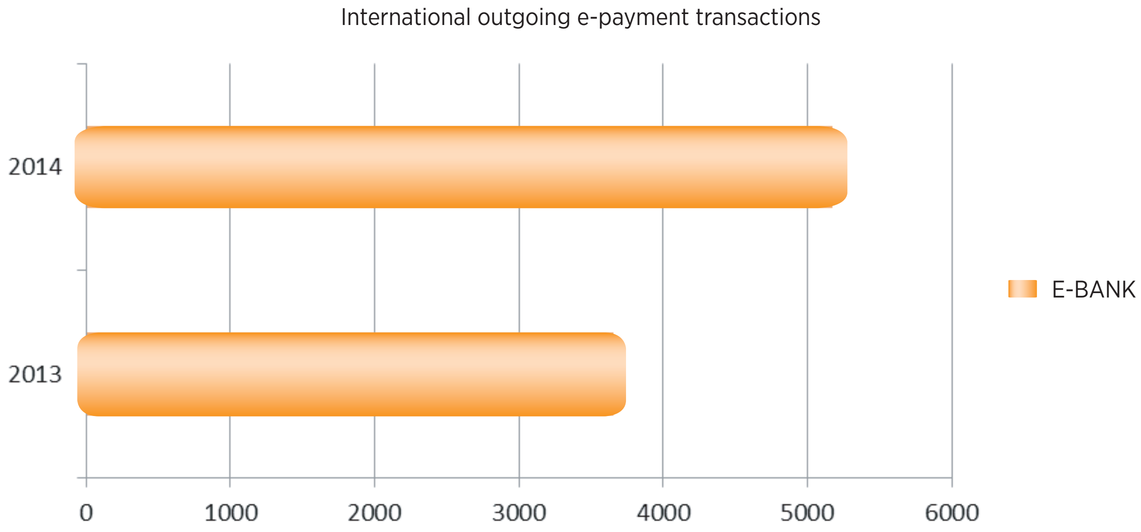


INTERNATIONAL PAYMENTS

International payments in 2014 were featured by the growth in all type of payment transactions, incoming and outgoing, documentary operations and other international services and transactions.

The number of outgoing payment transactions rose by 17%. Furthermore, the number of electronic outgoing payment transactions, by using e-bank application, rose by 42% in comparison to the 2013, whereas the number of incoming payment transactions rose by 37%.



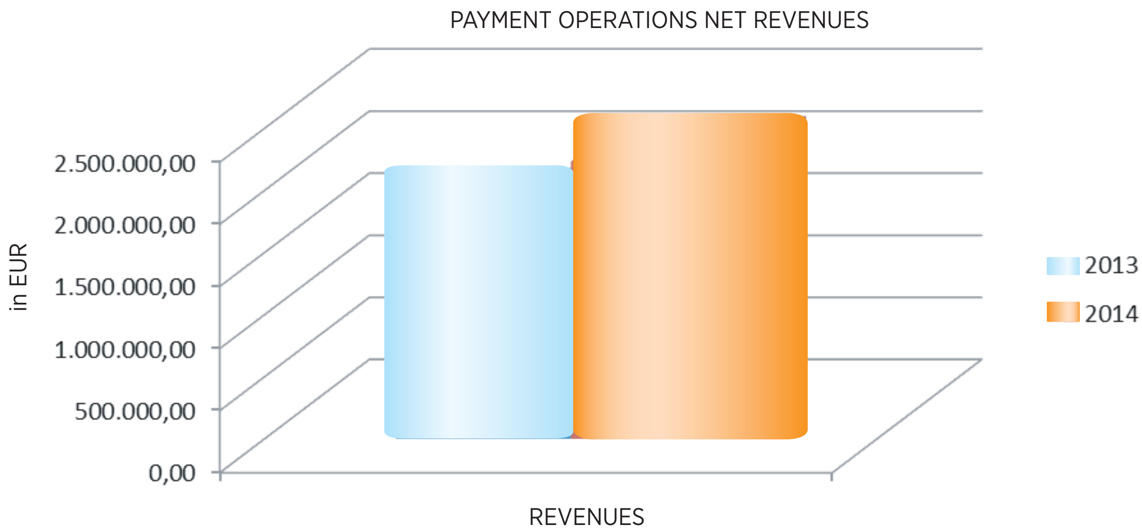


The total number of documentary transactions rose by more than 60% in comparison to the 2013.

The overall payment operations also increased significantly in comparison to the previous year. The efforts made by all employees to raise their working efficiency with the use of efficient technological and software solutions and supports fostered the growth of all payment operations parameters and KPIs.

The total revenues of the overall payment operation services commissions rose by 22% in comparison to the 2013. The increase in revenues of domestic payment operations commissions rose by 23% year on year, and international payment services commissions rose by 22%.

Consequently, net income of total payment operation services rose by 23%.



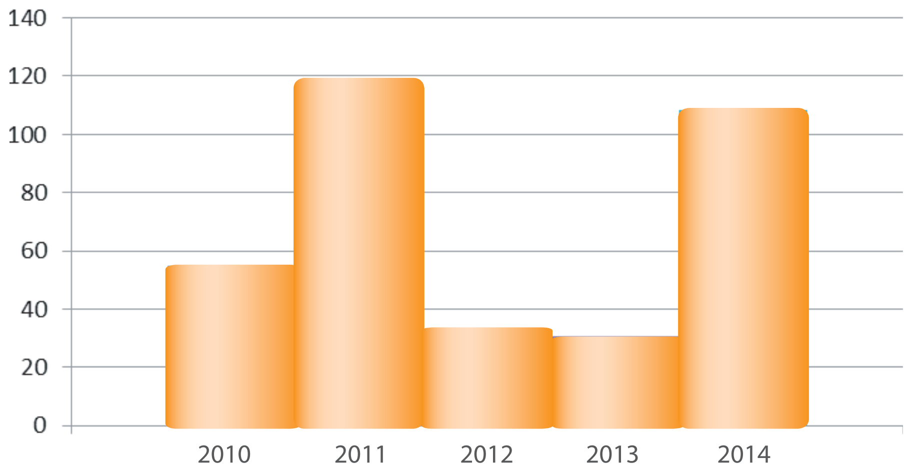
INVESTMENT BANKING

After years of downward trends in turnover, the trading volume on the Montenegro Stock Exchange increased significantly in 2014 and amounted to € 108.157.203, which is three and a half times more than the previous year, despite the fact that during the 246 trading days in 2014, Montenegro Stock Exchange recorded 6.285 transactions, equal to 2.5% less than in 2013.

The primary market had a big impact on the turnover growth with its share of € 53,15 million.

The Government of Montenegro issued bonds worth € 43,15 million, while Hipotekarna banka AD Podgorica, through the contribution of its Investment Banking Department and Proprietary Trading Department, has successfully and fully implemented the issue of bonds worth € 10 million.

MONEX 20 Index recorded a growth of 15.29% throughout the 2014, reaching the value of 11.365,11 points on the last trading day of the year. The maximum value of 12.608,43 points was registered November 26th 2014, while the minimum value of 9.705,44 points was recorded on the 27th of June. Throughout 2014, MONEX PIF recorded a decrease in value of 10,99%, and reached 3.037,38 on its last trading day of the year.



Total turnover on the Montenegro Sock Exchange in the past five years in € millions.

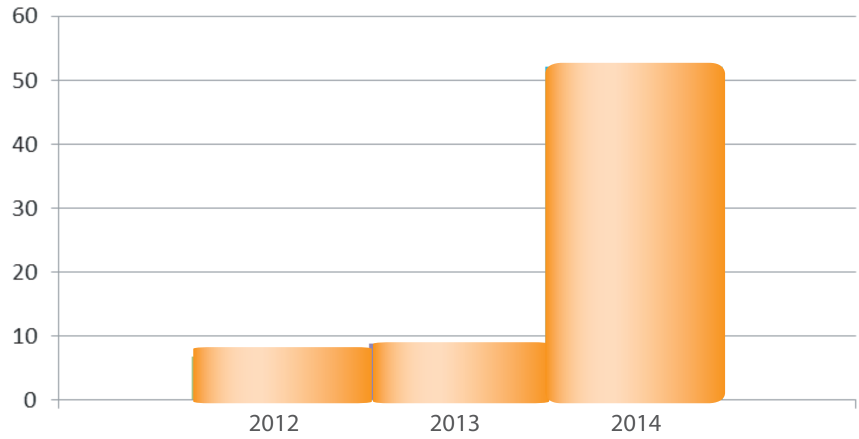
BROKERAGE UNIT

Brokerage Unit of Hipotekarna banka generated a turnover of € 45,55 million in 2014, which is five times more than in 2013. Out of this value, the turnover of sale transactions amounted to € 16,94 million, while the turnover of purchase transactions resulted in a value of € 28,61 million.

The transactions with the highest volume that were carried out by Brokerage Unit, were block transactions in the amount of 20% of the JSC Budvanska Rivijera Hotel Group, worth € 15 million on the buy-side, as well as the stock exchange transactions related to the bond issuance of Hipotekarna banka, which amounted to € 10 million, both on buying and selling side.

With its turnover, Hipotekarna banka has maintained its position as one of the leaders on the Montenegrin capital market.

The turnover of Brokerage Unit on the foreign markets amounted to € 5,3 million in 2014.



Brokerage turnover of Hipotekrna Banka in the past three years

DEALER OPERATIONS

By the end of 2014, Hipotekarna banka invested over € 4,02 million in equity securities. The largest position is held in Atlasmont Banka's shares, whose market value at the end of the year amounted to € 3,57 million. In 2014, Hipotekarna banka AD Podgorica generated an income of € 235 thousand from dividends and realized capital gains.

Hipotekarna banka also held € 24,27 million worth positions of debt securities at the end of the year, mostly bonds issued by Government of Montenegro.

CUSTODY UNIT

With the value of € 68,74 million of assets under custody, Hipotekarna banka remains the leading Custodian bank in Montenegro. At the end of the year, Hipotekarna banka recorded an increase of 18,76 percent in assets under custody, from an initial base of € 57,88 million at the end of 2013.

The Custody Unit also recorded a growth in income, from an initial base of € 66 thousand at the end of 2013, to € 194 thousand at the end of 2014. With respect to operating income, the Unit has recorded an increase from € 55 thousand to € 101 thousand.

RISK DEPARTMENT

Risk management focuses primarily on the identification, measurement, monitoring and controlling of risks, in order to minimize their negative effects on the Bank's financial result and equity. With active approach to those issues, the Risk Department implemented the techniques and procedures in order to create a modern system for managing risks in accordance with legislation of the Central Bank of Montenegro.

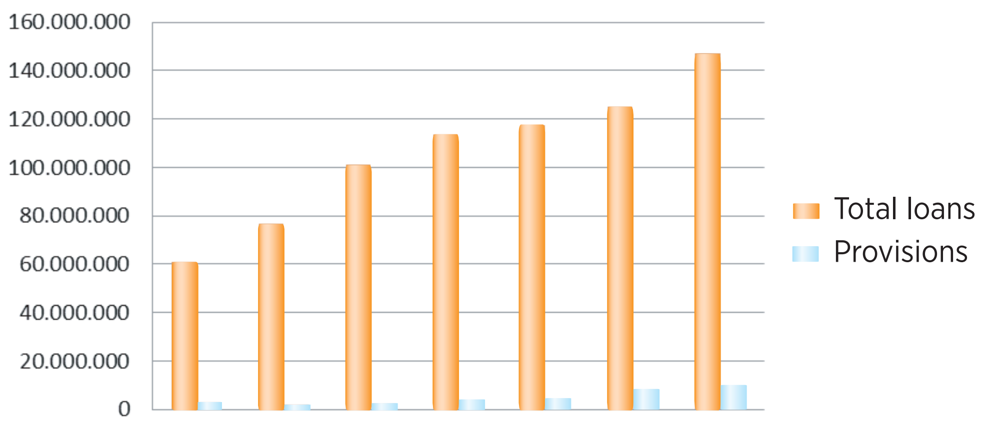
CREDIT RISK

The Bank is managing the credit risk both at individual level and at portfolio level.

Portfolio of the Hipotekarna bank on 31.12.2014 amounted to € 146.925.657, which, if compared to 31.12.2013, represents an increase of € 21.990.320, in nominal value, or 17,6% in percentage.

Provisions for loan losses (for provisioning by prudential filters of CBM) on 31.12.2014. were equal to € 9.762.155, or 6,64% of the loan portfolio. Compared to the end of 2013, provisions increased by € 1.396.995, or 16,7%.

Portfolio / provisions 2008 - 2014

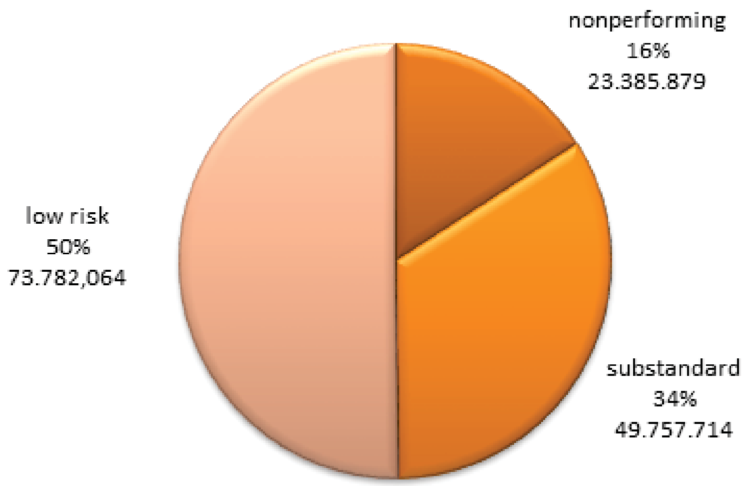


At the beginning of 2014. according to the IFRS, provisions for loan losses were equal to € 5.239.772. Compared to the end of 2013, provisions increased by € 579.215 or 12,43%.

Loan loss provisions – IFRS/ 2014

MODEL	March 14	June 14	September 14	December 14
Provisions	4.790.326	4.881.459	5.313.602	5.239.772
Portfolio	127.169.494	135.085.805	135.803.076	146.924.199
	3,77%	3,61%	3,91%	3,73%

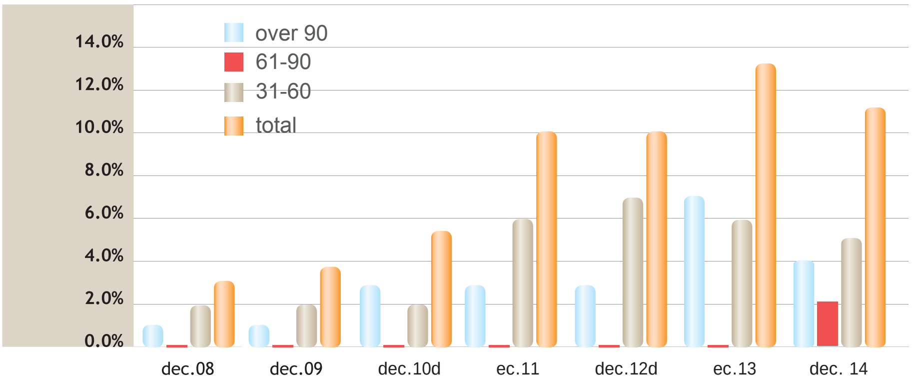
Out of the total loan portfolio of the bank, 50% is represented by highly quality assets (A and B1 rating grade), 34% by substandard assets (B2 rating grade) and 16% by NPLs (C, D and E rating grade).



Structure of portfolio on december 2014, by prudential clasification

The amount of loans with delinquency in repayments over 30 days at 31.12.2014 amounted to € 16.004.923, or 10,89% of the Bank's total loan portfolio.

Arrears / total loans



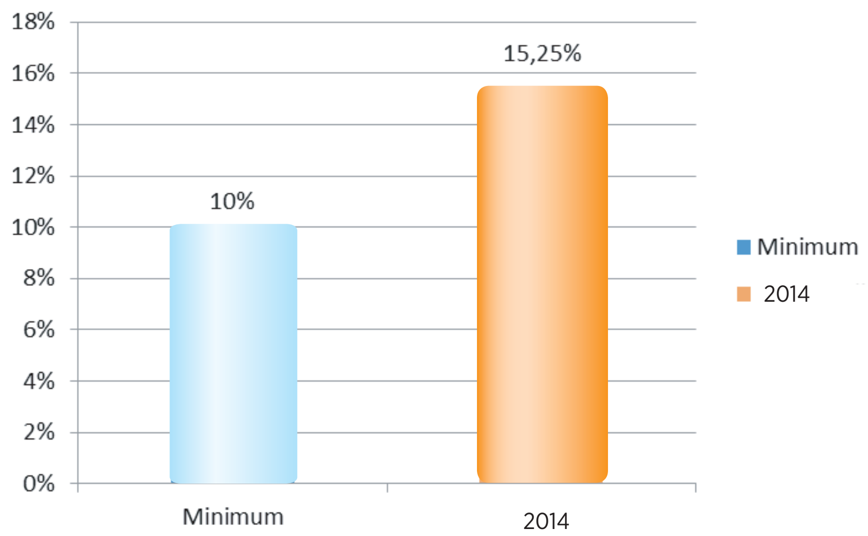
Tansition matrix Decembre 2014

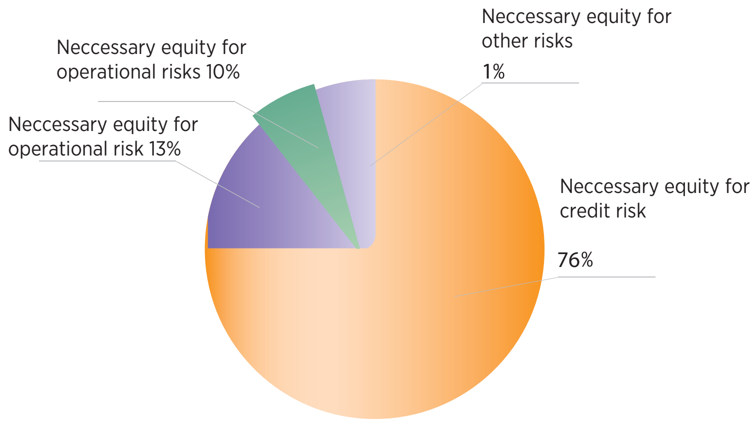
	A	B1	B2	C1	C2	D	E	(closed)
A	95,29%	0,96%	0,04%	0,00%	0,00%	0,00%	0,00%	3,72%
B1	3,61%	89,71%	0,03%	0,44%	0,00%	0,00%	0,00%	6,21%
B2	0,12%	0,20%	92,28%	0,82%	0,00%	0,00%	0,00%	6,57%
C1	0,05%	0,00%	0,00%	77,52%	0,03%	0,00%	0,00%	22,40%
C2	0,05%	0,00%	0,00%	0,91%	88,78%	6,71%	0,00%	3,54%
D	0,00%	0,00%	0,00%	0,00%	0,35%	83,49%	4,79%	11,37%
E	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	99,97%	0,03%

SOLVENCY RATIO

On 31.12.2014 the solvency ratio was well above the statutory limit (10%), and amounted to 15,25%. Solvency ratio is the most important indicator of confidence in the bank and it serves as a protector of the deponents, creditors and business partners of the bank.

Solvency ratio 2014





Neccessary equity to cover all risks

EQUITY

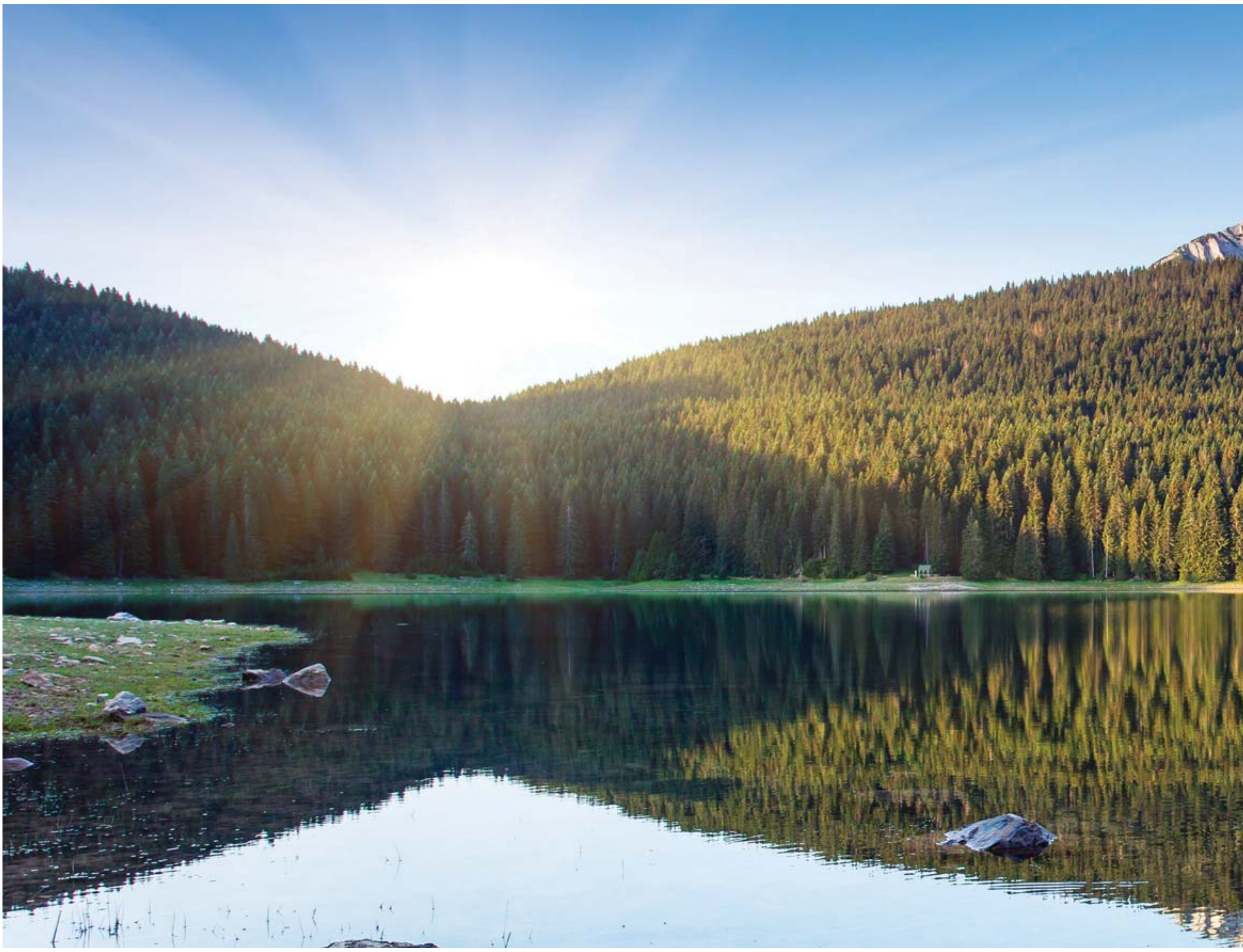
The Bank's total equity, on December 31st, 2014 was equal to € 31.631 million. Comparing to the previous year, equity increased by 9,59%. As at 31st December 2014, the nominal value of shareholder's equity was € 16.006 million. Shareholder's equity consists of 31.305 shares, each with a nominal value of € 511,29. 73% of the equity is owned by foreign investors, while the remaining 27% is owned by domestic entities and individuals.

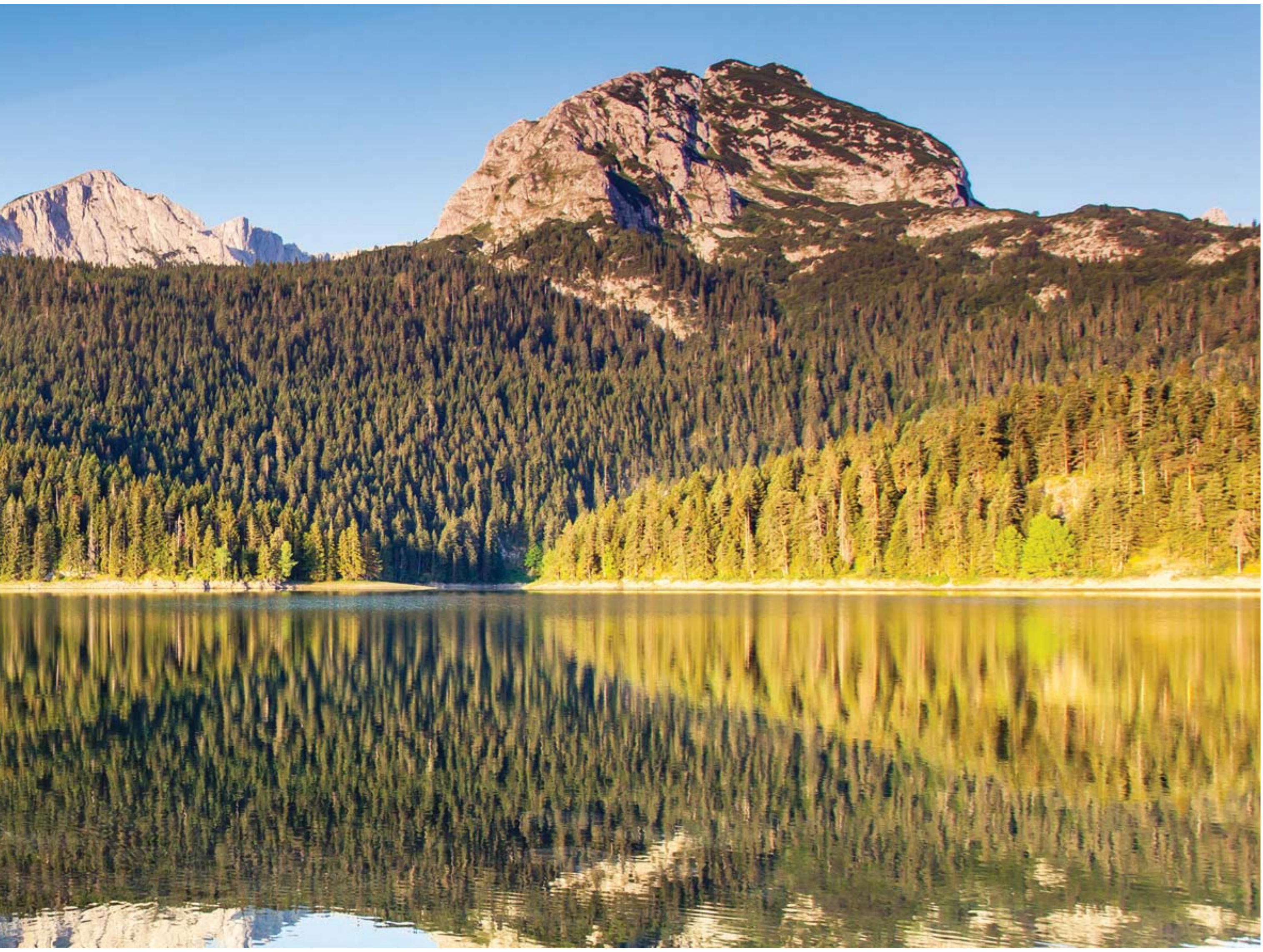
INCOME STATEMENT

In 2014 Bank achieved profit in amount of € 2,454 million. Interest income, comparing to the previous year, increased by 11,89%, and was equal to € 14,383 million, which was the result of increased credit activity and higher investment in securities. Fee revenues, compared to the previous year, increased by 36,60%, up to € 7,173 million. Net fees and commission income represents 36,20% of the Bank's total net operating income.

Operating expenses, including depreciation, were equal to € 10,613 million, 14,36% more than in 2013.

Increase in costs is the result of expansion of branches network, employment of new staff and increase in other expenses that accompanied the growth and development of the Bank. The assessment of credit risk, making provisions for risky loans and other potential liabilities of the Bank, is based on the application of the principles of conservative policy and implementation of current regulations. Total allocated reserves for assets and liabilities amounted to € 6,527 million as at 31st December 2014.





3 FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

HIPOTEKARNA BANKA AD, PODGORICA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

CONTENTS

Ernst & Young Montenegro d.o.o.
Serdara Jola Piletića
PC Palada (II sprat) lokal 2A
81000 Podgorica, Crna Gora

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Fax: +382 20 238 476
ey.com

This is an 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 2014, 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 notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Law on Accounting and Auditing and 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.

Auditors' 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 2014, and of its financial performance and its cash flows for the year then ended in accordance with Law on Accounting and Auditing and regulations of the Central Bank of Montenegro governing financial reporting of banks.

Registarski broj: 5-0537154 kod Centralnog registra privrednih subjekata u Podgorici
Upisan i unijet osnovni kapital: EUR 5.000,00; PIB: 02759080; PDV: 30/31-08878-9
Poslovni račun: 520-13125-82 kod Hipotekarne banke A.D., Podgorica

Other matters

The financial statements of the Bank for the year ended 31 December 2013 were audited by another auditor whose report dated 5 May 2014 expressed an unqualified opininon.

Podgorica, 27 April 2015

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

DRUŠTVO ZA REVIZIJU
ERNST & YOUNG
MONTENEGRO
DOO
PODGORICA

Stephen Fish
Partner

Danijela Dimovski
Authorised auditor

INCOME STATEMENT for the year ended December 31, 2014

	Note	2014	2013
		(thousand of EUR)	
Interest income and similar income	Sa	14.383	13.292
Interest expenses and similar expenses	Sb	(5.318)	(4.632)
Net interest income		**9.065**	**8.660**
Dividend income		52	59
Impairment losses	6a	(1.574)	(1.041)
Provision charges	6b	379	(206)
Fee and commission income	7a	7.173	5.251
Fee and commission expenses	7b	{2.707}	{1.581}
Net fee and commission income		**4.466**	**3.670**
Net gains on investment securities		197	59
Foreign exchange gains, net		412	379
Personnel expenses	8	(4.358)	(4.137)
General and administrative expenses	9	(5.142)	(4.295)
Depreciation and amortization	10	(783)	(723)
Other expenses	11	(329)	(126)
Other income	12	344	313
OPERATING PROFIT		**2.729**	**2.612**
Income tax	13	{ 275}	{245}
PROFIT FOR THE YEAR		**2.454**	**2.367**

Notes on pages from 7 to 65 form an integral part of these financial statements

These financial statements were approved by the management of Hipotekarna banka AD, Podgorica, in Podgorica, on April 27, 2015.

Approved by and signed on behalf of Hipotekarna banka AD, Podgorica by:

HIPOTEKARNA BANKA AD PODGORICA

Esad Zaimović
Chief Executive Officer

Aleksandar Mitrović
Executive Director of Business Support

STATEMENT OF FINANCIAL POSITION as of December 31,2014

(thousand of EUR)

	Note	December 31, 2014	December 31, 2013
ASSETS			
Cash and deposit accounts held with central banks	14	67.725	26.684
Loans and receivables due from banks	15	46.203	51.692
Loans and receivables due from customers	16	145.977	122.734
Investment securities			
- available for sale	17a	26.560	7.720
- held to maturity	17b	1.666	10.842
Investments in associates and joint ventures at equity method		8	8
Property, plant and equipment	18	2.032	1.810
Intangible assets	19	939	885
Deferred tax assets	13	24	18
Other financial receivables	20	601	509
Other operating receivables	21	937	1.175
TOTAL ASSETS		**292.672**	**224.077**
LIABILITIES			
Deposits due to banks		597	434
Deposits due to customers	22	215.318	163.207
Borrowings from banks			
Borrowings from other customers	23	29.674	25.476
Provisions	24	711	1.080
Current tax liabilities		253	252
Deferred tax liabilities	13	29	1
Other liabilities	25	4.520	4.765
Subordinated debt	26	9.939	
TOTAL LIABILITIES		**261.041**	**195.215**
EQUITY			
Share capital	27	16.006	16.006
Share premium		7.444	7.444
Retained earnings			1.311
Profit for the year		2.454	2.367
Other reserves		5.727	1.734
TOTAL EQUITY		**31.631**	**28.862**
TOTAL EQUITY AND LIABILITIES		**292.672**	**224.077**
OFF-BALANCE SHEET ITEMS	29	**537.148**	**501.522**

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Esad Zaimović
Chief Executive Officer

Aleksandar Mitrović
Executive Director of Business Support

STATEMENT OF CHANGES IN EQUITY for the year ended December 31, 2014

(thousand of EUR)

	Share Capital	Share Premium	Retained Earnings/ (Accumulated Loss)	Profit for the Year	Other Reserves	Total
Balance at January 1, 2013	**16.006**	**7.444**	**(306)**	**1.617**	**1.701**	**26.462**
Effects of fair value adjustment of available-for-sale securities					33	**33**
Transfer of profit			1.617	(1.617)		
Profit for the year				2.367		**2.367**
Balance at December 31, 2013	**16.006**	**7.444**	**1.311**	**2.367**	**1.734**	**28.862**
Effects of fair value adjustment of available-for-sale securities					315	**315**
Transfer of accumulated profit			(1.311)	(2.367)	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**

Notes on pages from 7 to 65 form an integral part of these financial statements

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Chief Executive Officer

Aleksandar Mitrović
Executive Director of Business Support

STATEMENT OF CASH FLOWS for the year ended December 31, 2014

	2014	2013
	(thousand of EUR)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received and similar income	14.295	12.751
Interest paid and similar expenses	(4.621)	(3.943)
Fee and commission received	7.173	5.251
Fees and commissions paid	(2.707)	(1.581)
Payments to employees and suppliers	(11.367)	(9.048)
Increases in loans and other assets	(23.214)	(3.975)
Inflows from deposits and other liabilities	51.722	44.252
Income taxes paid	(664)	(570)
Other outflows (Note 30)	(20.076)	(6.840)
Net cash inflow from operating activities	10.541	36.297
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(931)	(847)
Purchase of intangible assets	(263)	(593)
Government Treasury bills and bonds	9.212	(2.955)
Proceeds from sale of tangible and non-current assets		100
Net cash inflow!(outflow) from investing activities	8.018	(4.295)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in borrowings	14.175	1.064
Net cash inflow from financing activities	14.175	1.064
Foreign exchange gains on cash and cash equivalents	412	379
Net increase in cash and cash equivalents	36.146	33.445
Cash and cash equivalents, beginning of the year	78.961	45.516
Cash and cash equivalents, end of the year (Note 30)	112.107	78.961

Notes on pages from 7 to 65 form an integral part of these financial statements

These financial statements were approved by the management of Hipotekarna banka AD, Podgorica, in Podgorica, on April 27, 2015.

Approved by and signed on behalf of Hipotekarna banka AD, Podgorica by:

Esad Zaimović
Chief Executive Officer

Aleksandar Mitrović
Executive Director of Business Support

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:
    a) with foreign payment instruments including exchange operations and
    b) 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.

Total share capital of the Bank amounts to EUR 16,006 thousand as of December 31, 2014 (Note 27). The Bank is headquartered in Podgorica, at no. 67, Josipa Broza Tita Street. As at December 31, 2014,

the Bank had 182 employees (December 31, 2013: 170 employees). The Bank has 10 branches and 8 sub-branches.

On 25 August 2014, the Central Bank of Montenegro has issued a decision by which the Bank obtained approval for acting as insurance agent. On 9 September 2014, the Insurance Supervision Agency issued a consent approving the Bank to act as insurance agent.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis for Preparation and Presentation of the Financial Statements

The Bank’s financial statements are prepared in accordance with the accounting regulations applicable on financial reporting of banks in Montenegro.

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. 69/2005, no. 80/2008 and no. 32/11), 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, IAS and IFRS published by the IASB, should be translated 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). 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.

Due to the potentially significant effects of the above described matters on the true and fair presentation of the financial statements, these financial statements cannot be treated as having been prepared in accordance with International Financial Reporting Standards.

The official currency in Montenegro and the functional currency in these financial statements is Euro (EUR).

In accordance with the recommendation of the Regulator, the Bank has reclassified funds borrowed from EIB and EBRD from the position Borrowings from Banks to Borrowings from other customers in the Statement on Financial Position as at December 31, 2014 as well as in the comparative data as at December 31, 2013.

The Bank has also, in the comparative Profit and loss statement, reclassified interest income derived from debt securities from the position Net gains/losses from Investment securities to Interest Income.

2.2. Going Concern

The Management of the Bank is not aware of any material uncertainty that could arouse suspicion to the ability of the Bank to continue its business activities. Therefore, the financial statements are prepared based on the going concern principle.

2.3. 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 estimations and assumptions are based on historical experience and other facts including the anticipations of future events that are believed to be reasonable under the circumstances, where the results provide reliable basis for assessment of carrying value of assets and liabilities that are not observable from other sources. These estimations and assumptions are based on information as of the date of preparation of financial statements. However, actual results may depart from these estimates. The most significant estimates and assumptions were made at the following items in statement of financial position:

- **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 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.

- **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 bellow 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.

- **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.

- **Long term employee provision**

The 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.

- **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.

- **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.

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.

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.

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.

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.

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.

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.

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:

	As at December 31, 2014	
Risk Category	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.

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.

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 Depositary Agency. The excerpt obtained from the Registry of the Central Depositary 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.

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.

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

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.

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, Operational Risk Management Committee and Asset and Liability Management Committee (ALCO).

4.2. Credit Risk

The Bank is exposed 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. Significant changes in the economy and certain industries comprising 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. Hence, the bank's management manages credit risk exposure observing the prudency principle.

4.2.1. 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 to be 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 broker companies 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 discharge principal and interest repayment liabilities.

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.

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

As of 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.

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.

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:

	2014	2013
Balance sheet items		
Loans and receivables due from banks	46,203	51,692
Loans and receivables due from clients	141,686	120,275
Interest and other receivables	1,568	1,065
Factoring	2,723	1,394
Securities available for sale	24,089	6,789
Securities held to maturity	1,666	10,842
	217,935	**192,057**
Off balance sheet items		
Payment guarantees	44,856	34,372
Performance guarantees	10,443	5,975
Unsecured letters of credit	1,245	827
Undrawn loan facilities	12,228	8,265
	68,772	**49,439**
Total credit risk exposure	**286,707**	**241,496**

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

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.

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, 2014								
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		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**
Loans to micro and 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 banks	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**

	Neither Past due nor Impaired	Past Due but not Impaired	Individually Impaired	Total. Gross	Individual Impairmen Allowance	Group Impairment Allowance	Total Impairment Allowance	Total. Net
December 31, 2013								
Current account overdrafts	588	52	-	640	-	(42)	(42)	**598**
Customer loans	15,554	140	360	16,054		(408)	(408)	**15,646**
Credit cards	653	31	4	688	(2)	(46)	(48)	**640**
Special purpose loans	729	131	1	861		(152)	(152)	**709**
Other retail loans secured by mortgages	13,737	246	2,006	15,989	(488)	(502)	(990)	**14,999**
Loans to micro and small enterprises	46,472	872	8,133	55,477	(1,585)	(732)	(2,317)	**53,160**
Loans to medium and large enterprises	30,290	760	2,526	33,576	(26)	(450)	(476)	**33,100**
Loans to Government and municipalities	806	-	180	986	(4)	(6)	(10)	**976**
Loans to financial institutions	452	2	210	664	(210)	(7)	(217)	**447**
Loans and advances to banks	-	-	-	-	-	-	-	**-**
	109,281	**2,234**	**13,420**	**124,935**	**(2,315)**	**(2,345)**	**(4,660)**	**120,275**

Loans and advances neither past-due nor impaired in 2013 and 2014 are classified as 'good assets.'

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	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	-	-	-	-	-	**7**
Loans to financial institutions	-	-	-	-	-	-	**-**
	2,723	**394**	**116**	**73**	**96**	**274**	**3,676**

	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	Total
December 31, 2013							
Current account overdrafts	15	4	4	4	8	17	**52**
Customer loans	58	35	-	21	14	12	**140**
Credit cards	1	2	2	3	10	13	**31**
Special purpose loans	4	8	-	16	33	71	**132**
Other retail loans secured by mortgages	29	35	-	18	28	136	**246**
Loans to micro and small enterprises	379	395	-	45	15	37	**871**
Loans to medium and large enterprises	650	110	-	-	-	-	**760**
Loans to Government and municipalities	-	-	-	-	-	-	**-**
Loans to financial institutions	2	-	-	-	-	-	**2**
	1,138	**589**	**6**	**107**	**108**	**286**	**2,234**

b) Fair Value of Collaterals

	December 31, 2014	December 31, 2013
Deposits	21,690	17,469
Pledge liens	50,084	47,315
Mortgages and fiduciaries	303,549	299,706
Insurance policies	404	163
Guarantees	9,008	9,008
Total	**384,735**	**373,661**

Thereof:

Past due but not individually impaired	December 31, 2014	December 31, 2013
Deposits	21,514	15,801
Pledge liens	44,538	45,089
Mortgages and fiduciaries	227,054	219,124
Insurance policies	404	163
Guarantees	9,008	9,008
Total	**302,518**	**289,185**

Individually impaired	December 31, 2014	December 31, 2013
Deposits	176	1,668
Pledge liens	5,546	2,226
Mortgages and fiduciaries	76,495	80,582
Guarantees	-	-
Total	**82,217**	**84,476**

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.

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. Decreased the interest rate on the loan approved and

d. 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 capacitates to realize cash flows necessary for the repayment of the loan principal, as well as the corresponding interest once the loan is restructured.

During 2014 the Bank restructured loans in the amount of EUR 11,865 thousand (2013: EUR 12,081 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:

	Montenegro	European Union	USA and Canada	Other	Total
Loans and advances to banks	9	37,044	4,117	5,033	46,203
Loans and advances to customers	143,727	1,516	1	733	145,977
Securities available for sale	14,063	10,026	-	-	24,089
Securities held to maturity	1,666	-	-	-	1,666
December 31, 2014	**159,465**	**48,586**	**4,118**	**5,766**	**217,935**
December 31, 2013	**135,066**	**51,681**	**3,740**	**1,570**	**192,057**

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 and Insurance Sector	Transportatio, Traffic and Tele-Communication	Accomodation and Catering Servicest	Wholesal and Retail and Vehicle Repairs	Construction industry	Power industry	Ore and Stone Mining	Administration and Service Industry	Real Estate Trade	Agriculture, Forestry and Fishing	Manyfacturing	Other	Retail Clients	Total
Loans and advances to banks	9	-	-	-	-	-	-	-	-	-	-	46,194	-	**46,203**
Loans and advances to customers	2,018	11,735	7,793	44,120	9,342	1,298	757	1,281	8,817	2,599	4,081	8,746	43,390	**145,977**
Securities - available for Sale	13,938	-	-	-	-	-	-	-	-	-	-	10,151	-	**24,089**
Securities held to maturity	1,666	-	-	-	-	-	-	-	-	-	-	-	-	**1,666**
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**
December 31, 2013	**29,448**	**10,568**	**7,403**	**42,156**	**4,116**	**-**	**2,867**	**247**	**8,794**	**1,468**	**3,039**	**49,259**	**32,692**	**192,057**

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, 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**

	Undrawn Loan Facilities	Guarantees	Letters of Credit	Total
December 31, 2013				
Up to one year	6,662	32,028	261	**38,951**
From 1 to 5 years	1,603	8,319	566	**10,488**
Over 5 years	-	-	-	**-**
	8,265	**40,347**	**827**	**49,439**

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.

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. Currency risk is monitored on the basis of Decision on Minimum Standards for Market Risks Management, as well as internally, on the basis of politics and procedure for market risk management.

The Bank's exposure to foreign currency risk as of December 31, 2014 is presented in the following table:

EUR '000	USD	GBP	CHF	Other	Total
Assets in foreign currencies	12,659	252	203	100	13,214
Liabilities in foreign currencies	13,021	251	216	98	13,586
Net foreign exchange exposure:					
- December 31, 2014	**(362)**	**1**	**(13)**	**2**	**(372)**
- December 31, 2013	**(313)**	**(7)**	**1**	**5**	**(314)**
% of the core capital:					
- December 31, 2014	**-2%**	**-**	**-**	**-**	
- December 31, 2013	**-2%**	**-**	**-**	**-**	

Aggregate open position:	
- December 31, 2014	**(372)**
- December 31, 2013	**(314)**
% of the core capital:	
- December 31, 2014	**-1,86%**
- December 31, 2013	**-1,57%**

Management of foreign exchange risk, in addition to the analysis of receivables and liabilities denominated in foreign currencies, includes a sensitivity analysis on the exchange rate. The following table sets out the scenario of fluctuation of the exchange rate in the range of +10% to -10% compared to the EUR.

In thousand EUR

	Total	2014 Amount in foreign currency	Exchange rate fluctuation 10%	-10%
Assets				
Cash and cash equivalents at central banks	67,725	726	73	(73)
Loans and advances to banks	46,203	10,929	1,093	(1,093)
Loans and advances to customers	145,977	1,090	109	(109)
AFS Securities	26,560	394	39	(39)
Other financial receivables	601	1	-	-
Total assets	**287,066**	**13,140**	**1,314**	**(1,314)**
Liabilities				
Deposits from banks	597	37	4	(4)
Deposits from clients	215,318	13,201	1,320	(1,320)
Total liabilities	**215,915**	**13,238**	**1,324**	**(1,324)**
Net exposure to foreign exchange risk:				
- 31 December 2014			**(10)**	**10**
- 31 December 2013			**98**	**(98)**

At 31 December 2014, assuming that all other parameters remain unchanged, a fluctuation in the exchange rate of EUR compared to other currencies by +10% and -10% would cause an increase, or decrease, by an amount of EUR 10 thousand (31 December 2013: profit would increase or decrease by an amount of EUR 98 thousand). The cause of the Bank's small exposure to the foreign exchange rate fluctuation is the fact that most of the Bank's claims and liabilities are denominated in EUR.

4.3.2. 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, 2014:

ASSETS	Interest Bearing	Non-Interest Bearing	Total
Cash balances and deposits with the Central Bank	1,355	66,370	67,725
Loans and advances to banks	2,870	43,333	46,203
Loans and advances to customers	145,944	33	145,977
Securities available for sale	24,089	2,471	26,560
Securities held to maturity	1,666	-	1,666
Total assets	**175,924**	**112,207**	**288,131**
LIABILITIES			
Deposits due to banks	-	597	597
Deposits due to customers	194,798	20,520	215,318
Borrowings from other customers	29,674	-	29,674
Subordinated debt	9,939	-	9,939
Total liabilities	**234,411**	**21,117**	**255,528**
Interest rate GAP:			
December 31, 2014	**(58,487)**	**91,090**	**32,603**
December 31, 2013	**(21,005)**	**51,560**	**30,555**

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	8-15
- short-term loans from other resources	4-11
- long-term loans from Bank's own funds	8-15
- long-term loans from other resources	9,5-9,75
- loans to entrepreneurs for periods of up to 24 months	9,75-13
- loans to entrepreneurs for periods of over 24 months	11-12

Lending interest rates applied to loans granted to retail customers during 2014 were as follows:

Loan type	Interest rate %
Retail customers:	
- cash loans	0,88p.m. –13,99p.a.
- consumer loans	0,9p.m – 12,99p.a.
- loans for renovation and financing for periods of up to 60 months	1 p.m.

Deposit interest rates applied to corporate customer deposits during 2014 were as follows:

Deposit type	Interest rate %
Demand deposits	0,01 - 0,3
Short-term deposits	0,1 – 4,5
Long-term deposits	1 - 5

Deposit interest rates applied to retail customer deposits during 2014 were as follows:

Deposit type	Interest rate %
Demand deposits	
Savings demand deposits in EUR	0,01 -0,2
Term deposits in EUR placed:	
- for a month	0,2
- for 3 months	1,85 – 2,5
- for 6 months	1 – 4,5
- for 12 months	2,5 - 5
- for 24 months	2,5 – 5,25
- for 36 months	3,5 – 5,25
Term deposits in foreign currencies (USD):	
- for 3 months	0,2
- for 6 months	0,6
- for 12 months	0,5 – 1,5

The exposure to risk from interest rate changes as at 31 December 2014 is as follows:

Sensitive assets	**Up to one month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**Up to 1 year**	**Total**
Interest bearing deposits in other institutions	1,355	-	-	-	-	1,355
Loans and receivables due from banks	-	-	2,870	-	-	2,870
Loans and receivables due from clients	13,457	15,087	14,223	35,353	67,824	145,944
Securities available for sale	23,977	-	(31)	40	103	24,089
Securities held to maturity	-	33	300	1,121	212	1,666
Total	**38,789**	**15,120**	**17,362**	**36,514**	**68,139**	**175,924**
% total interest earning assets	22%	9%	10%	21%	39%	100%
Sensitive liabilities						
Interest bearing deposits due to banks	80,096	17,339	18,903	42,463	35,997	194,798
Interest bearing deposits due to clients	1,030	748	1,456	1,594	24,846	29,674
Subordinated debt	(112)	-	51	-	10,000	9,939
Total	**81,014**	**18,087**	**20,410**	**44,057**	**70,843**	**234,411**
% interest bearing liabilities	35%	8%	9%	19%	30%	100%
Interest rate risk exposure						
- 31. December 2014	**(42,225)**	**(2,967)**	**(3,048)**	**(7,543)**	**(2,704)**	**(58,487)**
- 31. December 2013	**2,585**	**(4,981)**	**(2,965)**	**(9,546)**	**(1,867)**	**(16,774)**

Cumulative GAP:					
- 31. December 2014	**(42,225)**	**(45,192)**	**(48,240)**	**(55,783)**	**(58,487)**
- 31. December 2013	**2,585**	**(2,396)**	**(5,361)**	**(14,907)**	**(16,774)**

During the process of risk management of interest rate changes, the Bank analyses the exposure of receivables and liabilities with variable interest rates. The following table shows the effect of fluctuations in interest rates for receivables and liabilities denominated in EUR in range from +0.4% pp to -0.4% pp, and for receivables and liabilities denominated in foreign currencies in range from +0.3% pp to -0.3% pp.

In thousand EUR

		Net effect of changes in interest rates	
	2014	+0.4 b.p. EUR IR +0.3 b.p. FX IR	-0.4 b.p. EUR IR -0.3 b.p. FX IR
Assets			
Cash and deposits at central banks	**67,725**	-	-
- with fixed interest rate	66,370	-	-
- with variable interest rate	1,355	5	(5)
Loans and advances to banks	**46,203**	-	-
Loans and advances to customers	**145,977**	-	-
- with fixed interest rate	143,945	-	-
- with variable interest rate	2,032	8	(8)
Securities available for sale	**26,560**	-	-
- with fixed interest rate	18,177	-	-
- with variable interest rate	8,383	34	(34)
Securities held to maturity	**1,666**	-	-
	288,131	**47**	**(47)**
Liabilities			
Deposits from banks	**597**	-	-
Deposits from clients	**215,318**	-	-
Borrowings from other customers	**29,674**	-	-
- with fixed interest rate	24,674	-	-
- with variable interest rate	5,000	20	(20)
Subordinated debt	**9,939**	-	-
	255,528	**20**	**(20)**
Net exposure to risk of interest rate changes:			
- 31 December 2014	**32,603**	**(27)**	**27**

Assuming that all other parameters remain the same, increase or decrease in the variable interest rate for claims and liabilities in EUR by 0.4 pp and for claims and liabilities in foreign currency by 0.3 pp, Bank's profit would decrease or increase in amount of EUR 27 thousand.

The cause of the small exposure of the Bank to fluctuations of interest rates is the fact that most of the claims and liabilities are agreed at fixed interest rates.

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 31 December 2014 is shown in the following table:

In thousand EUR

Securities AFS - fixed rate	Amount	Changes in interest rate	Weighted average b.p.	Changes in EUR	Mark
Short-term	1,070	50 b.p.	3	5	+/-
Mid-term	15,103	100 b.p.	83	151	+/-
Long-term	2,003	200 b.p.	22	40	+/-
Total	**18,177**		**108**	**196**	**+/-**

Influence of increase in interest rates by 200 basis points on equity measured as of 31 December 2013 is shown in the following table:

In thousand EUR

Securities AFS - fixed rate	Amount	Changes in interest rate	Weighted average b.p.	Changes in EUR	Mark
Short-term	-	50 b.p.	-	-	+/-
Mid-term	2,740	100 b.p.	58	27	+/-
Long-term	2,000	200 b.p.	84	40	+/-
Total	**4,740**		**142**	**67**	**+/-**

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.

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, 2014 was as follows:

	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	67,725	-	-	-	-	-	67,725
Loans and advances to banks	42,432	-	3,725	46	-	-	46,203
Loans and advances to customers	13,490	15,087	14,223	35,353	52,013	15,811	145,977
Securities held to maturity	-	33	300	1,120	213	-	1,666
Securities available for sale	26,448	-	(31)	40	103	-	26,560
Total	**150,095**	**15,120**	**18,217**	**36,559**	**52,329**	**15,811**	**288,131**

Financial liabilities							
Deposits due to banks	597	-	-	-	-	-	597
Deposits due to customers	100,615	17,339	18,903	42,463	33,309	2,689	215,318
Borrowings from customers	1,030	748	1,456	1,594	14,116	10,730	29,674
Subordinated debt	(112)	-	51	-	-	10,000	9,939
Total	**102,130**	**18,087**	**20,410**	**44,057**	**47,425**	**23,419**	**255,528**
Maturity GAP							
- December 31, 2014	**47,965**	**(2,967)**	**(2,193)**	**(7,498)**	**4,904**	**(7,608)**	**32,603**
- December 31, 2013	**16,918**	**747**	**2,084**	**(2,547)**	**12,849**	**504**	**30,555**
Cumulative GAP:							
- December 31, 2014	**47,965**	**44,998**	**42,805**	**35,307**	**40,211**	**32,603**	
- December 31, 2013	**16,918**	**17,665**	**19,749**	**17,202**	**30,051**	**30,555**	
% of total funds:							
- December 31, 2014	**16,65%**	**(1,03%)**	**(0,76%)**	**(2,60%)**	**1,70%**	**(2,64%)**	
- December 31, 2013	**8,95%**	**9,34%**	**10,44%**	**9,10%**	**15,89%**	**16,16%**	

The structure of the Bank's financial assets and liabilities as classified into their relevant maturity groups as of December 31, 2014 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, 2014 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.

4.4.2 Outstanding Maturities of Financial Liabilities

	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, 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**
Subordinated debt	-	(112)	-	51	-	10,000	**9,939**
	96,826	**5,304**	**18,087**	**64,467**	**47,425**	**23,419**	**255,528**

	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, 2013							
Liabilities							
Deposits due to banks	434	-	-	-	-	-	**434**
Deposits due to customers	73,386	5,916	13,358	43,186	25,016	2,345	**163,207**
Borrowings from other customers	-	71	862	2,701	13,958	7,884	**25,476**
	73,820	**5,987**	**14,220**	**45,887**	**38,974**	**10,229**	**189,117**

4.5. Fair Value of financial assets and liabilities

The following table compares carrying and fair values of financial assets:

	Carrying Value		Fair Value	
	2014	**2013**	**2014**	**2013**
Financial assets				
Loans and advances to banks	46,203	51,692	46,203	51,692
Loans and advances to customers	145,977	122,734	145,977	122,734
Securities available for sale	26,560	7,720	26,560	7,720
Securities held to maturity	1,666	10,842	1,666	10,842
Financial liabilities				
Deposits due to customers	215,318	163,207	215,318	163,207
Borrowings from banks	-	-	-	-
Borrowings from other customers	29,674	25,476	29,674	25,476

In estimating the fair value of the Bank's financial instruments, 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 approximate their carrying amounts at the statement of financial position date, since the loans and advances to banks are short-term.

b) Loans and Advances to Customers

In order to determine the fair value of loans and advances 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, the carrying values as presented in the Bank's 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.

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

December 31, 2014	Level 1	Level 2	Level 3	Total
Securities available for sale	18,976	3,612	3,972	26,560
Total assets	**18,976**	**3,612**	**3,972**	**26,560**

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, 2014 market prices of securities measured at fair value within the Bank's portfolio were available.

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 (Official Gazette of Montenegro no. 60/08, 41/09 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 debt securities issued)
- 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.

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, 2014 the capital adequacy ratio calculated by the Bank for statutory financial statements equaled 15,25% (December 31. 2013: 13,12%), exceeding the prescribed minimum.

As at 1 December 2014 the Bank has issued 100.000 subordinated bonds with the nominal value of EUR 100 which mature in 7 years (1 December 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 28 November 2014, the Securities Commission of Montenegro has issued a Statement on the success of the bond issue.

5. INTEREST INCOME AND EXPENSES

a) Interest Income and similar income

	2014	2013
Deposits with:		
- foreign banks	46	4
- Central Bank	1	1
	47	**5**
Loans approved to:		
- state institutions	570	837
- Government of Montenegro	31	48
- corporate customers	8,429	8,673
- retail customers	4,110	3,306
	13,140	**12,864**
Securities:		
Securities held to maturity	232	415
Securities available for sale	886	23
	1,118	**438**
	14,305	**13,307**
Impairment allowances of interest receivables	78	(15)
	14,383	**13,292**

b) Interest Expenses and similar expenses

	2014	2013
Deposits of:		
- financial institutions	(282)	(247)
- state institutions	(290)	(220)
- corporate customers	(903)	(797)
- retail customers	(2,824)	(2,456)
	(4,299)	**(3,720)**
Loans and other borrowings	(968)	(912)
Subordinated debt	(51)	-
	(5,318)	**(4,632)**

6. IMPAIRMENT LOSSES AND PROVISIONS

a) Impairment losses

	2014	2013
Net increase in provisions/(reversal of provision) in respect of:		
- loans	1,510	1,044
- fees and commissions	7	3
- other	57	(6)
	1,574	**1,041**

b) Provisions

	2014	2013
Net increase in provisions/(reversal of provision) in respect of:		
- off-balance sheet items	(384)	202
- other	5	4
	(379)	**206**

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

	Loans (Note 16)	Interest (Note 16)	Reposses sed assets (Note 21)	Provisions for Operational Risk and Country Risk (Note 24)	Other Receivables	Provisions for Off-Balance Sheet Items (Note 24)	Total
Balance as at 1 January 2013	**3 ,953**	**23**	**352**	**303**	**130**	**654**	**5 ,415**
Effects of adjustment of the opening balance under the new regulations CBM							
The effects of changes in the methodology for calculating impairment losses and provisions	(1 ,493)	(47)	-	-	-	(181)	(1 ,721)
Transfer of impaired loans to customers, interest accrued and other assets from off-balance sheet records to balance sheet records	1 ,374	81	-	-	-	-	1 ,455
Other	92	-	-	-	(12)	(2)	78
Restated balance as at January 1, 2013	**3 ,926**	**57**	**352**	**303**	**118**	**471**	**5 ,227**
Charge for the year, net	1 ,044	15	-	4	16	202	1 ,281
Other	-	-	(10)	-	-	1	(9)
Transfer to off-balance sheet items	(310)	(6)	-	-	-	-	(316)
Balance as at 31 December 2013	**4 ,660**	**66**	**342**	**307**	**134**	**674**	**6 ,183**
Charge for the year, net	1 ,510	-	-	5	64	(384)	1 ,195
Other	-	(13)	153	-	(58)	-	83
Transfer to off-balance sheet items	(931)	(3)	-	-	-	-	(934)
Balance as at 31 December 2014	**5 ,239**	**50**	**495**	**312**	**140**	**290**	**6,526**

7. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and Commission Income

	2014	2013
Loan origination and processing fees	981	889
Fees and commissions from off-balance-sheet operations	687	659
Fees and commissions from payment transactions and e-banking	1,466	1,187
Fees and commissions for foreign payments	1,039	869
Fees and commissions on credit card operations	2,382	1,283
Other fees and commissions	618	364
	7,173	**5,251**

b) Fee and Commission Expenses

	2014	2013
Fees and commissions payable to the Central Bank	(240)	(197)
Fees and commissions for foreign payment transactions	(135)	(115)
Deposit insurance premium fees	(865)	(622)
Fees paid for borrowings and guarantees	(48)	(21)
Visa and Master card fees	(1,083)	(476)
Other fees and commissions	(336)	(150)
	(2,707)	**(1,581)**

8. STAFF COSTS

	2014	2013
Net salaries	2,099	2,012
Taxes and contributions on salaries	1,737	1,653
Other employee benefits, net	69	66
Retirement benefits	6	17
Remunerations to members of the Board of Directors	143	148
Remunerations to members of the Development committee	30	-
Remunerations to members of the Credit risk committee	17	18
Employee transportation allowance, net	33	33
Business travel costs and per diems	148	112
Employee training costs	6	15
Provisions for employee retirement benefits (Note 24)	14	35
Aid to employees	13	-
Other costs	43	28
	4,358	**4,137**

9. GENERAL AND ADMINISTRATIVE EXPENSES

	2014	2013
Rental costs	996	843
Security services	472	425
Electricity and fuel bills	123	123
Cleaning services	93	69
Computer and other equipment maintenance	146	161
Premises-related taxes	14	13
Vehicle maintenance	39	35
Insurance costs	82	68
External control expense	211	144
Court expenses	-	14
Other professional fees	20	29
Lawyer fees	26	10
Consultant services	70	12
Intellectual services	103	103
Telecommunication costs	106	109
Communication network costs	109	102
Postage	21	16
Office supplies	130	138
Utilities	17	14
Representation expenses	184	140
Advertising and marketing	414	376
Subscriptions and donations	113	89
Miscellaneous expenses – software maintenance	235	230

Miscellaneous expenses – equipment rentals	329	206
Miscellaneous expenses – data processing services	202	173
Miscellaneous expenses – payment card operations	478	331
Other expenses	409	322
	5,142	**4,295**

10. DEPRECIATION AND AMORTIZATION

	2014	2013
Property and equipment (Note 18)	588	540
Intangible assets (Note 19)	195	183
	783	**723**

11. OTHER EXPENSE

	2014	2013
Direct write off of receivables	45	-
Other charges	26	-
Losses on the sale and write-offs of property, plant and equipment	237	105
Extraordinary expenses	20	20
Other	1	1
	329	**126**

12. OTHER INCOME

	2014	2013
Gains on the sale of property, plant and equipment		100
Gains from the sale of repossessed assets	143	18
Other operating income	86	71
Collected receivables previously written off	56	69
Other income	59	55
	344	**313**

13. INCOME TAXES

a) Components of Income Taxes

	2014	2013
Current income tax expense	253	252
Deferred income tax expense/(benefits)	22	(7)
	275	**245**

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

	2014	2013
Profit before taxes	2,729	2,612
Income tax at statutory rate of 9%	246	235
Tax effects of expenses not recognized for tax purposes	7	17
Other	22	(7)
Income tax reported in the income statement	**275**	**245**

The tax rate used in 2014 and 2013 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

Deferred tax assets amounting EUR 24 thousand as of December 31, 2014 (December 31, 2013: EUR 18 thousand) and deferred tax liabilities of EUR 29 thousand (December 31, 2013: EUR 1 thousand) refer to the taxable temporary differences between the values of business premises, other fixed assets and intangible assets recognized for tax purposes and the carrying values of such assets included in the financial statements of the Bank, as well as to the temporary differences in fair values of securities classified as available for sale.

	Deferred tax liability as a result of recorded unrealized gains on securities available-for sale	Temporary differences between the book and tax bases of property and equipment	Total
Balance as at 1 January 2013	(2)	(8)	(10)
Charges for the year	3	(10)	(7)
Balance as at 31 December 2013	**1**	**(18)**	**(17)**
Charges for the year	28	(6)	22
Balance as at 31 December 2014	**29**	**(24)**	**5**

14. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

	31. decembar 2014.	31. decembar 2013.
Cash on hand:	4,260	4,531
- in EUR	3,534	4,190
- in foreign currencies	726	341
Gyro account	43,868	12,315
Obligatory reserves held with the Central Bank of Montenegro	19,353	9,592
Other	244	246
	67,725	**26,684**

As of December 31, 2014 the Bank's obligatory reserves were set aside in accordance with the Decision of the Central Bank of Montenegro on Bank Reserve Requirement to Be Held with the Central Bank of Montenegro (Official Gazette of Montenegro no. 35/11, 22/12, 61/12, 57/13 and 52/14), 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.

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. Pursuant to the Decision, the Bank may use 50% of the obligatory reserve for daily liquidity maintenance. Up to 30% of the obligatory reserve may be held in the form of treasury notes issued by the Montenegro Government with maturity up to 182 days, and up to 13% of the obligatory reserve may be held in the form of treasury notes issued by the Montenegro Government with maturity up to 91 days. For the amount of 7% of the obligatory reserve requirement deposited by banks, the Central Bank pays fee calculated at an annual rate equal to EONIA (Euro Overnight Index Average) minus 10 basis points, but this rate cannot be less than zero, up to the eighth day of the month for the preceding month. The obligatory reserve is held in EUR.

15. LOANS AND RECEIVABLES DUE FROM BANKS

	December 31, 2014	December 31, 2013
Correspondent accounts with foreign banks	42,425	51,070
Deposits held with resident banks and other depositary institutions	9	60
Deposits held with non-resident banks and other depositary institutions	3,769	562
	46,203	**51,692**

16. LOANS AND RECEIVABLES DUE FROM CUSTOMER

	December 31, 2014	December 31, 2013
Due loans:		
- municipalities (public organizations)	8	-
- privately-owned companies	5,396	4,041
- state owned companies	94	88
- retail customers	1,450	1,301
- others	4	134
Short-term loans:		
- municipalities (public organizations)	-	558
- privately-owned companies	33,063	23,935
- state owned companies	1,079	877
- retail customers	5,002	5,108
- others	1,342	863
Long-term loans:		
- municipalities (public organizations)	1,794	428
- privately-owned companies	53,992	54,299
- state owned companies	4,482	5,070
- retail customers	38,424	27,823
- others	796	410
	146,926	**124,935**
Interest receivables:		
- loans	1,373	1,284
Accruals:		
- interest on loans	62	83
- interest on leasing	-	
- loan origination and processing fees	(948)	(808)
Factoring	2,736	1,416
Deposits with other depositary institutions	1,090	561
Activated guarantees	42	14
	4,355	**2,550**

Ukupno krediti i potraživanja od klijenata, bruto		
Less:		
Impairment allowance of loans	(5,239)	(4,660)
Impairment allowance of interest receivables	(50)	(66)
Impairment allowance of accruals, factoring and activated guarantees	(15)	(25)
Impairment allowance	**(5,304)**	**(4,751)**
	145,977	**122,734**

In accordance with the new regulations of the Central Bank of Montenegro, effective since January 1, 2013, a portion of loan receivables that used to be recorded within the off-balance records was returned to the Bank's balance sheet, as follows: EUR 1,374 thousand for principal and EUR 81 thousand for interest.

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

	December 31, 2014	December 31, 2013
Agriculture. forestry and fishing	2,598	1,468
Mining	757	2,867
Processing industry	4,087	3,052
Water supply	1,299	2,385
Construction industry	9,342	4,116
Trade	44,062	42,206
Transport and storage	11,774	8,830
Accommodation and catering services	7,854	7,417
Information and communications	2,515	1,786
Finance and insurance sector	2,040	1,109
Real estate trade	8,817	8,794
Professional, scientific and technical activities	2,617	3,537
Administrative and support service activities	1,283	247
Public administration, defense and compulsory social security	424	175
Education	164	151
Health and social care	769	630
Art, entertainment and recreational activities	305	365
Other services	790	302
Non-resident legal entities	1,090	601
Retail customers	43,390	32,696
	145,977	**122,734**

17. INVESTMENT SECURITIES

a) Securities Available for Sale

	December 31, 2014	December 31, 2013
Debt Securities	**24,089**	**6,789**
Ministarstvo finansija Vlade Crne Gore	14,063	2,992
Finanziaria Internationale Holding SPA	2,048	-
Negentropy SICAV	2,021	-
Podravska banka a.d.	2,003	2,003
Corporation Financière Européenne S.A.	1,969	-
New Millenium Sicav	1,591	1,511
Ferrexpo Finance plc	394	283
Equity securities	**2,471**	**931**
Credy banka AD, Kragujevac	62	-
Granit Peščar AD, Ljig	16	10
Mlekara AD, Subotica	103	-
Preduzeće za puteve Požarevac AD, Požarevac	52	-
Telekom Srpske AD, Banja Luka	56	84
Crnogorski Elektroprenosni Sistem AD, Podgorica	153	109
Jugopetrol AD, Kotor	17	16
Kontejnerski terminali i generalni tereti AD, Bar	2	3
Autoremont AD, Kotor	6	6
Atlas Banka AD, Podgorica	2,002	-
Barska Plovidba AD, Bar	2	1
NIS AD, Novi Sad	-	162
Zavarovalnica Triglav D.D., Ljubljana	-	29
Zvezda Helios Hemijska industrija, Gornji Milanovac	-	68
Energoprojekt Holding AD, Beograd	-	273
Goša Montaža AD, Velika Plana	-	97
AIK Banka AD, Niš	-	71
Zetatrans AD, Podgorica	-	2
	26,560	**7,720**

Bonds of the Ministry of Finance of Montenegro mainly mature in years 2015 and 2016. These bonds bare interest rates of 7.875% and 3M EURIBOR + 595bps respectively.

Bonds of the Financziaria Internationale Holding with the maturity at 22 January 2015, bare an interest rate of 5% with semi-annual coupon payments.

Bonds of the Podravska Banka d.d. Koprivnica with the face value of EUR 2,000 were bought at the end of year 2013 with maturity at 23 December 2021, interest rate of 6.5% and semi-annual coupon payments.

b) Securities Held to Maturity

Securities Held to Maturity in the amount of EUR 1,666 thousand as at 31 December 2014 (31 December 2013: EUR 10,842 thousand) relate to:

- Treasury bills of the Montenegro Government with the face value of EUR 300 thousand and maturity within 6 months from the purchase date, at the annual interest rate of 0.7%;
- Bonds of the Montenegro Labor Fund totaling EUR 308 thousand, maturing up to July 27, 2017 at an annual interest rate of 7%; and
- Bonds of the Montenegro Government with the face value of EUR 1,000 thousand and maturity at September 14, 2015, coupon interest rate of 7.875% and annual coupon payment.

Securities Held to Maturity in the amount of EUR 10.842 thousand as at 31 December 2013 relate to:

- Treasury bills of the Montenegro Government with the face value of EUR 9,413 thousand and maturity within 6 months from the purchase date, at the annual interest rates ranging from 2.7% to 3.75%;
- Bonds of the Montenegro Labor Fund totaling EUR 397 thousand, maturing up to July 27, 2017 at an annual interest rate of 7%
- Bonds of the Montenegro Government with the face value of EUR 1.000 thousand and maturity at September 14, 2015, coupon interest rate of 7.875% and annual coupon payment.

18. PROPERTY, PLANT AND EQUIPMENT

Movements on property, equipment and other assets for 2014 and 2013 are presented in the following table:

	Buildings	Computer Equipment	Other Equipment	Investment In Progress	Total
Cost					
Balance at January 1, 2013	197	1,063	2,517	4	3,781
Additions	-	30	305	530	865
Transfers	-	18	365	(383)	-
Sales and disposals	-	(43)	(70)	-	(113)
Decreases(sales)	-	-	(188)	-	(188)
Balance at December 31, 2013	**197**	**1,068**	**2,929**	**151**	**4,345**
Additions	-	81	81	723	885
Transfers	-	116	742	(859)	(1)
Decreases (sales)	-	(36)	(61)	-	(97)
Retirement	-	-	(120)	-	(120)
Balance at December 31, 2014	**197**	**1,229**	**3,571**	**15**	**5,012**

Accumulated Depreciation					
Balance at January 1. 2013	48	908	1,236	-	2,192
Amortization (Note 10)	4	104	432	-	540
Disposals and write-offs	-	(43)	(66)	-	(109)
Sales	-	-	(88)	-	(88)
Balance at December 31, 2013	**52**	**969**	**1,514**	**-**	**2,535**
Amortization(Note 10)	4	107	477	-	588
Disposals and write-offs	-	(36)	(56)	-	(92)
Retirement	-	-	(51)	-	(51)
Balance at December 31, 2014	**56**	**1,040**	**1,884**	-	**2,980**
Net Book Value:					
at December 31, 2014	**141**	**189**	**1,687**	**15**	**2,032**
at December 31, 2013	**145**	**99**	**1,415**	**151**	**1,810**

As of December 31, 2014 the Bank had investments in progress totaling EUR 15 thousand, which mostly relate to the new ATM of EUR 7 thousand.

19. INTANGIBLE ASSETS

Intangible assets are mostly comprised of licenses and software. The movements on intangible assets in the course of 2014 and 2013 were as follows:

	Intangible Assets	Licenses	Software	Investment in Progress	Total
Cost					
Balance at January 1, 2013	596	226	733	151	1,706
Additions	-	28	98	330	456
Transfers	-	380	65	(445)	-
Disposal and write offs	(70)	-	(13)	-	(83)
Balance at December 31, 2013	**526**	**634**	**883**	**36**	**2,079**
Additions	-	81	62	106	249
Transfers	-	9	62	(71)	-
Balance at December 31, 2014	**526**	**724**	**1,007**	**71**	**2,328**
Accumulated Amortization					
Balance at January 1, 2013	426	158	509	-	1,093

Charge for the year (Note 10)	58	43	82	-	183
Disposal and write offs	(70)	-	(12)	-	(82)
Balance at December 31, 2013	**414**	**201**	**579**	**-**	**1,194**
Amortization (Note 10)	53	26	116	-	195
Balance at December 31, 2014	**467**	**227**	**695**	**-**	**1,389**
Net Book Value:					
- at December 31, 2014	**59**	**497**	**312**	**71**	**939**
- at December 31, 2013	**112**	**433**	**304**	**36**	**885**

Additions to the intangible assets during 2014 mostly relate to the activation of permanent licenses for VISA and MASTER card not subject to amortization in the amount of EUR 368 thousand as well as to implementation of new applications within application software Dabar, in the amount of EUR 77 thousand.

In accordance with IAS 38, the Bank does not amortize licenses with indefinite useful lives. Useful lives are reviewed at the end of each reporting period.

Investments in progress amounted to EUR 71 thousand and principally pertained to the software projects related to the card and ATM operations.

20. OTHER FINANCIAL RECEIVABLES

	December 31, 2014	December 31, 2013
Receivables from custody operations	18	13
Advances paid	6	-
Other fee and commission receivables	189	184
Receivables from state funds	79	61
Accounts receivable	30	15
Receivables from payment card operations	37	30
Receivables from employees	34	23
Other financial receivables	213	192
Impairment allowance of other assets	(5)	(9)
	601	**509**

21. OTHER OPERATING RECEIVABLES

	December 31, 2014	December 31, 2013
Repossessed assets	518	566
Other operating receivables	278	202
Prepaid expenses	646	749
Impairment allowance of other receivables	(505)	(342)
	937	**1,175**

Repossessed totaling EUR 518 thousand as of December 31, 2014 (December 31, 2013: EUR 566 thousand) relate to assets acquired from collateral foreclosure, which were in the Bank's ownership no longer than 12 months. Assets acquired in lieu of debt collection are recorded at the lower of the total amount of receivable and the estimated fair value of the assets.

Decision on Minimum Standards for Bank's Investment in Immovable Property and Fixed Assets (Official Gazette of Montenegro. no. 24/2009, 66/2010, 58/2011, 61/2012 and 13/2013) prescribes that the Bank treat investments in immovable property and fixed assets exceeding 40% of the Bank's own assets as deductible items upon calculation of the total amount of the Bank's own assets. Investments in immovable property shall not be considered as property acquired in lieu of debt collection in debt restructuring procedure, within bankruptcy or liquidation proceedings over the Bank's debtor or in the debtor reorganization procedure pursuant to the regulations governing bankruptcy, or in the execution procedure instigated to settle the Bank's claims if no more than 4 years have passed since property acquisition date.

Prepaid expenses of EUR 646 thousand as of December 31, 2014 (2013: EUR 749 thousand) mostly relate to the rental costs for new branches in the amount of EUR 268 thousand (2013: EUR 320 thousand).

Impairment for losses on other assets mainly relates to acquired assets amounting to EUR 495 thousand.

22. DEPOSITS DUE TO CUSTOMERS

	December 31, 2014	December 31, 2013
Demand deposits:		
- financial institutions	577	672
- privately-owned companies	37,900	35,110
- state owned companies	3,273	2,867
- municipalities (public organizations)	3,094	2,246
- funds	947	194
- retail customers	34,271	19,622
- non-profit organizations	2,020	1,752
- others	12,853	8,936
	94,935	**71,399**

Funds on the escrow account	**1,454**	**266**
Short-term deposits:		
- financial institutions	3,876	2,287
- privately-owned companies	14,178	9,464
- state owned companies	6,083	1,390
- municipalities (public organizations)	4,598	4,377
- funds	600	500
- retail customers	38,187	19,945
- non-profit organizations	129	73
- others	1,168	1,314
	68,819	**39,350**
Long-term deposits:		
- financial institutions	1,673	3,640
- privately-owned companies	9,810	6,457
- state owned companies	876	709
- municipalities (public organizations)	40	40
- funds	-	-
- retail customers	30,818	35,673
- non-profit organizations	498	495
- others	3,890	3,196
	47,605	**50,210**
Interest and other liabilities		
Accrued interest on deposits	**2,505**	**1,982**
	215,318	**163,207**

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 accrued interest at the rates between 0% and 0.5% annually.

23. BORROWINGS FROM OTHER CUSTOMERS

	Period/ Year	Annual interest rate	December 31, 2014	December 31, 2013
European Investment Bank	12	4.032%	1,851	2,076
European Investment Bank	12	3.923%	1,035	1,162
European Investment Bank	12	3.604%	3,130	3,487
European Investment Bank	12	3.168%	1,657	1,836
European Investment Bank	12	3.019%	1,638	1,817
European Investment Bank	12	3.841%	2,708	2,972
European Investment Bank	12	3.181%	788	863
European Investment Bank	12	2.398%	1,916	2,000
European Bank for Research and Development	5	4.75%+6M Euribor	5,000	4,000
The European Fund for Southeast Europe („EFSE") Montenegro B.V.	5	5,43%	1,250	2,500
Investment Development Fund Montenegro AD, Podgorica	1,8-10	1%-9%	7,964	2,049
Directorate for Development of Small and Medium Enterprises	4-8	0%-1%	521	521
			29,458	**25,283**
Accruals:				
Invoiced interest income			-	-
Not-Due interest income			**216**	**193**
Total			**29,674**	**25,476**

As of December 31, 2014 the Bank has liabilities towards the European Investment Bank ("EIB") relating to long term loans in the amount of EUR 14,723 thousand (December 31, 2013: EUR 16,213 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 interest rate of 4.75% plus the official inter-banking interest rate. The repayment period is five years and loan is due on January 15, 2018. The Bank is obligated to use these funds for the development and the stimulation of micro, small and middle enterprises in Montenegro.

Borrowed funds totaling EUR 1,250 thousand as of December 31, 2014 (December 31, 2013: EUR 2,500 thousand) refer to the loan extended to the Bank by EFSE during 2010 and 2011 in the amount of EUR 5,000 thousand at the annual interest rate of 5.43%, due for repayment within five years with a 12-month grace period. The Bank is obligated to use the borrowed funds to stimulate development of SME in Montenegro on condition that the individual loan amount approved cannot exceed EUR 100 thousand, i.e. the total amount of loans approved to a group of related parties cannot exceed EUR 300 thousand. The loan is repaid in equal semi-annual installments.

24. PROVISIONS

	December 31, 2014	December 31, 2013
Provisions for potential losses per:		
- off-balance sheet exposures	290	674
- operational risk	312	307
Provisions for employee retirement benefits	109	99
	711	**1,080**

Provisions for employee retirement benefits totaling EUR 109 thousand as of December 31, 2014 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, 2014 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 10% 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, 2014	December 31, 2013
	%	%
Discount rate for retirement benefits	10.00	10.00
Employee turnover ratio	6.00	1.19
Inflation rate	(0.70)	2.20
Expected salary growth rate	-	-

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

	2014	2013
Balance, beginning of year	99	78
Charge for the year (Note 8)	14	35
Usage of provisions	(4)	(14)
Balance, at December 31	**109**	**99**

25. OTHER LIABILITIES

	December 31, 2014	December 31, 2013
Liabilities from consignment operations	558	414
Advances received	1,265	1,089
Other taxes payable	22	11
Liabilities relating to deductions from salaries	8	84
Accounts payable	54	94
Accrued liabilities	442	294
Custody operation liabilities	1,695	1,725
Suspense accounts	225	856
Other liabilities	251	198
	4,520	**4,765**

26. SUBORDINATED DEBT

As at 1 December 2014 the Bank has issued 100,000 subordinated bonds with the nominal value of EUR 100 which mature in 7 years (1 December 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 28 November 2014, the Securities Commission of Montenegro has issued a Statement on the success of the bond issue.

27. CAPITAL

As of 31 December 2014 and 2013. the Bank's share capital was comprised of 31,305 ordinary shares with the face value of EUR 511.29. The Law on Banks (Official Gazette of Montenegro. no. 17/2008, 44/2010 and 40/2011) stipulates that the minimum cash amount of the share capital may not be less that EUR 5,000 thousand. At December 31, 2014. the Bank's capital complied with the prescribed minimum capital requirements.

The ownership structure of the Bank's share capital as of December 31, 2014 and 2013 was as follows:

	December 31, 2014			December 31, 2013		
Shareholder	Share Count	EUR '000	% Ownership	Share Count	EUR '000	% 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 Antonia	3,131	1,601	10.00	3,131	1,601	10.00
Gorgoni Lorenzo	2,591	1,325	8.28	2,591	1,325	8.28
Todorović Miljan	2,316	1,184	7.40	2,316	1,184	7.40
Other shareholders	13,626	6,967	43.52	13,626	6,967	43.52
Total	**31,305**	**16,006**	**100.00**	**31,305**	**16,006**	**100.00**

28. 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 29,968 thousand (December 31, 2013: EUR 20,039 thousand).

The Bank's core capital formed in accordance with the Decision on Capital Adequacy of Banks as of December 31, 2014 amounted to EUR 19,979 thousand (December 31, 2013: EUR 20,039 thousand). The Bank's capital as of December 31, 2014 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.

Additional elements of Bank's capital that are included in the supplementary capital as of 31 December, 2014 amounted to EUR 9,989 thousand and 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, 2014 the Bank's capital adequacy ratio equaled 15.25% (December 31, 2013: 13.12%) 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.

29. OFF-BALANCE SHEET ITEMS

	December 31, 2014	December 31, 2013
Risk weighted off-balance sheet items		
Undrawn loan facilities	12,228	8,265
Irrevocable documentary letters of credit issued for payments abroad	354	226
Other letters of credit for payments abroad	891	601

Guarantees issued		
Payment guarantees	29,355	26,521
Performance guarantees	10,443	5,975
Other types of guarantees	15,501	7,851
	68,772	**49,439**
Other Off-balance sheet items		
Collaterals securitizing receivables	384,735	373,661
Other items of the Bank's off-balance sheet exposures	82,946	77,485
Broken–period interest	695	937
Total	**468 ,376**	**452,083**
Total	**537,148**	**501,522**

The Bank transfers receivables from its balance sheet into the internal records if, in the course of collection thereof, the Bank assesses that the amount of receivables measured at amortized cost will not be recovered and that, in accordance with IAS/IFRS, criteria are met for derecognition of a financial asset, which includes the flowing instances:

1) for unsecured receivables:

- when bankruptcy proceedings have been instigated over the debtor lasting for over a year; or
- when the debtor is in default of over two years;

2) for secured receivables with the debtor default of over four years, i.e. if the Bank has not received a single payment from the collateral foreclosure within the aforesaid period.

In accordance with the regulations in effect, the Bank derecognizes the aforesaid receivables form the balance sheet and transfers them to the internal records where these are maintained until their collection or final write-off. Upon transition to the new effective layout of chart of accounts and adoption of IAS and IFRS, as of January 1, 2013 the Bank transferred all off-balance sheet assets meeting the criteria defined by the Central Bank of Montenegro Decision on Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro no. 22/12, 55/12 and 57/13) for transfer to the balance sheet assets to appropriate accounts (Note 5). Suspended interest. i.e. interest accrued within off-balance sheet items was not transferred to the balance sheet accounts.

30. 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.

	December 31, 2014	December 31, 2013
Cash on hand	3,534	4,190
Foreign currency cash on hand	726	341
Assets in the course of settlement	245	246
Gyro account	43,868	12,315
Correspondent accounts with foreign banks	42,425	51,070
Deposits placed with the Central Bank of Montenegro	19,353	9,592
Deposits placed with banks and other depositary institutions – Residents	11	83
Deposits placed with banks/central banks and other depositary institutions – non-residents	1,945	1,124
	112,107	**78,961**

Other payments under cash flows from operating activities primarily relate to the purchase of securities in 2014.

31. 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:

	December 31, 2014	December 31, 2013
Receivables		
- Miljan Todorović	1	2
- Montinari Dario	341	317
- Jugopetrol a.d. Kotor	1	1
- Podravska Banka d.d. Koprivnica	4,943	3,543
	5,286	**3,863**
Payables		
Demand deposits:		
- Miljan Todorović	3	2
- Sigilfredo Montinari	1	1
- Jugopetrol a.d. Kotor	176	63
- Nereo Finance S.A	-	108
- Podravska Banka d.d. Koprivnica	438	325
- Gorgoni Lorenzo	24	23
- Cerere s.r.l.	3	-
-Gorgoni Paolo	9	-

	654	**522**
Term deposits		
- Miljan Todorović	285	284
Castody		
Gorgoni Paolo	3	-
Total payables	**942**	**806**

Expenses from transactions with related parties during 2014 amounted to EUR 409 thousand (2013: EUR 180 thousand) while income totaled EUR 217 thousand (2013: EUR 56 thousand).

As of December 31, 2014 receivables from employees amounted to EUR 2,117 thousand (December 31, 2013: EUR 2,100 thousand) relate to the receivables arising from loans approved to employees, authorized current account overdrafts and credit card receivables.

In 2014 total gross remunerations paid to persons with special authorities and responsibilities amounted to EUR 597 thousand (2013: 761 thousand).

32. LITIGATION

As of December 31, 2014 there were 17 legal suits filed against the Bank by legal entities and private individuals totaling EUR 577 thousand, out of which EUR 553 thousand relates to the lawsuit filed by a private individual. The outcome of the pending legal suits cannot be currently anticipated with any certainty.

As of December 31, 2014 the legal suits involving the Bank as the plaintiff amounts EUR 7,088 thousand.

33. 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.

34. 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 31 December 2014.

35. 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, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
USD	1.216	1.3783
CHF	1.2028	1.2259
GBP	0.7823	0.8364

36. GENERAL INFORMATION ON THE BANK

In accordance with the Decision on the Contents, Deadlines and Manner of Preparation 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
Email address:	hipotekarna@hb.co.me

The Bank has head office and 18 branches and offices.
Number of employees s at December 31. 2014 is 182.
Gyro account: 907-52001-93.

Information on the President and members of the Board of Directors until 31.07.2014:	First name, last name	Date of birth	Residence	
			Place	Address (street, number)
1. President	Sigilfredo Montinari	27 May 1966	Leće, Italija	Via P. Cecere 3
2. Member	Božana Kovačević	20 December 1956	Koprivnica, Hrvatska	Ul. Vinodolska br. 51
3. Member	Dolly Predović	20 June 1966	Milano, Italija	Via Visconti di Modrone 1
4. Member	Miljan Todorović	22 May 1964	Trst, Italija	Salita Alla Madonna di Gretta 2/5
5. Member	Snježana Pobi	29 June 1962	Koprivnica, Hrvatska	Frana Galovića br. 3
6. Member	Renata Vinković	19 September 1971	Koprivnica, Hrvatska	Trg Kralja Zvonimira br. 22
7. Member	Esad Zaimović	17 March 1964	Podgorica	Bulevar Revolucije br. 8

Information on the President and members of the Board of Directors until 31.07.2014:

	First name, last name	Date of birth	Residence	
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1. President	Sigilfredo Montinari	27 May 1966	Leće, Italija	Via P. Cecere 3
2. Member	Božana Kovačević	20 December 1956	Koprivnica, Hrvatska	Ul. Vinodolska br. 51
3. Member	Dolly Predović	20 June 1966	Milano, Italija	Via Visconti di Modrone 1
4. Member	Miljan Todorović	22 May 1964	Trst, Italija	Salita Alla Madonna di Gretta 2/5
5. Member	Renata Vinković	19 September 1971	Koprivnica, Hrvatska	Trg Kralja Zvonimira br. 22
6. Member	Goran Varat	03 January 1977	Zaprešić, Hrvatska	Grada Kaštela br.8
7. Member	Esad Zaimović	17 March 1964	Podgorica	Bulevar Revolucije br. 8
Chief Executive Officer	Esad Zaimović	17 March 1964	Podgorica	Bulevar Revolucije br. 8
Executive Officer authorized to sign documents	Esad Zaimović	17 March 1964	Podgorica	Bulevar Revolucije br. 8

Top ten shareholders of the Bank:

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 ANTONIA	Corso Piave 16, Lecce, Italy	3,131	10.0016
GORGONI LORENZO	Cutrofiano, Via Umberol, Italy	2,591	8.2766
TODOROVIĆ MILJAN	Salita Alla Madonna di Gretta 2/5 Trieste, Italy	2,316	7.3982
PODRAVSKA BANKA DD	Opatička 3, Koprivnica, Hrvatska	2,047	6.5389
NEREO FINANCE S.A.	L-1510 Luxembourg 38, Avenue de la Faiencerie, Luxembourg	1,524	4.8682
JUGOPETROL AD KOTOR	Trg Mata Petrovića broj 2, Kotor	1,472	4.7021
MONTINARI DARIO	Piazza Libertini 10, Italy	1,445	4.6159
MONTINARI SIGILFREDO	Via P.Cecere 3, Lecce, Italy	1,445	4.6159
Total share capital	**EUR 16,006 thousand**		

Share issues and share issue designations:

Share issue designation	Share par value	Share count
2nd share issue	RSD 100,000	200
2nd share issue	RSD 10,000	1,000
3rd share issue	USD 1,000	1,200

3rd share issue	USD 1,000	300
4th share issue	New RSD 1,000	900
4th share issue	New RSD 1,000	100
5th share issue	New RSD 10,000	300
6th share issue	New RSD 10,000	500
7th share issue	New RSD 10,000	1,000
8th share issue	New RSD 10,000	2,500
Share issue based on profit distribution	RSD 10,000	1,365
9th share issue	DEM 1,000	3,000
Share issue based on profit distribution	DEM 1,000	2,186
10th share issue	DEM 1,000	5,000
Share issue for sales to the shareholders with preemptive rights	DEM 1,000	5,000
First closed issue	EUR 511,29	5,000
Share issue based on profit distribution	DEM 1,000	2,186
Share issue based on profit distribution	DEM 1,000	2,186
Share issue based on profit distribution	DEM 1,000	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:

	Regular shares	
	Lowest	**Highest**
In the previous year	490.0000	600.0000
In the current year	490.0000	550.0000

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

	Regular shares	
	Lowest	**Highest**
In the previous year	613.7143	490.0000
In the current year	490.0000	520.0000

Net profit per share:

In the previous year	**75.62**
In the current year	**78.39**

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

In the previous year	**7.03**
In the current year	**6.63**

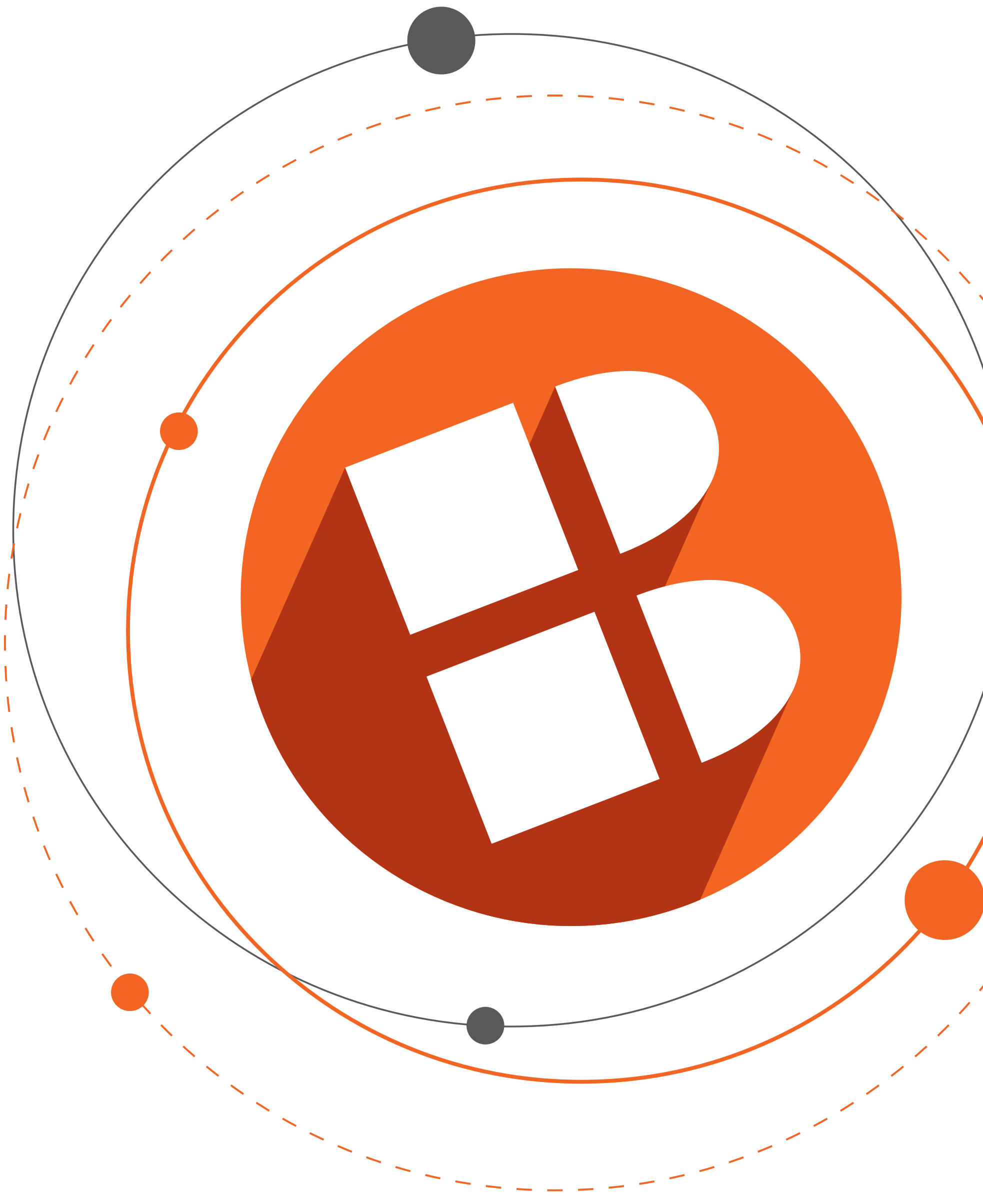
Carrying value per share:

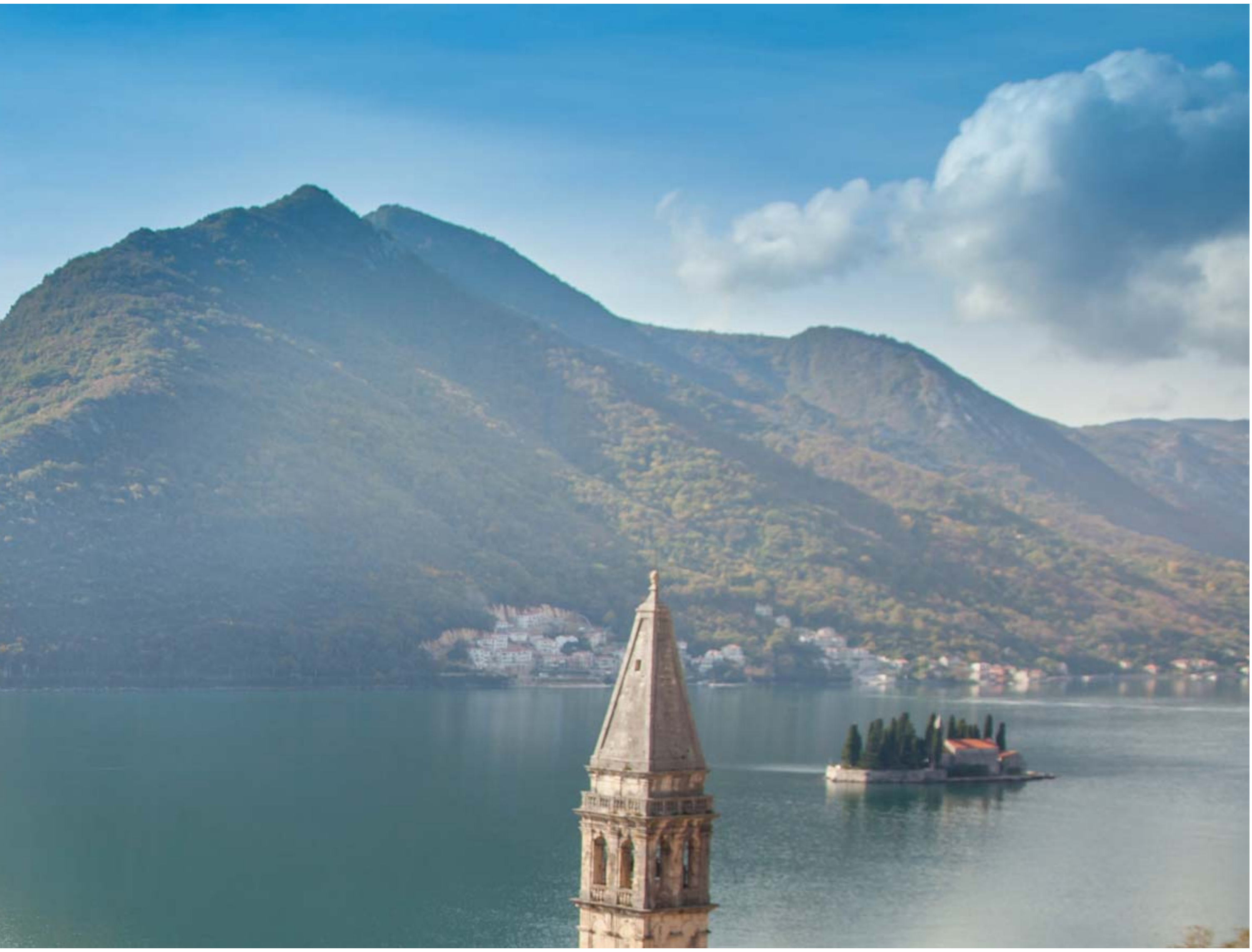
In the previous year	**921.99**
In the current year	**931.99**

Performance indicators of the Bank as of 31 December, 2013 and 2014 are following:

Performance indicators	2014	2013	Average
Total assets	292,672	224,077	258,375
Net income	2,454	2,367	2,411
Core capital	19,979	20,039	22,661
Supplementary capital	9,989	-	-
Own funds	29,968	20,039	22,661
Weighted balance and off balance sheet items	170,942	124,796	121,048
Solvency ratio	15.25%	13.12%	15.05%
Return on asset	0.95%	1.19%	0.98%
Return on capital	8.11%	8.56%	6.77%

The auditing company that audited financial statements for 2013: Deloitte d.o.o. Podgorica. Bulevar Sv. Petra Cetinjskog bb, Podgorica.





4 ABOUT THE BANK

BANK'S MENAGMENT AND ORGANIZATIONAL STRUCTURE

BOARD OF DIRECTORS	Sigilfredo Montinari, Chairman Božana Kovačević, Deputy Chairman Dolly Predović, Member Miljan Todorović, Member Goran Varat, Member Renata Vinković, Member Esad Zaimović, member
AUDIT BOARD	Marko Žigmund, Chairman Božana Kovačević, Member Jovan Papić, Member
CREDIT RISK BOARD	Renata Vinković, Chairman Sigilfredo Montinari, Member Esad Zaimović, Member
BANK'S EXECUTIVES	Esad Zaimović, Chief Executive Officer Aleksandar Mitrović, Executive Director for Business Support
CHIEF INTERNAL AUDITOR	Veselin Ivanović
COMPLIANCE	Slavko Rakočević
AML OFFICER	Mirjana Jovanović
ADMINISTRATIVE SERVICE AND HUMAN RESOURCES	Boban Ličina
SECURITY OF IT SYSTEM	Haris Dizdarević
DIVISIONS	Ana Golubović, Head of Corporate Department Jelena Vuletić, Head of Risk Department Nikola Špadijer, Head of Retail Department Nikola Milović, Head of Operations Nataša Lakić, Director of Payment operations and Treasury back office Sector

RETAIL NETWORK

PODGORICA – HEAD OFFICE

Adress: Ul. Josipa Broza Tita br. 67
Tel: +382 (0) 77 700 001;
Fax: +382 (0) 77 700 071

BRANCHES

Podgorica
Adress: Ul. Slobode br. 91
Tel: +382 (0) 77 700 080; 081;
Fax:+382 (0) 77 091;

Nikšić
Adress: Trg Save Kovačevića bb
Tel: +382 (0) 77 700 180; 182;
Fax:+382 (0) 77 700 185;

Bar
Adress: Ul. Maršala Tita br. 15
Tel: +382 (0) 77 700 131; 130;
Fax:+382 (0) 77 700 135;

Budva
Adress: Mediteranska br. 4
Tel: +382 (0) 77 700 122; 120;
Fax:+382 (0) 77 700 125:

Kotor
Adress: SC Kamelija,
Tel: +382 (0) 77 700 110; 112;
Fax:+382 (0) 77 700 115;

Herceg Novi
Adress: Ul. Njegoševa br. 52
Tel: +382 (0) 77 700 140; 141;
Fax:+382 (0) 77 700 145;

Bijelo Polje
Adress: Ul. Slobode bb
Tel: +382 (0) 77 700 171; 172;
Fax:+382 (0) 77 700 175;

Berane
Adress: Ul. Mojsija Zečevića bb
Tel: +382 (0) 77 700 168; 167;
Fax:+382 (0) 77 700 165;

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