ANNUAL REPORT

2015

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

HIPOTEKARNA BANKA

Vama posvećena

REPORT OF THE BOARD OF DIRECTORS CHAIRMAN

Dear clients, partners, and shareholders,

U ime Odbora direktora, imam čast da vam predstavim godišnji izvještaj Hipotekarne banke AD Podgorica za 2015. godinu.

On behalf of the Board of Directors, I have the honour to present to you the Hipotekarna Bank AD Podgorica 2015 Annual Report.

Throughout 2015, the macroeconomic environment continued to show the effects of the European Central Bank expansionary efforts and did not offer much support to the economy, with low interest rate levels and slow economic growth rates continuing. In the time ahead, Montenegro's banking sector will continue to face serious challenges caused by global uncertainty of not only economic, but increasingly of political and regulatory nature.

Confident about our progress despite macroeconomic challenges over the previous years, we managed to increase the bottom line across all our business segments. Our growth was continually faster than that of the remaining Montenegrin banking market and, as a result, our market share grew to over 10%. Our net profit rose to € 2.729 million, with the rate of return on equity at 7.93%, which is testimony to our capacity to strengthen key performance indicators even against a challenging environment. By maintaining a high solvency ratio of 12.85%, we demonstrated quality asset and liability management using new instruments in our balance sheet, as well as disciplined risk management, which serves as another indicator that the Bank strives towards achieving its strategic goal - a sustainable and successful business for many more years to come.

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

The previous year saw a number of significant changes. To reduce the gap between our results and objectives further, we continued reviewing all our business segments to identify new options for improving our customer satisfaction. As part of this review undertaken, we confirmed our commitment to the universal bank model through a fundamental redesign or our business organisation in order to draw a clear line between our revenue generating activities and our business support activities.

Our progress in 2015 primarily came as a result of hard work and commitment of our workforce across the organisation. We recruit, train and motivate distinctive, ambitious and competent people who fight for the success and growth of the Bank. Committed to maintain our progress, achieve our strategy and grow into a more successful and efficient bank, we will continue using our expertise and creative innovations in order to win a status of one of the most reliable financial partners in Montenegro.

I would like to thank all our clients, employees and shareholders and express my heartfelt gratitude for your continued loyalty and trust.

Sigilfredo Montinari
Predsjednik Odbora direktora

REPORT OF CHIEF EXECUTIVE OFFICER

Dear clients, partners, shareholders,

It is my honour to present to you the Hipotekarna Bank AD Podgorica 2015 Annual Report.

2015 saw economic growth in almost all the leading economies of the world, slightly less so in the European Union member states. Increased liquidity had a tangible impact on Montenegro's banking sector balance structure through enhanced potential of local banks.

Drawing on the experience in the past, it must be stressed again that Montenegro's banking sector remained stable last year and that given the overall economic environment in the country it enjoys an outstanding position. As the banking sector stabilised, the competition increased. Following a number of years of unchanged number of actors, the market competition improved as the sector announced the arrival of both foreign and domestic banks, some of which already operating in 2015.

The Hipotekarna Bank AD Podgorica total assets increased by 40%, deposits expanded by 49%, with the loan portfolio going up by 31% and the investment securities portfolio by 150% over the previous year. Since all the relevant business parameters saw a continuous growth from 2006 on, we realised that as our position in the market changed, we needed to change as well. A growing Hipotekarna Bank AD Podgorica needed to reorganise the structure and optimise its business processes in the new environment so as to improve efficiency of the business model and preserve a deeply rooted organisational culture.

As a result, 2015 was the best business year ever of Hipotekarna Bank AD Podgorica by many indicators.

Our priorities, the safety of our clients as well as the best and most inventive services that we are known for in Montenegro's banking sector, will remain unchanged in the coming period. There is unwavering evidence of the confidence citizens and companies have in Hipotekarna Bank AD Podgorica. We will continue to invest in our employees, develop technological processes in order to improve our performance in all the key business segments, and see our bank grow further.

Finally, let me avail myself of this opportunity and thank, on behalf of Hipotekarna Bank AD Podgorica management, and my own behalf, our clients, shareholders and employees for their support, perseverance and loyalty in record breaking 2015.

Esad Zaimović

Glavni izvršni direktor

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1 OVERVIEW OF MONTENEGRIN ECONOMY IN 2015

MACROECONOMY

At macroeconomic level, success from 2014 continued with Montenegro having made a 2% growth rate following a long period of economic recession. This positive trend continued in 2015 despite the spillover effects of the crisis in the region and Europe. GDP growth rate was around 3.2%, slightly lower than expected but higher than in other countries of the region or the average growth in the Eurozone countries and the EU.

The number of tourists went up, while forestry and industrial production also recorded growing trends. Deposits, capital and total assets of banks increased. The number of loans granted dropped compared to the previous year as well as the interest rates. There was a significant increase in FDI.

INFLATION

In December 2015, consumer prices grew by 1.4% over the previous month.

Measured by consumer prices, annual inflation in December 2014 was 1.5%, while inflation measured by a harmonised consumer price index was 1.7%.

INDUSTRIAL PRODUCTION

In December 2015, industrial production declined by 17.3% over the previous month.

Compared against 2014, 2015 recorded a 7.9% growth in overall industrial production. A 5.9% decline in production was recorded in electricity, gas and steam supply sectors, and 8.1% in mining and quarrying industries, while manufacturing industry grew by 19.9%.

TOURISM

According to Monstat, Montenegro received visits by 1.71 million tourists, a 14% growth over 2014. They made 11.05 million overnight stays, a 15% growth over 2014. Foreign tourists accounted for 90% of all stays.

EMPLOYMENT

According to Monstat records, Montenegro had 172,517 persons in employment, down by 1.1% over the previous month, and up by 0.8% over December 2014.

The number of persons out of work in December 2014 grew by 1.4% over the previous month, and by 0.5% over the previous year.

Average gross and net pays were up by 1.5% in December 2015 over the previous month. Average real net pay in December 2014 grew by 0.9% at annual level.

FOREIGN DIRECT INVESTMENT (FDI)

According to preliminary data, net FDI was €573.4 million, or a 79.7% growth over the previous year. 2014 recorded a lower inflow through loans coming from associated companies, while at the same time, there was a growth of inflow from owner investment. Total FDI inflow was €670.8 million, or up by 66.5% over the previous year.

Source: Central Bank of Montenegro monthly bulletin and the Ministry of Finance 2014 Annual Report.

2 OVERVIEW OF BANK BUSINESS

ORGANISATION AND WORKFORCE

On 31 December 2015, the Bank had a workforce of 189 people holding the qualifications required and the IT skills needed for proper discharge of bank operations. Direct work with clients ("front office") account for 57% of all workforce. The workforce grew by 7 over 31 December 2014. The Bank workforce average age is 37.3 years, and the average years of service is 11.4 years.

Continuous education and professional development are set as Bank priorities. In 2015, a large number of employees underwent training in both internal and external programmes on various areas relevant to the Bank business. The Bank recruits young professionals who will contribute to Bank's effective development.

Educational background of Bank workforce: 11 hold a MSci, 83 university, and 31 a Bachelor of Science degrees, while 13 have two-year post-secondary, and 51 a secondary school education.

BANK MANAGEMENT BODIES

The Bank management bodies include the following: the General Assembly of Shareholders and the Board of Directors. The General Assembly of the Bank is composed of its shareholders. Members of the Board of Directors, as the Bank management body, are elected and appointed by the Assembly of Shareholders.

The Bank largest shareholders as of 31 December 2015 are as follows:

HB – Collective custody account 4/ Generali Financial Holdings FCP-FIS – Sub-Fund 2	16.8695 %
Cerere S.P.A. - Italy	13.9275 %
Lorenzo Gorgoni - Italy	12.9788 %
Antonia Gorgoni –Italy	10.0016 %
Miljan Todorović - Italy	7.3982 %
Podravska St Dd - Croatia	6.5389 %
Ibis Srl - Italy	4.8682 %
Dario Montinari - Italy	4.6159 %
Sigilfredo Montinari - Italy	4.6159 %
Piero Montinari - Italy	4.6127 %

The Bank Board of Directors has 7 members with the majority of them not being employed with the Bank.

The Bank Board of Directors standing bodies are as follows: The Audit Committee and the Credit Risk Management Committee.

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

1.1. Hipotekarna Bank AD Podgorica Board of Directors:

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

1.2. Hipotekarna Bank AD Podgorica Audit Committee up to 29/10/2015:

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

1.3. Hipotekarna Bank AD Podgorica Audit Committee from 29/10/2015:

- » Draško Popović, Chairman
- » Božana Kovačević, Member
- » Marko Žigmund, Member

1.4. Hipotekarna Bank AD Podgorica Credit Risk Management Committee:

- » Renata Vinković, Chairman
- » Sigilfredo Montinari, Member
- » Esad Zaimović, Member

2. Hipotekarna Bank AD Podgorica executive officers:

- » Esad Zaimović, Chief Executive Officer
- » Aleksandar Mitrović, Executive Officer for Business Support Operations

SHAREHOLDERS ASSEMBLY

The Bank's Shareholders Assembly had one session in 2015 that, given the nature of the material discussed and decided upon, had the character of a regular (annual) meeting.

At XVII regular meeting (held on 29/05/2015), Shareholders' Assembly reviewed the 2014 Hipotekarna Bank AD Podgorica annual report, together with the report of external auditors, and passed the Decision on profit allocation for 2014. It was established under that Decision that the Bank's profit after taxation amounted to € 2,454,321.42. On 31/12/2014, a provision gap was identified in accordance with Article 49 of the Decision on Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro, No. 22/12 of 23/04/2012, No. 55/12 of 02/11/2012 and No. 57/13 of 16/12/2013) ("Decision"). Namely, there is a difference between the amount of reservations for potential losses and the sum of amounts of corrected values for the balance assets positions and reservations for off-balance items amounting to € 6,209,663.62. Following the Bank's obligations as set forth in Art. 49a of the Decision, the entire amount of accumulated loss of € 2,454,321.42 had to be transferred to the account for provisions for assessed losses, in line with the regulatory requirement to serve as coverage of part of the identified provision gap.

BOARD OF DIRECTORS AND BOARD OF DIRECTORS COMMITTEES

In compliance with the Law on Banks ("Official Gazette of Montenegro" Nos.17/08, 44/10 and 40/11) the Board of Directors had 44 regular sessions in 2015 (there is a legal provision stipulating that the Board of Directors must convene at least once a month).

The Bank Board of Directors activities primarily focused on the implementation of tasks and objectives as set by the strategic and annual planning documents.

The Bank Board of Directors regularly discussed issues relevant to the Bank business operations (monthly business and financial statements, liquidity reports, risk reports and specifically analysed the reports on lending activity and collection of claims, as well as any other reports that covered the Bank's overall business). Also, when necessary, the Board adjusted interest rates, tariffs and other charges to the situation in the market relating to loan activities and other banking services and discussed other issues relating to Bank's day to day business operations and passed decision and conclusions accordingly.

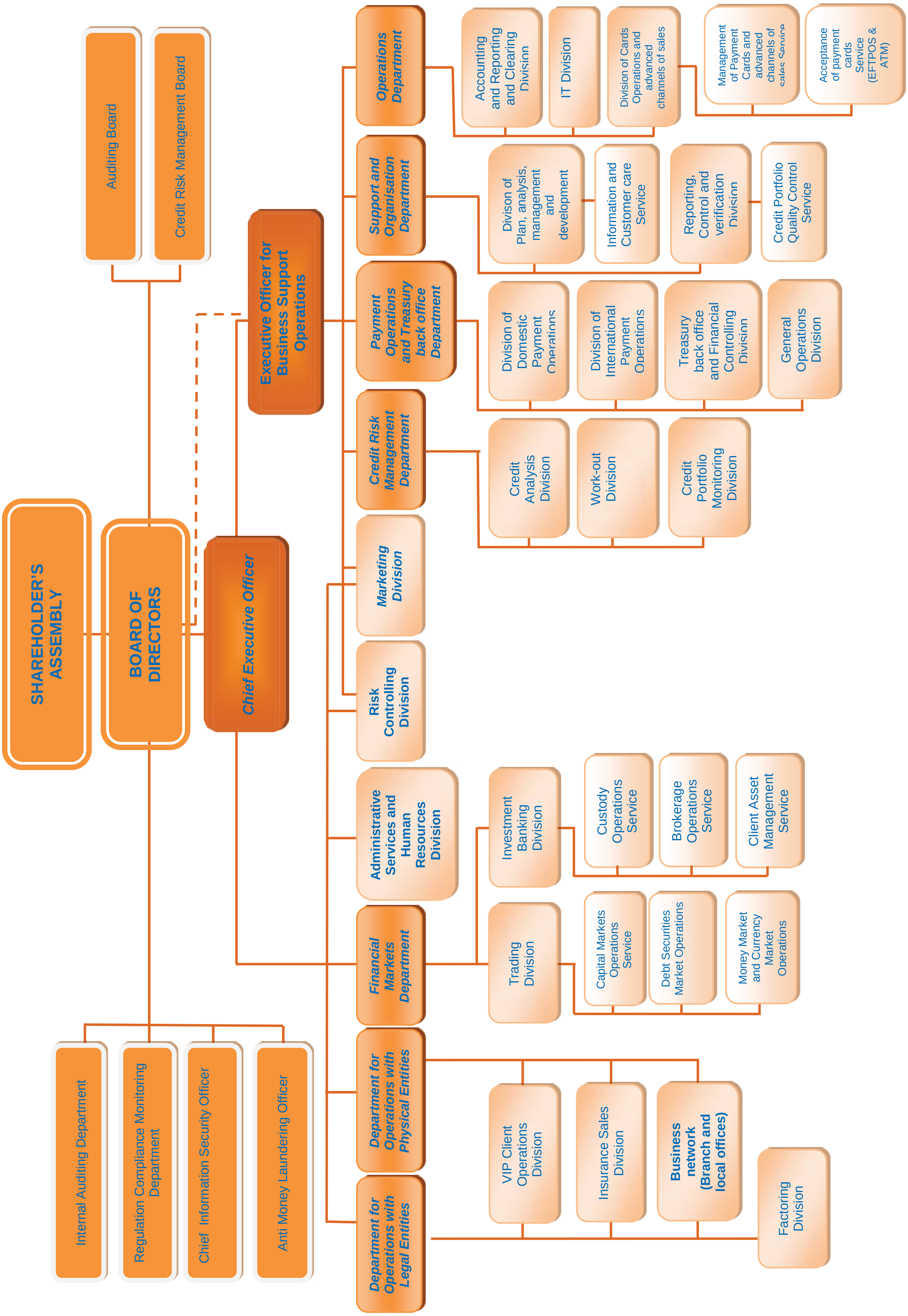
As the Board of Directors standing committees, the Audit Committee and Credit Risk Management Committee, regularly reported to the Board of Directors on issues within their authority.

In addition to the standing committees, the Committee on Asset and Liability Management (ALCO), the Committee on Development and Management of Information System, the Committee for Management of Card Business and Advanced Sales Routes and the Committee for Bank Development had at least monthly sessions and discussed issues within their sphere of competence and reported to the Board of Directors.

In 2015, the attitude of the members of the Bank Board of Directors to their obligations and tasks as set by the legislation and Bank internal rules was based on their mutual cooperation, regular attendance and active participation in Board meetings. There were no conflicting situations or disputes when it came to agreeing on positions, decisions and implementation of Bank's business policy, and the quorum required was never challenged.

It may be concluded that in 2015, the Board of Directors was guided by clearly defined objectives in their work on examining the timeliness and reliability of financial reports, reports on managing the risks that the Bank is exposed to in its daily operation and on overseeing the compliance of Bank business with laws, regulations and internal plans, policies and procedures. In their work on the issues on the agenda, Board members acted with due diligence, care and in line with the rules of the profession and used their authority solely to the benefit of the Bank.

ORGANISATION CHART OF HIPOTEKARNA BANK



BUSINESS OPERATIONS

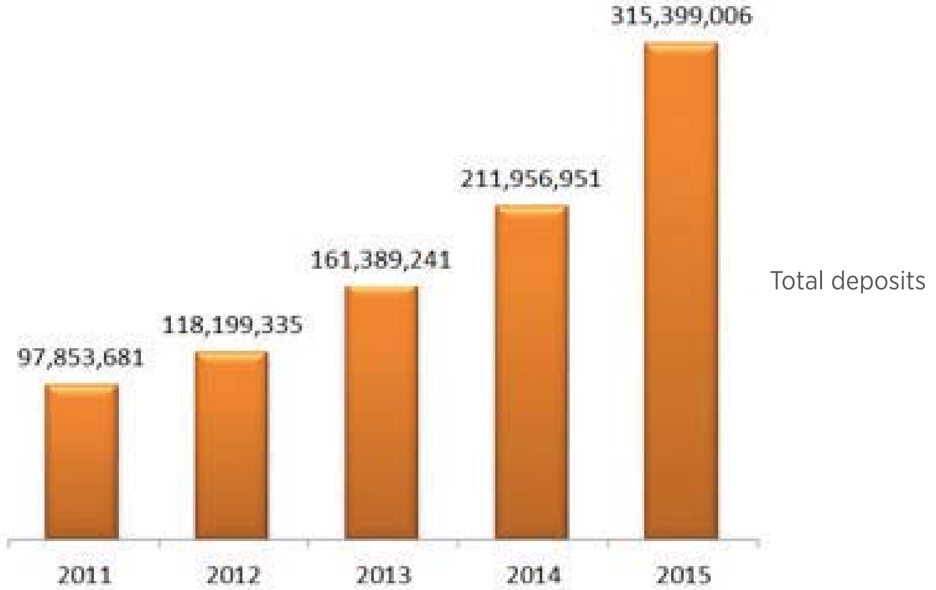
DEPOSITS

In 2015, compared against 2014, deposits went up from 48.80%, which indicates that confidence of both citizens and business in Hipotekarna Bank saw a significant rise also in 2015. Time deposits increased by 26.84%, while sight deposits increased by 75.58%.

The Bank maintained an adequate time and sight deposits to overal deposits ratio.

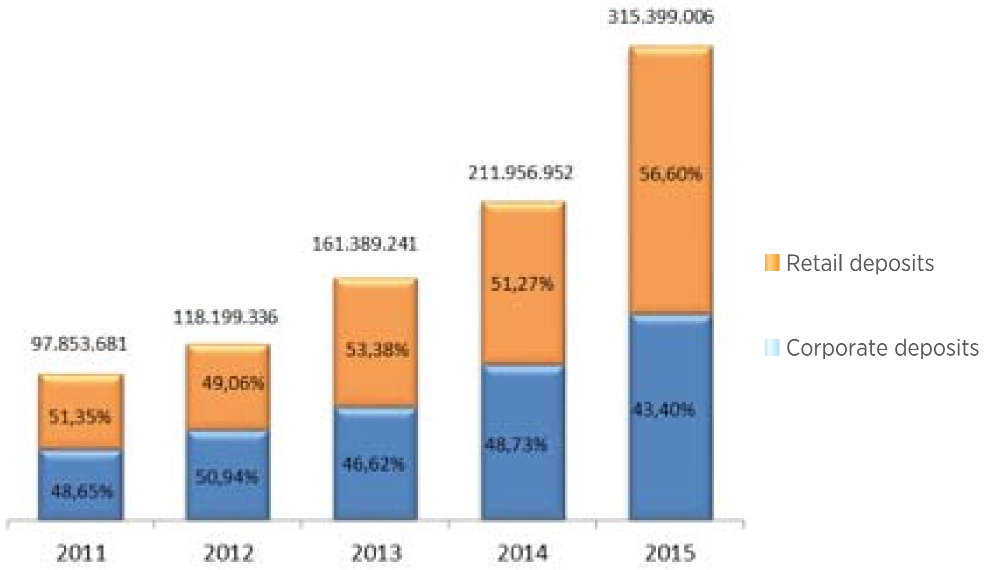
Total EUR deposits

	Total deposits	% 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%
2015	315,399,006	48.80%



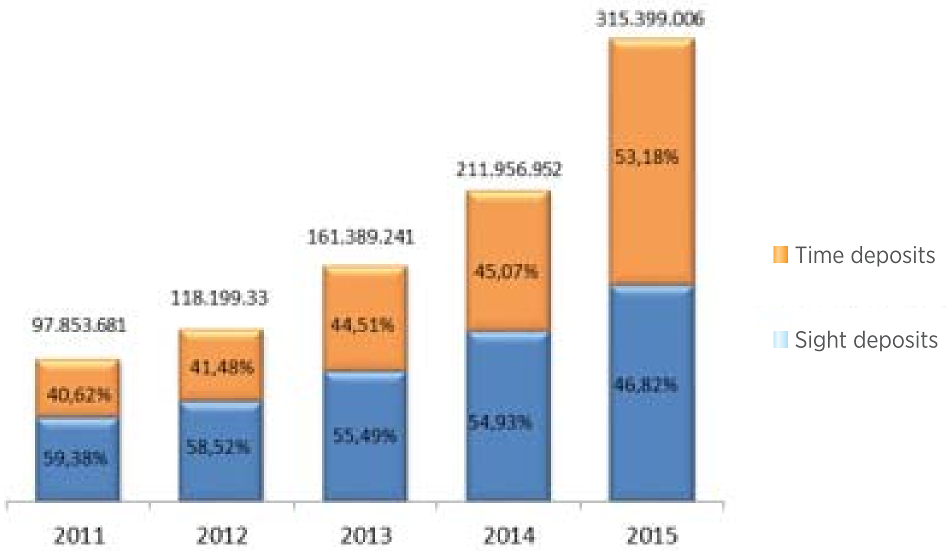
This increase in deposits resulted from the growing number of clients and their increased confidence in the Bank. Thanks to the Bank's strengths, such as security, professionalism and the good quality of the services offered, we are recognised as a Bank worthy of confidence. As a result, the positive trends of deposit growth continued.

Corporate deposits accounted for 56.60%, and retail deposits for 43.40% of overall deposits, as shown in the graph below:



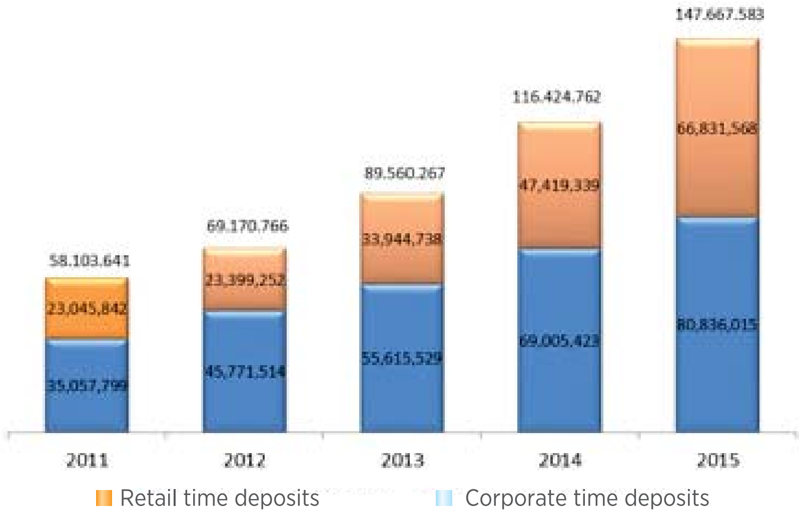
	2011	2012	2013	2014	2015
Retail deposits	47,604,421	60,204,983	75,236,948	103,276,531	136,890,858
Corporate deposits	50,249,260	57,994,353	86,152,293	108,680,421	178,508,148
Total	97,853,681	118,199,336	161,389,241	211,956,952	315,399,006

Time deposits accounted for 46.82%, and sight deposits for 53.18% of overall deposits.

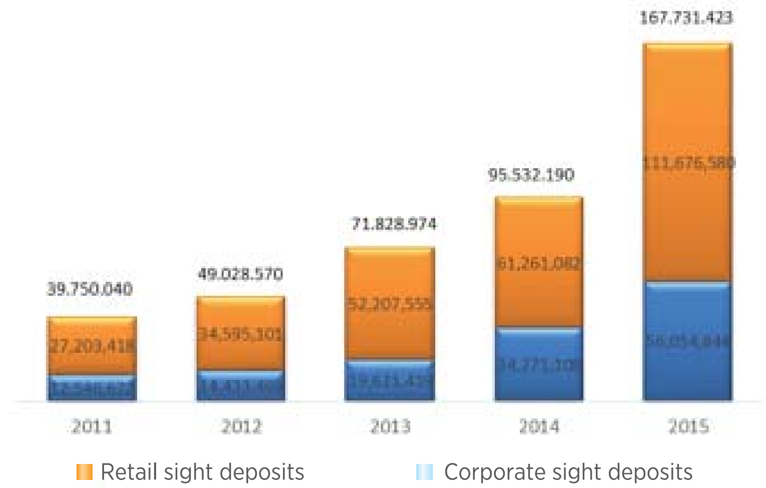


	2011	2012	2013	2014	2015
Time deposits	58,103,641	69,170,766	89,560,267	116,424,762	147,667,583
Sight deposits	39,750,040	49,028,570	71,828,974	95,532,190	167,731,423
Total	97,853,681	118,199,336	161,389,241	211,956,952	315,399,006

Following the overall deposit trend, both time and sight deposits recorded a growth in 2015 over 2014, as shown in the graphs below:



	2011	2012	2013	2014	2015
Retail time deposits	35,057,799	45,771,514	55,615,529	69,005,423	80,836,015
Corporate time deposits	23,045,842	23,399,252	33,944,738	47,419,339	66,831,568
Total	58,103,641	69,170,766	89,560,267	116,424,762	147,667,583



	2011	2012	2013	2014	2015
Retail sight deposits	12,546,622	14,433,469	19,621,419	34,271,108	56,054,844
Corporate sight deposits	27,203,418	34,595,101	52,207,555	61,261,082	111,676,580
Total	39,750,040	49,028,570	71,828,974	95,532,190	167,731,423

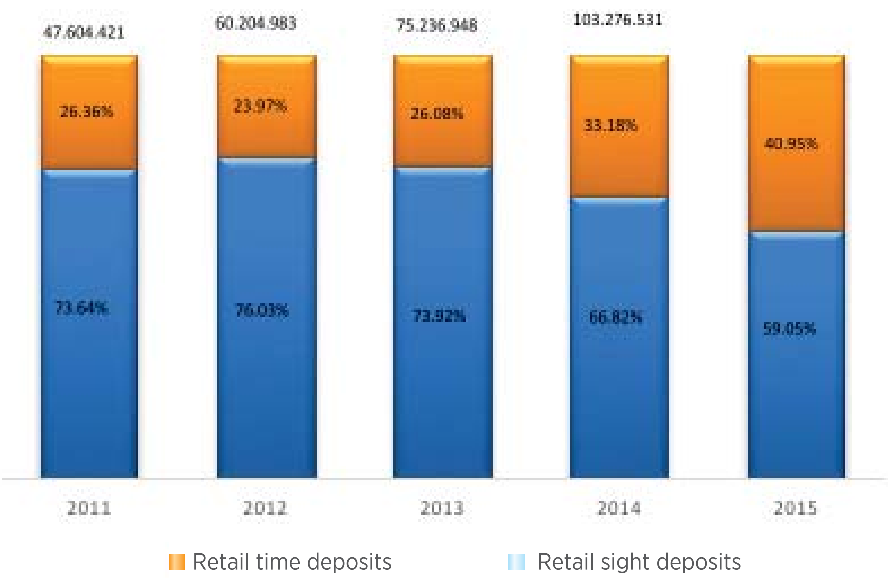
RETAIL DEPOSITS

At the end of 2015, overall retail deposits recorded a 32.55% growth compared to 2014 in both sight and time deposits.

Sight deposits grew by as much as 63.56%, while the retail time deposits grew by 17.14%.

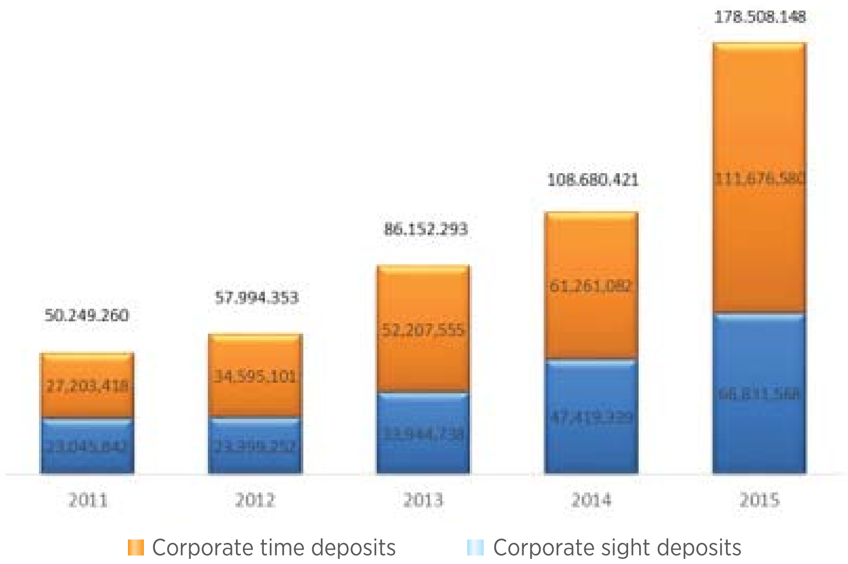
	2011	2012	2013	2014	2015
Retail time deposits	35,057,799	45,771,514	55,615,529	69,005,423	80,836,015
Retail sight deposits	12,546,622	14,433,469	19,621,419	34,271,108	56,054,844
Total	47,604,421	60,204,983	75,236,948	103,276,531	136,890,858

In the overall structure of retail deposits, time deposits accounted for 59.05%, while sight deposits accounted for 40.95%.



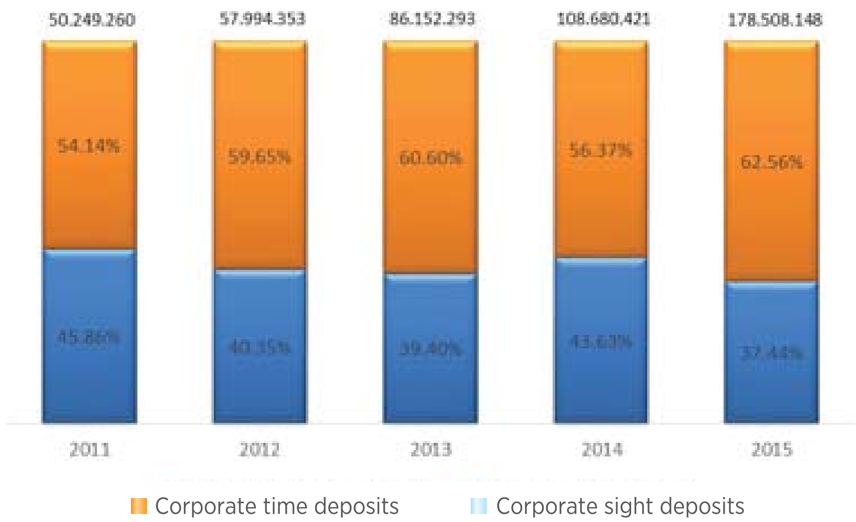
CORPORATE DEPOSITS

Overall corporate deposits increased by 64.25%, of which sight deposits by 82.30%, and time deposits by 40.94%.



	2011	2012	2013	2014	2015
Corporate time deposits	23,045,842	23,399,252	33,944,738	47,419,339	66,831,568
Corporate sight deposits	27,203,418	34,595,101	52,207,555	61,261,082	111,676,580
Total	50,249,260	57,994,353	86,152,293	108,680,421	178,508,148

In the overall structure of corporate deposits, term deposits accounted for 37.44% and sight deposits for 62.56%.



LOANS

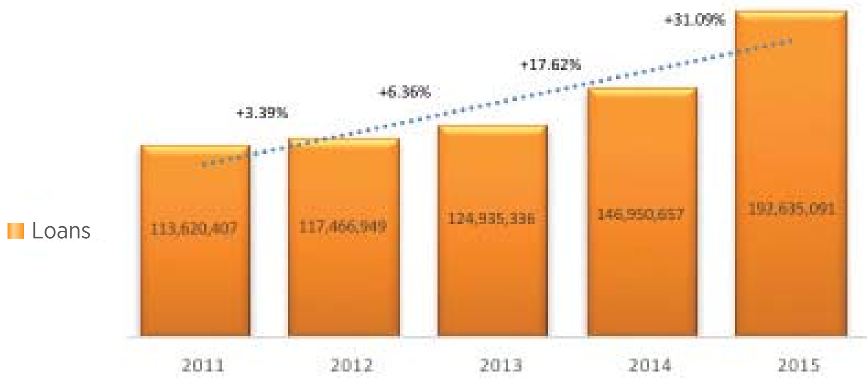
In 2015, Hipotekarna Bank continued its trend of providing loans to existing clients but also to a large number of new clients.

One of the Bank's recognisable features is that in addition to providing loans it also provides advisory services, all with a view to improving overall business operations and business results of both the Bank and its clients.

Despite the conservative loan policy that the Bank has pursued for years, total loans portfolio increased by 31.09% over the previous year.

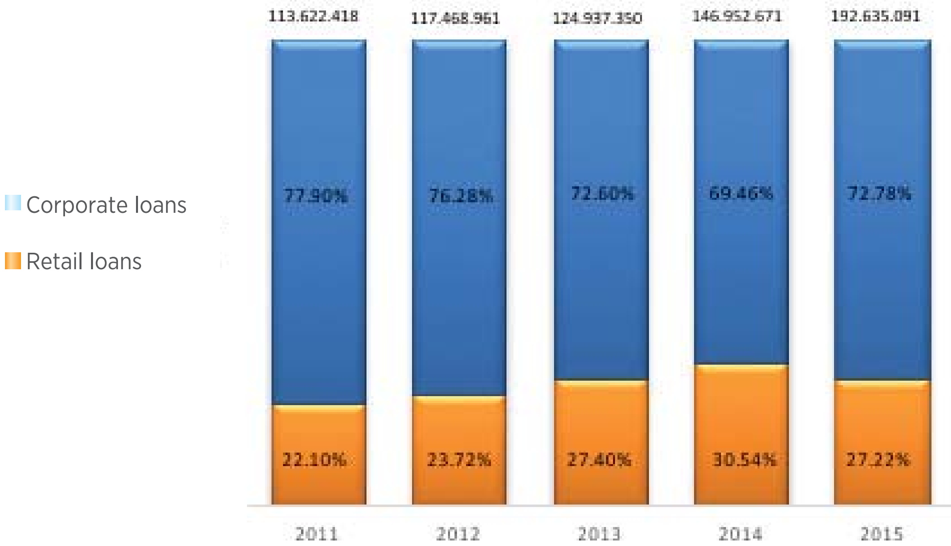
Total retail loans portfolio increased by 16.85%, while the corporate loans portfolio increased by 37.35%.

	Loans	Change in %
2011	113,620,407	0.00%
2012	117,466,949	3.39%
2013	124,935,336	6.36%
2014	146,950,657	17.62%
2015	192,635,091	31.09%

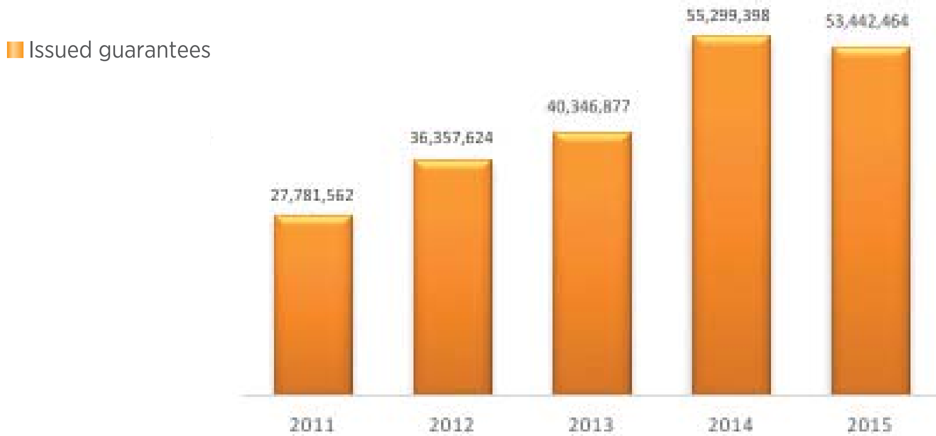


	2011	2012	2013	2014	2015
Retail loans	25,110,235	27,867,176	34,227,877	44,875,954	52,436,433
Corporate loans	88,510,172	89,599,773	90,707,460	102,074,703	140,198,658
Total	113,622,418	117,468,961	124,937,350	146,952,671	192,635,091

In the structure of overal loan portfolio, retail loans account for 27.22%, while corporate loans account for 72.78%.



Guarantees in 2015:



	2011	2012	2013	2014	2015
Issued guarantees	27,781,562	36,357,624	40,346,877	55,299,398	53,442,464

In 2015, the Bank continued its cooperation with the European Bank for Reconstruction and Development (EBRD) and provided loans to small and medium-size companies (SMEs) on terms that were preferential in both interest rates and repayment period.

The Bank uses EBRD funds to finance SME projects in the sectors of industry, services, tourism, environment protection and energy savings.

The Bank also continued its successful cooperation with the European Fond for South-East Europe (EFSE) and Investment and Development Fund (IRF) and provided loans on favourable terms.

The Bank's offer to corporate clients includes cash loans, revolving loans, loans intended for settlement of obligations towards suppliers, for car purchase, refinancing of debts with other banks, financing export liabilities, for purchase of equipment, refurbishment of office space, preparation for tourist season, overdraft loans, factoring, as well as all types of guarantees.

BUSINESS NETWORK AND DISTRIBUTION CHANNELS

The Banks pays particular attention to its branches in order to see that the needs of all its clients are adequately met. Acting in the same spirit, in July 2014, Hipotekarna Bank opened a separate area within the new premises at Sv. Petra Cetinjskog br. 130, equipped with top of the art multifunctional terminals available to clients 24/7/365 for any transaction.

After its new branch at Ulica slobode, opened back in 2013, this is yet another branch that offers our clients in the capital professional and advanced services that are readily available 24/7.

The Bank business network now comprises 9 branches and 8 sub-branches and serves as a solid foundation for its good performance to continue also in the next year.

In addition to its well-developed network, the Bank uses other distribution channels to make its services available to its clients, namely via a network of ATM and EFTPOS terminals, HBklik internet banking, MHbklik services (mobile banking), a virtual counter, and the Call Centre.

A special focus is placed on business network management, continuous training of workforce, and upgrades of equipment used in the branches so as to provide our clients with services of maximum quality.

NEW PRODUCTS AND SERVICES

Focused on client needs and requests, the Bank is continually working towards both upgrading existing offers and developing new products and services, trying to maintain and improve both its quality and competitiveness.

The Bank's range of products intended for retail clients was expanded in 2015 to include housing loans and cash loans for pensioners that come with an insurance policy to cover the unsettled claims. In addition to the favourable interest rates and amount of processing fee, another extra benefit fo the pensioners was the insurance policy, which was paid for by the Bank and used free of charge by the loan beneficiary.

The Bank signed an agreement with the Ministry of Economy on the implementation of Energy Wood II Programme (for the installation of heating systems using modern forms of biomass) and added loans for this purpose to the range of products offered.

The Bank has for a long time now had on offer the Premium Card allowing interest free purchases with no additional charges. To allow its clients to make installment purchases in all points of sale in the country and abroad, the Bank issued a new debit card Visa RELAX. It allows clients to make purchases in the country and abroad while the amount of debt is evenly distributed to installments.

Also, following the model of mHB klik, Crnogorski Telekom and Hipotekarna Bank have designed a mobile application for Premium Card holders allowing them a direct access to their account that the Premium Card is linked to via their mobile phones. Therefore, a client has access to their account 24/7 and may check the balance, review transactions, transfer funds to a different account, pay their bills and a lot more, all from the comfort of their home.

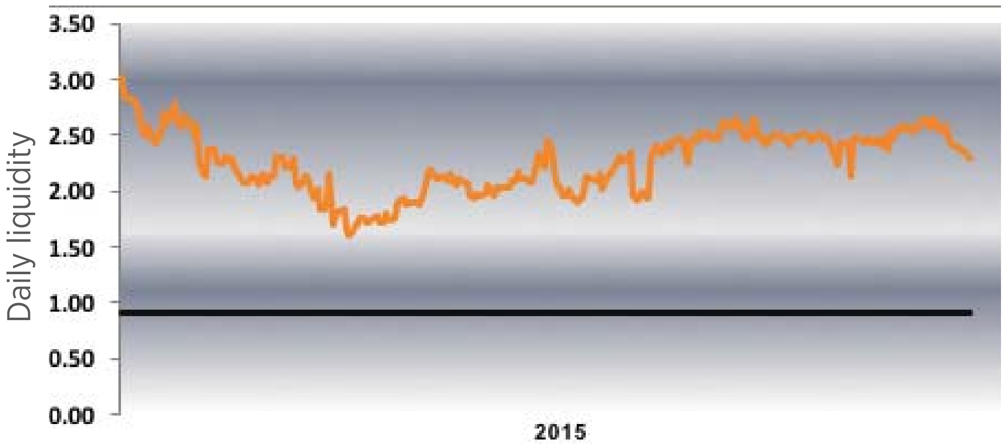
ASSET MANAGEMENT

Providing optimal liquidity is a basic requirement for safe and efficient operations of each bank. To maintain an appropriate ratio between liquid assets and total liabilities, the Bank applies rational management of assets and liabilities towards.

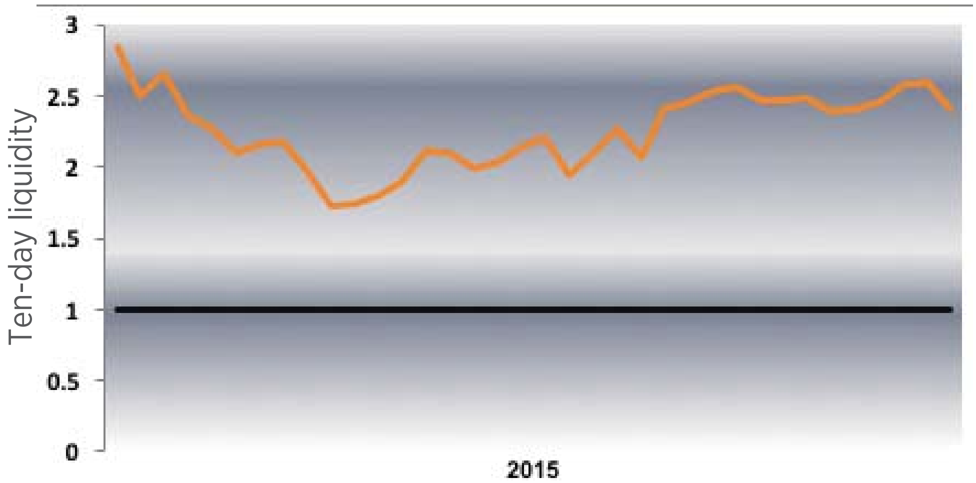
In 2015 the Bank also put emphasis on stabilising domestic sources of funding and expanding of its client base, reducing short-term in favor of long-term sources of funding and withdrawal of new credit lines from foreign banks and international financial institutions.

Treasury back office and financial controlling department succeeded to maintain liquid assets and overall liquid position of the Bank at a satisfactory level. In addition, the Department 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 this allowed the Bank to regularly fulfill its obligations towards creditors, as well as to accommodate client requests within the shortest terms possible.

The daily liquidity ratio, which is calculated by the methodology set by the Central Bank of Montenegro, throughout 2015 was considerably above the legally required minimum of 0.90.



Furthermore, the ten-day liquidity ratio was above the legal requirement of 1.00.



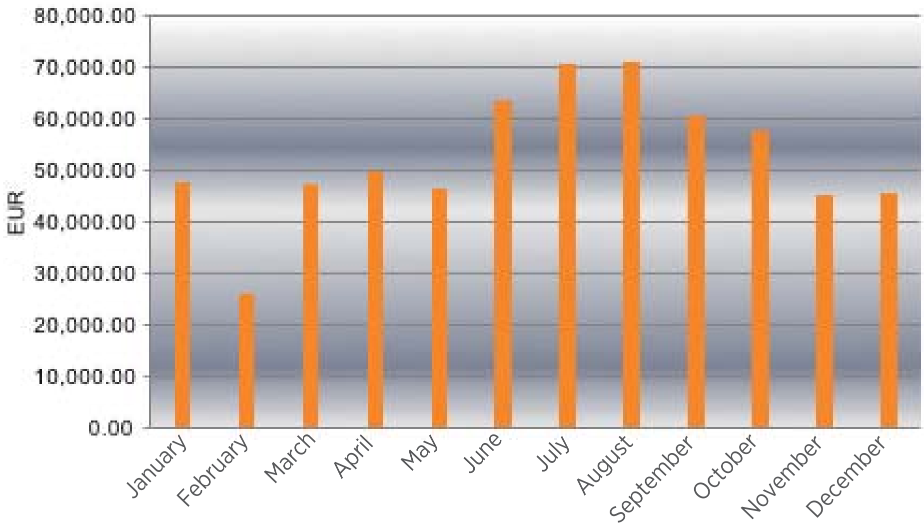
In order to manage tenor liquidity and maintain satisfactory levels, the Bank regularly monitored indicators of structural liquidity through the tenor adjustment of financial assets and liabilities, the review of maturity dates of larger deposits and through the establishment of a stable part of sight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

Given that the effects of the global economic crisis continued throughout 2014 and taking into account the caution with which customers now use their own funds, it may be concluded that in these circumstances, the Bank was recognized as the most liquid bank in the banking system of Montenegro, as well as one of the most reliable ones. This statement is supported by the data that indicate that at the end of 2014 total deposits of the Bank were € 213.4 million and at the end of 2015, € 315,4 million, or 47,80% annual growth. Liquidity surpluses, except from credit activities, were also placed in marketable securities.

In 2015, the Bank participated in government securities auctions, and in accordance with the decision of the Central bank of Montenegro, used them to cover part of obligatory reserve. Also, through activities of the Financial markets department, the Bank invested assets in other securities that are traded on Montenegro Stock Exchange, as well as other stock exchanges in the region.

In 2015 there were considerable fluctuations in exchange rates, EUR/USD currency pair in particular, which had the biggest impact on the Bank's exposure to exchange rate risk.

Under these circumstances, Treasury back office and financial controlling department managed to achieve remarkable results in income from realised exchange rate differences as a result of adequate exchange rate risk management. At the end of 2015 total revenue from foreign exchange differences amounted to € 630 thousand, which had a significant impact on the final financial results of the Bank.



Income from foreign exchange differences in 2015

PAYMENT OPERATIONS

The Bank overall payment operations in 2015 were characterized by the growth of all parameters defining business operations of this segment. All business plans previously set for business operations were achieved, which clearly demonstrates the Bank's efficiency and progress over the previous year.

DOMESTIC PAYMENT OPERATIONS

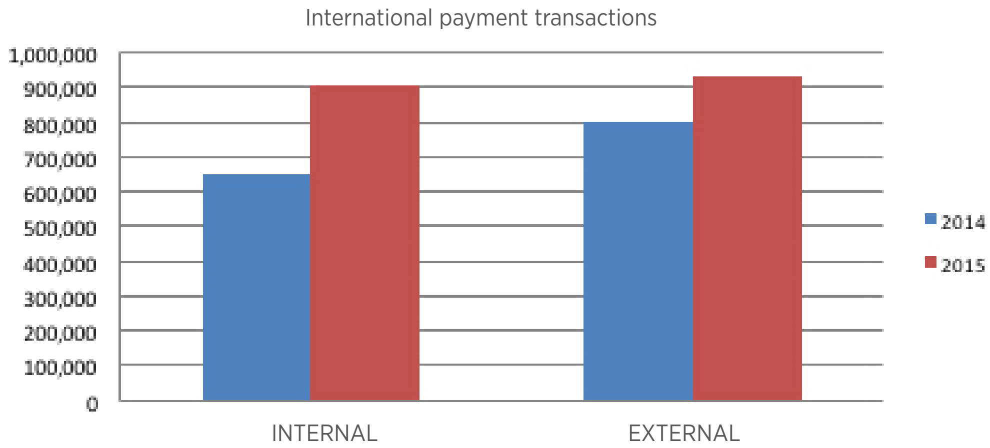
Overall domestic payment operations of the Bank recorded growth in 2015.

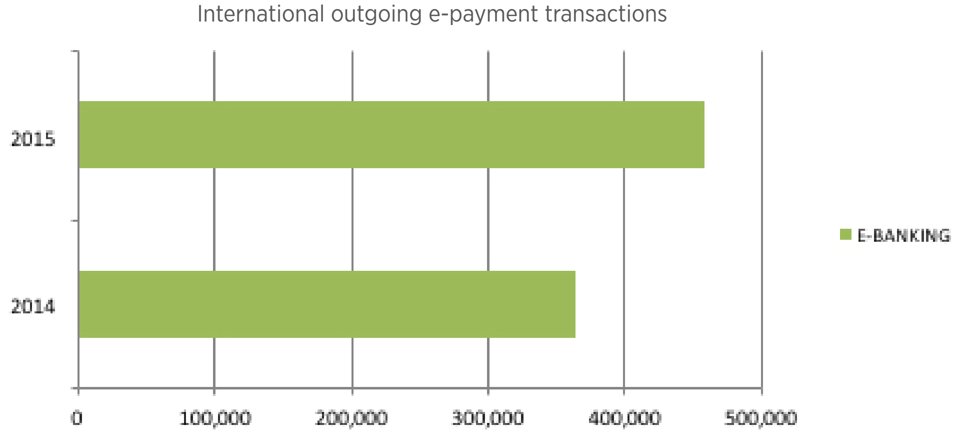
The total number of domestic payment transactions rose by 26% over 2014. Of this figure, the biggest growth was recorded in the number of internal transactions in the Bank. This growth was at 39% over the year before. External transactions also recorded a 16% growth over the previous year.

Within the external payment orders there was also a growth of 'small' payments (< EUR1.000, an increase of 20%) as well as 'high value' payments (> EUR1.000, 6% growth).

Incoming payments from other banks rose by 13% over the previous year.

A significant inclrease was also recorded in the number of electronic (e-banking) transactions, which means that clients are turning more and more to electronic applications and make payments by electronic orders. The number of domestic electronic payments grew by 26% over the previous year.



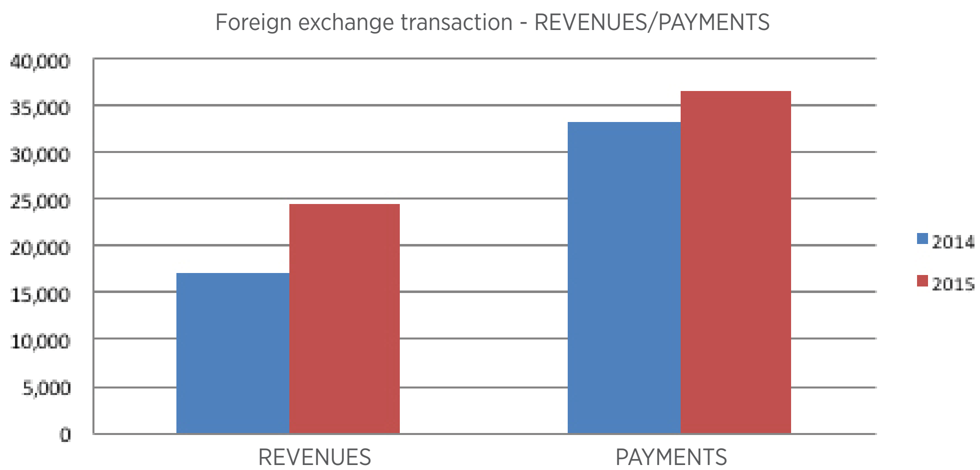


FOREIGN PAYMENT OPERATIONS

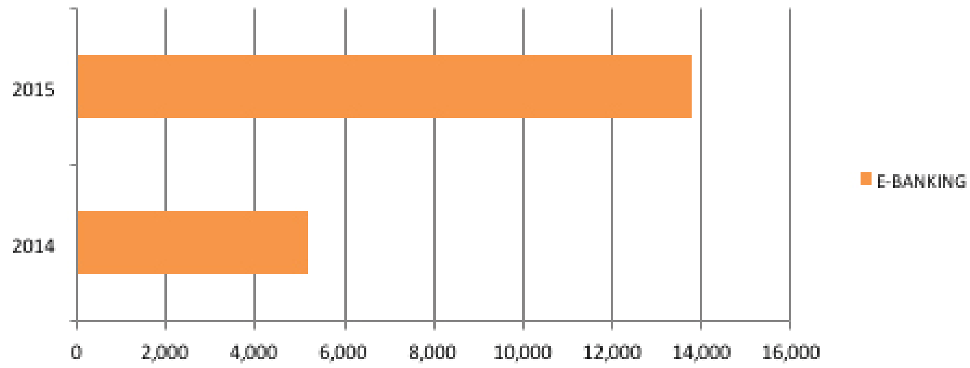
In 2015, there was an increase in all types of foreign payment operations, incoming and outgoing, as well as all other operations that make an integral part of foreign payment operations.

The Bank has long since been recognised by international banks as an efficient and reliable partner.

The number of outgoing payment operations rose by 10%. The number of electronic outgoing payment transactions made by HB-klik (e-banking) rose by 166% over 2014. The number of incoming transactions rose by 44% over the previous year.



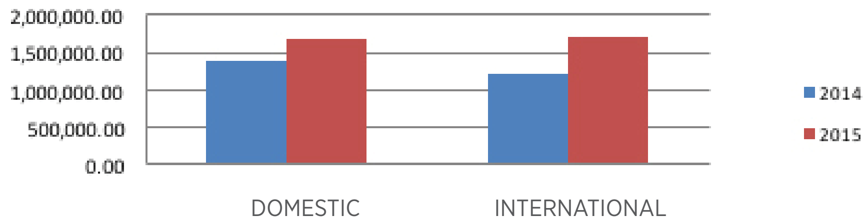
International outgoing e-payment transactions



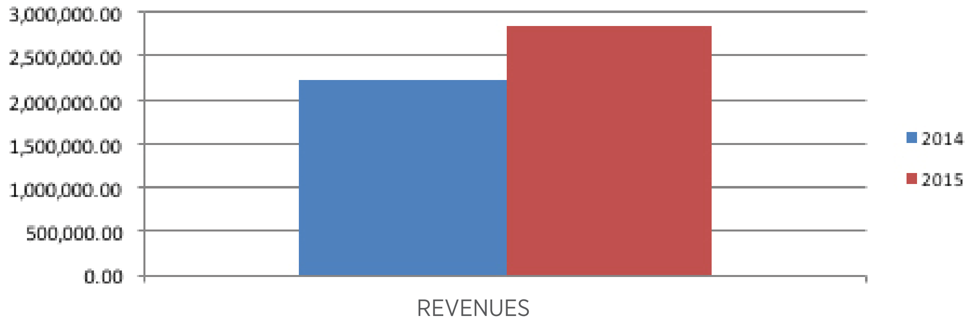
Total revenues from commissions on payment operations increased by 30% over 2014. The revenues from domestic payment operations rose by 21%, and from foreign payment operations by 41%.

Net revenues from overall payment operations rose by 28% over the previous year.

DOMESTIC AND INTERNATIONAL PAYMENT OPERATIONS REVENUES



PAYMENT OPERATIONS NET REVENUES



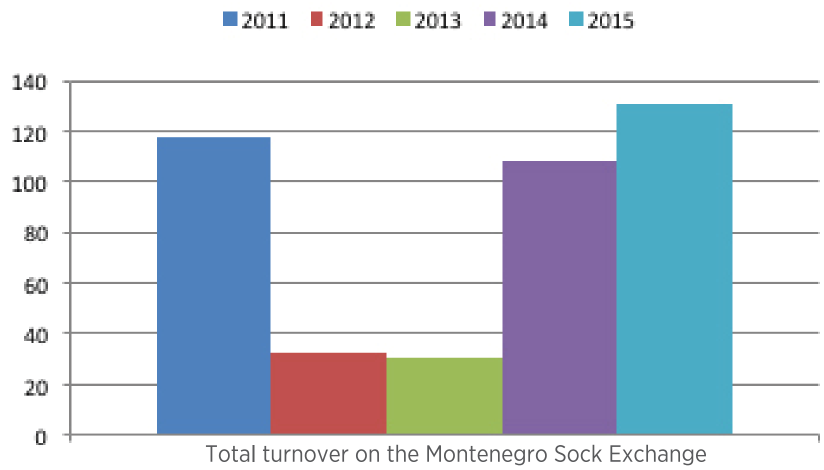
INVESTMENT BANKING

MONTENEGRO STOCK EXCHANGE

The trading volume on Montenegro Stock Exchange continued to grow in 2015 and amounted to EUR130.809.560, around 25% growth over the year before. There were 10,140 transactions, or 25% over 2014.

The number of transactions grew mainly thanks to the trade in bonds issued by the state of Montenegro, with the secondary market transactions at EUR15.63 million. Corporate bonds of Hipotekarna Bank showed sound liquidity in the secondary market with the turnover of EUR1.25 million.

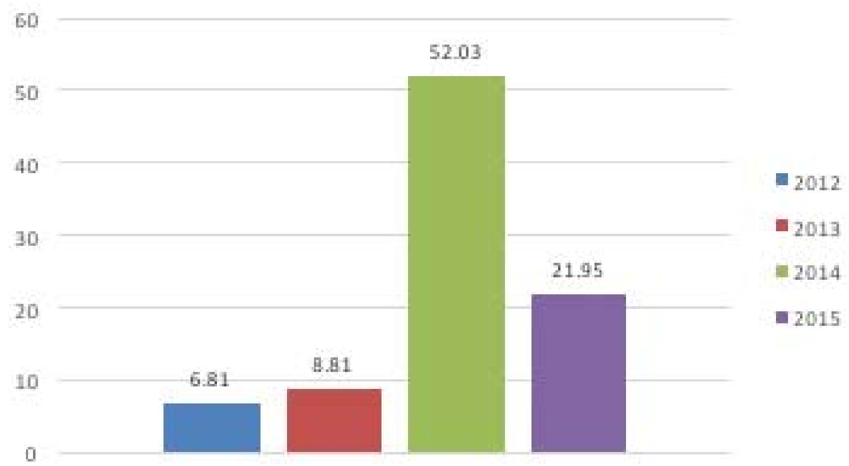
MNSE10 Index recorded a growth of 4.47% in 2015. On the last trading day, its value reached 1044.7 points. The maximum value of 1073 points was achieved on 06/-5/2015, while the minimum value of 924.04 points was recorded on 13/11/2015. MONEX Index in 2015 grew by 8.31% and was at 12,128 points at year end. The maximum value of 13154 points was reached on 06/05/2015, while the minimum value of 10,948 points was recorded on 21/01/2015. MONEXPIF Index dropped by 9.16% in 2015. Its value on the last trading day in 2015 was 2694 points.



BROKERAGE UNIT

In 2015, the Brokerage Unit of Hipotekarna Bank generated a turnover of EUR 8.96 million at Montenegro Stock Exchange, with Hipotekarna Bank maintaining its position of one of the leaders in the Montenegrin capital market.

The turnover made by Hipotekarna Bank brokers in foreign markets recorded a significant growth, from 5.3 million euros in 2014 to 12.85 million euros. This was the first time that foreign market turnover made by Hipotekarna Bank brokers exceeded that made in Montenegro Stock Exchange.



Brokerage turnover of Hipotekrna Banka in the past four years

DEALER OPERATIONS

Hipotekarna Bank total investments in equity securities were EUR3.596 million as of 31/12/2015. Its revenues from dividend and realised capital gains was EUR159 thousand in 2015.

CUSTODY OPERATIONS

With a portfolio of EUR81.99 million in assets under custody, Hipotekarna Bank remains the leading custody bank in Montenegro. Assets in custody with Hipotekarna Bank rose by three million compared to the beginning of the year. The revenues of Custody Unit rose from EUR192 thousand the year before to EUR273 thousand. The Unit's operating income was EUR97 thousand.

RISK MANAGEMENT

The risk management department addresses risk centrally, at the level of the Bank. Risk management includes risk identification, measurement, monitoring and reporting. The department develops risk management policies and procedures as well as risk measurement methodologies and procedures.

The risk management department reports monthly to ALCO committee on the levels of risk taken by the Bank. Based on this information the Committee does evaluation of the management performance in risk management.

The risk management department develops reports on Bank's vulnerability to various types of risks and in this way informs the Committee decision setting the limits.

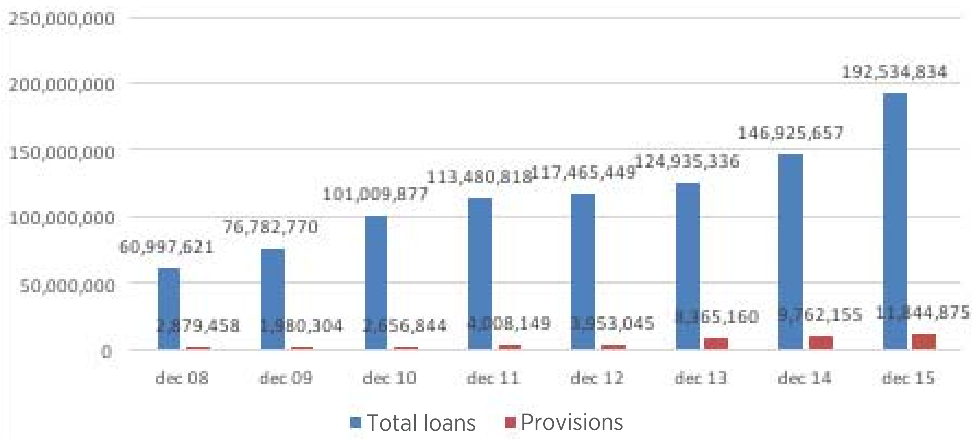
CREDIT RISK

The Bank manages credit risk at both portfolio and individual levels.

Portfolio of Hipotekarna Bank on 31/12/2015 was €192,534,834, or bigger by €45,609,177, or 29.2% than in late 2014.

Provisions for loan losses on 31/12/2015 were €11,844,875. Compared to the end of 2014, the provisions rose by €2,082,720, or 21.3%.

Portfolio / provisions 2008-2015



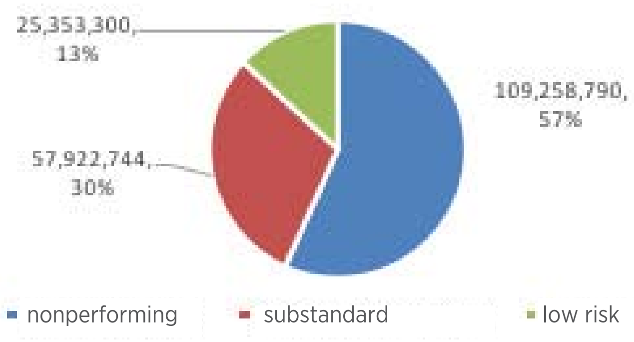
The provisions for loan losses on 31/12/2015 were €6,295,636. Compared to the end of 2014, they rose by €1,055,864, or 20.15%.

Trends in provisions according to an internal model in 2015

MODEL	Mar 15	June 15	Sep 15	Dec 15
Reservations	5.778.097	5.659.276	6.767.694	6.295.636
Portfolio	168.770.768	191.904.725	184.267.331	192.534.834
	3,42%	2,95%	3,67%	3,27%

Out of the total loan portfolio of the Bank, 57% is made by quality assets (A and B1), 30% is substandard assets (B2) and 13% are NPLs (C, D and E rating grades).

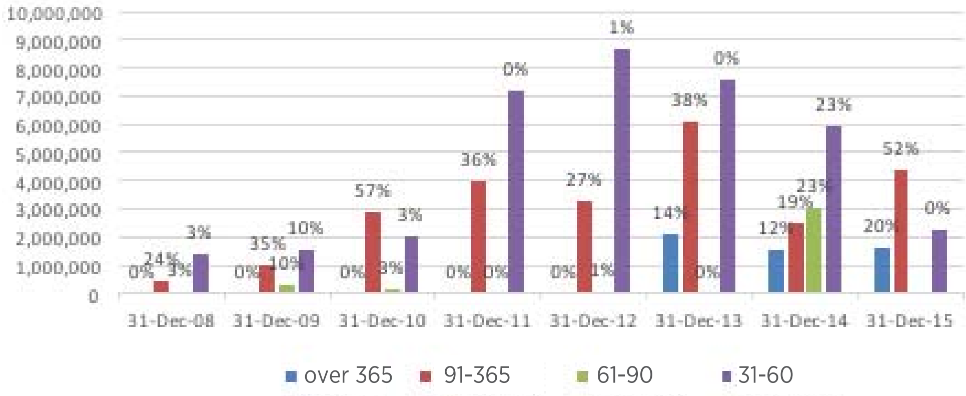
Assets by quality – Dec 15



NPLs in arrears over 30 days amounted to €8,306,528, or 4.31% of Bank's total portfolio on 31/12/2015.

NPLs in arrears over 90 days amounted to €6,002,202, or 3.12% of Bank portfolio on 31/12/2015, while on 31/12/2014 they were €4,050,361, or 2.76% of Bank's overall portfolio.

Claims by arrears class / total loans



SECURITIES – within credit risk

The Bank's banking book was composed of equity based and debt based financial instruments on 31 Dec 2015. In December, all the positions in the banking book were within the limits set by law and bank internal rules. The total value of securities owned by Bank as of 31/12/2015 was € 71.069, of which securities available for sale made € 67.357 million, and € 3.712 million were securities kept to maturity.

MARKET RISK

In market risk, the Bank analyses the following: interest rate risk, currency risk and position risk.

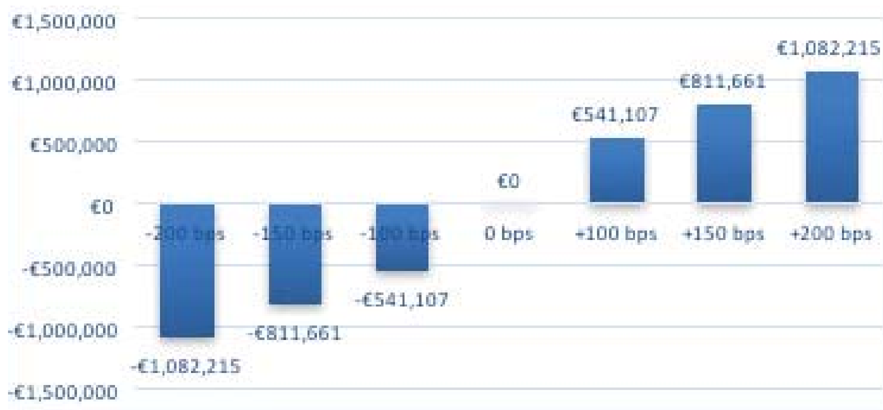
INTEREST RATE RISK

The interest rate risk is analysed from two complementary perspectives: impact on economic value of Bank capital as well as on net revenues from interest.

The impact of banking book interest risk on Bank's economic value was analysed using "duration gap". The purpose of this method is to show the potential change in values of Bank's future active and passive cash flows vulnerable to interest risk, their difference being the "economic value of Bank's capital" (EVE). Unlike interest gap that measures the impact of interest risk on net interest revenue taking into account active and passive cash flows up to one year, the duration gap takes into account all cash flows.

If interest rates increase by 200 bps, the EVE of EUR 50.095 million as of 31/12/2015 would drop by EUR 1.082 million or 2.16%. The calculated amount of the duration gap (or "risk weighted positions of banking book") was 3.40% of Bank's own funds on 31 Dec 2014, which is within the legal requirement of 20%.

Change of EVE for different changes in interest rates



CURRENCY RISK

Currency risk has no significant impact on Bank's overall risk profile.

Foreign currency position – 31 Dec 2015 (converted into EUR)

Equity					€31.481.000
Currency	**Assets**	**Liabilities**	**Net position**	**Limit (% of equity)**	**Realised**
AUD	17.521	-16.263	1.258	15%	0%
CAD	1.124	-762	362	15%	0%
DKK	1.628	0	1.628	15%	0%
JPY	1	-1	0	15%	0%
KWD	0	0	0	15%	0%
NOK	26.611	-26.364	246	15%	0%
SEK	11.311	-8.832	2.479	15%	0%
CHF	1.262.857	-1.299.377	-36.520	15%	0%
GBP	520.036	-458.794	61.242	15%	0%
USD	12.481.768	-12.959.605	-477.838	15%	1,52%
	14.322.856	**-14.769.999**	**-447.142**	**20%**	**1,42%**

OPERATIONAL RISK

Operational risk management is regulated by Bank's internal rules and CGCG rules. The Bank identifies on a monthly basis the events created due to operational risk exposures. The Board of Directors makes quarterly reports on identified risks, accrued losses, as well as the measures that need to be taken to resolve the problems identified.

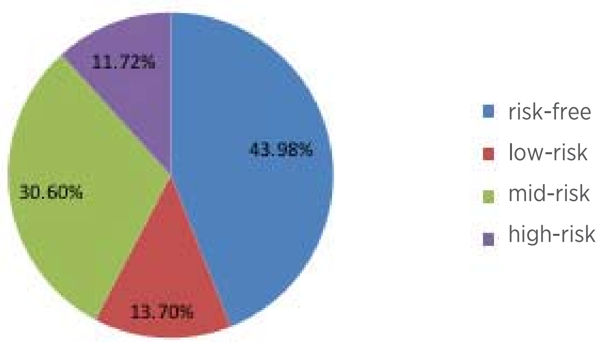
COUNTRY RISK

The policy of country risk management is designed in compliance with the legislative framework, CBCG implementing regulations, and Bank internal rules (Procedures and Country Risk Management Policy). Internal rules define the following:

- allowed country risk exposure limits, by individual countries and cumulatively
- periodic review of country risk management adequacy
- method of identification, measurement, monitoring and controlling of country risk
- authority and responsibility of persons associated to country risk ownership and management
- obligations relating to periodic review of Bank's exposure to country risk
- classification of assets exposed to country risk and criteria for country rating

The graph below shows that 44% of Bank exposure refers to the exposure to countries classified as risk-free or low-risk countries, 14% to low-risk countries, 31% to mid-risk, and only 12% to high-risk countries, which indicates that the Bank is good at country risk management.

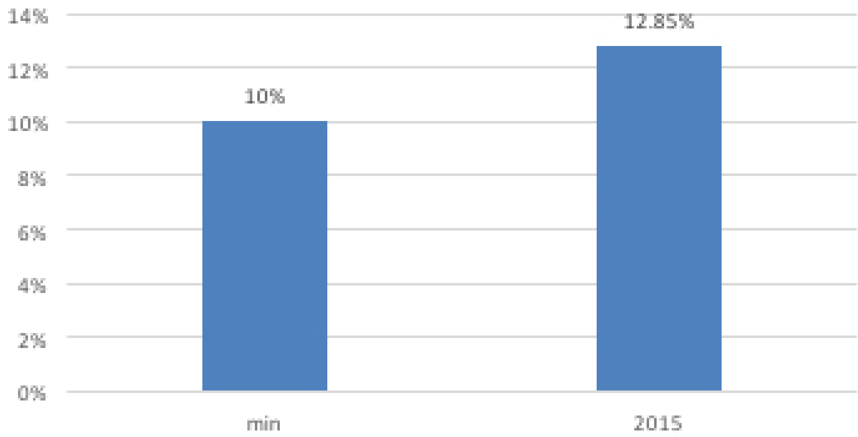
Country risk



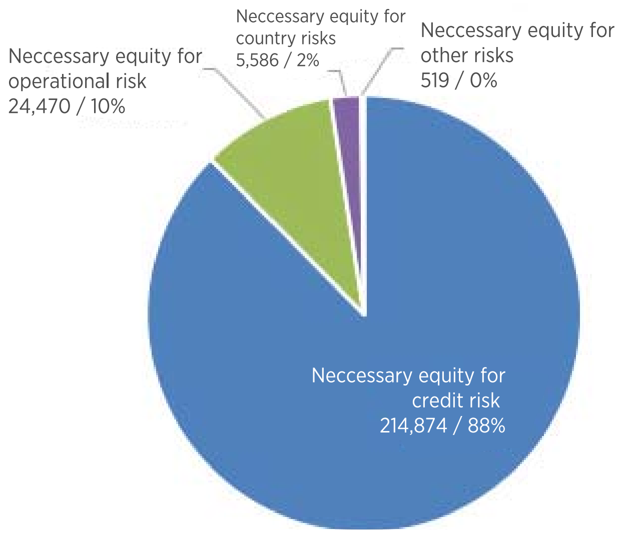
SOLVENCY RATIO

On 31/12/2015, solvency ratio was above the statutory limit (10%), and amounted to 12.85%. Solvency ratio is the most important indicator of confidence in the Bank and serves as a protector of Bank's depositors, creditors, and business partners.

Solvency ratio for 2015



Structure of equity required to cover all the risks



EQUITY

The Bank's total equity was EUR 34.405 million on 31/12/2015. Equity increased by 8.77% over the year before. On 31 Dec 2015, the nominal value of shareholders' equity was EUR 16.006 million. Shareholders' equity consists of 31,305 shares, EUR 511.29 nominal value each. Corporate and retail clients account for 77% of Bank's ownership structure.

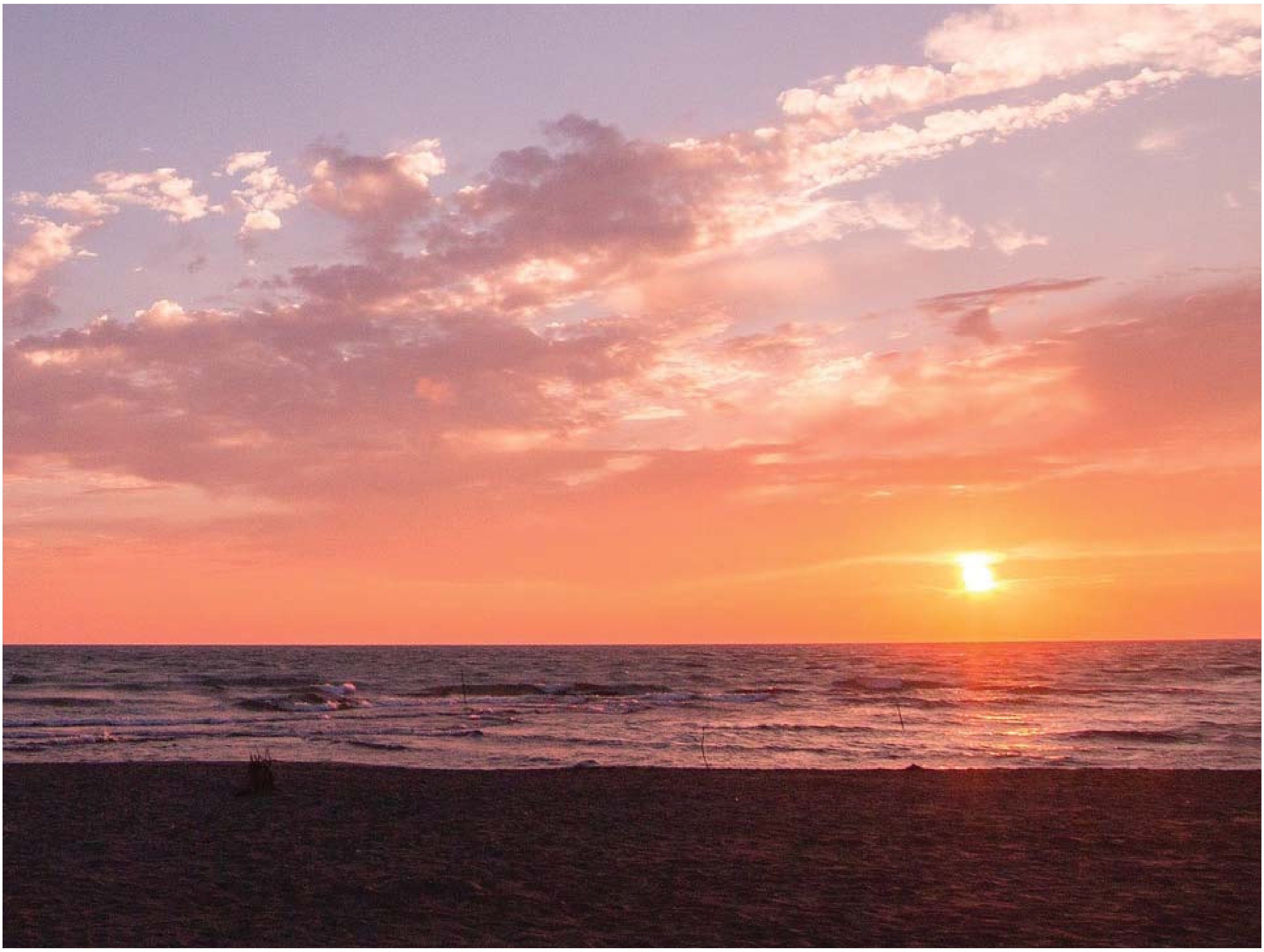
PROFIT AND LOSS ACCOUNT

In 2015, the Bank earned a profit of EUR 2.729 million. Interest income rose by 20.54% over the previous year and amounted to EUR17,337 million, which came as a result of increased loan activity and larger investment into securities. Fee revenues rose by 28.77% over the previous year and amounted to EUR 9.237 million. Net fee revenues accounted for 41.19% of Bank's total net operating income.

Other revenues rose by 25.11% over the previous year and amounted to EUR 1.258 million.

Operating expenses, including depreciation, were EUR 11,600 million and rose by 9.30% over the previous year.

The rise in operating expenses results from the expansion of network, new recruitments, as well as an increase in other expenses relating to Bank's growth and development. The assessment of credit risk, making provisions for risky loans and Bank's potential liabilities are based on the application of the principles of conservative policy and implementation of applicable regulations. Total allocated reserves for assets and liabilities amounted to EUR 9.735 on 31 Dec 2015.



3 FINANCIAL STATEMENTS AS OF 31 DEC 2014 AND THE REPORT OF EXTERNAL AUDITOR

HIPOTEKARNA BANKA AD, PODGORICA

FINANCIAL STATEMENTS

DECEMBER 31, 2015

CONTENTS

Building a better working world

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

Tel: +382 20 238 477
Fax: +382 20 238 476
ey.com

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

INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Podgorica, 31 May 2016

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

DRUŠTVO ZA REVIZIJU
ERNST & YOUNG MONTENEGRO DOO
PODGORICA

Stephen Fish
Partner

Danijela Jović
Danijela Jović
Authorized auditor

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

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

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

Notes form an integral part of these financial statements

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

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

Esad Zaimović
Chief Executive Officer

Aleksandar Mitrović
Executive Director for Business Support

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

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

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Chief Executive Officer

Aleksandar Mitrović
Executive Director for Business Support

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

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

Notes form an integral part of these financial statements

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

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

Notes form an integral part of these financial statements

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

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

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

1. BANK'S FOUNDATION AND ACTIVITY

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

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

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

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

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

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis for Preparation and Presentation of the Financial Statements

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

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

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

The Bank's financial statements have been prepared in accordance with the Decision on Chart of Accounts for Banks, Microcredit Financial Institutions and Credit Unions adopted by the Central Bank of Montenegro on October 23, 2012. Therefore, all banks and micro-credit institutions are obligated to prepare financial statements in accordance with this Decision since January 1, 2013. Also, the Decision of the Council of the Central Bank of Montenegro (Official Gazette of Montenegro no. 15/12, 18/13) prescribes the content of financial statements of banks as well as the method of preparation and deadlines for submission of financial statements. In addition to the presentation of financial statements, for the preparation of these financial statements, the Bank has adopted policies that are in line with regulations of the Central Bank of Montenegro in recording of receivables for which there are acquired conditions for exclusion from the balance sheet, which differ from the requirements of IFRS and IAS applicable on the day December 31, 2015.

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

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

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

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

2.2. Use of Estimates

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

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

(a) 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.

(b) 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.

(c) 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.

(d) Long term employee provision

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

(e) 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.

(f) 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.

2.3. Going concern

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

2.4 Consolidation

The Bank has no control over any entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest, Fee and Commission Income and Expense Recognition

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

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

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

3.2. Operating lease expense

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

3.3. Foreign Exchange Translation

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

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

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-forsale 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.

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

Objective evidence of impairment may be:

- Large financial problems including bankruptcy of the debtor;
- Restructuring of loans (significant changes in conditions, reduction of interest rates, partial grace periods (freezing and pay only the interest) necessary because of credit (financial) ability (not due to market factors or technical changes);
- Impairment coverage, for example. due to lower collateral values (especially in the case of project financing) in the event of a shortage of existing cash flows;
- Protest of guarantee (if the guarantee is withdrawn by a third party that is an indicator of impairment) or a high likelihood of a protest (decreases) guarantee in the near future;
- Lack of cooperation by the customer in the event of proven problems with repayment of debts;
- Lack of regular monthly income (especially important for the segment of natural persons);

- The evident decline in turnover due to reduced business activity for companies;
- Transfer group of related persons in the Department for managing risk assets;
- In the event of material changes in loan impairment (significant changes in the results of the debtor, the value of collateral, other important changes that may affect the extent of security).

Collective Impairment Assessment

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

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

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

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

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

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

As a hedge against credit risk exposure, in addition to the regular monitoring of the borrower's business operations, the Bank obtains security instruments (collaterals) to securitize the collection of receivables and minimize credit risk. Depending on the estimated possibilities for settlement of the contractual liabilities, the Bank defines the extent of the securitization of the loan, so that, in the event of the borrower's default, the Bank could actually collect its receivables through collateral foreclosure. Then 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, 2015	
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 then 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 disposaloccurred.

Depreciation/amortization is calculated on a straight-line basis applying the following depreciation andamortization rates to the cost of business premises and equipment in order to write them off over theirexpected 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 ncludes 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

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

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

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

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

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

4.2. Credit Risk

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

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

4.2.1. Credit Risk Management

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

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

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

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

Commitments and Contingent Liabilities

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

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

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

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

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

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

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

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

	2015	2013
Balance sheet items		
Loans and receivables due from banks	22,710	51,692
Loans and receivables due from clients	186,239	120,275
Interest and other receivables	2,044	1,065
Factoring	6	1,394
Securities available for sale	62,447	6,789
Securities held to maturity	3,719	10,842
	277,165	**192,057**
Off balance sheet items		
Payment guarantees	44,706	34,372
Performance guarantees	8,736	5,975
Unsecured letters of credit	1,087	827
Undrawn loan facilities	13,080	8,265
	67,609	**49,439**
Total credit risk exposure	**344,774**	**241,496**

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

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

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

Types of collaterals are as follows:

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

4.2.4. Loans and Placements

Loans and advances are presented in the following tables:

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

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

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

4.2.4. Loans and Placements (Continued)

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

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

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

b) Fair Value of Collaterals

	December 31, 2015	December 31, 2014
Deposits	22,874	21,690
Pledge liens	49,601	50,084
Mortgages and fiduciaries	303,069	303,549
Insurance policies	387	404
Guarantees	11,354	9,008
Total	**387,285**	**384,735**

Past due but not individually impaired	December 31, 2015	December 31, 2014
Deposits	22,078	21,514
Pledge liens	34,171	44,538
Mortgages and fiduciaries	236,921	227,054
Insurance policies	386	404
Guarantees	11,354	9,008
Total	**304,910**	**302,518**

Individually impaired	December 31, 2015	December 31, 2014
Deposits	796	176
Pledge liens	15,430	5,546
Mortgages and fiduciaries	66,148	76,495
Insurance policies	1	-
Guarantees	-	-
Total	**82,375**	**82,217**

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

c) Restructured Loans and Placements

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

a. extended the principal and interest maturity,
b. replaced the existing loan with a new one,
c. took over the receivables of the debtor against a third party on behalf of the full or
d. partial loan repayment
e. reduce the amount of debt principal and interest
f. decreased the interest rate on the loan approved and
g. 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 2015 the Bank restructured loans in the amount of EUR 23,113 thousand (2014: 11,865 EUR thousand).

d) Concentration per Geographic Regions

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

In thousand EURt

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

e) Concentration per Industry

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

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

4.2.5. Off-Balance Sheet Items

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

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

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

4.3. Market Risk

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

4.3.1. Currency Risk

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

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

EUR '000	USD	GBP	CHF	Other	Total
Assets in foreign currencies	12,482	520	1,263	58	14,323
Liabilities in foreign currencies	12,960	459	1,299	52	14,770
Net foreign exchange exposure:					
- December 31, 2015	**(478)**	**61**	**(36)**	**6**	**(447)**
- December 31, 2014	**(362)**	**1**	**(13)**	**2**	**(372)**
% of the core capital:					
- December 31, 2015	**-2%**	**-**	**-**	**-**	
- December 31, 2014	**-2%**	**-**	**-**	**-**	

Aggregate open position:	
- December 31, 2015	**(447)**
- December 31, 2014	**(372)**
% of the core capital:	
- December 31, 2015	**-2.08%**
- December 31, 2014	**-1,86%**

4.3.2. Operational risk

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

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

4.3.3. Interest Rate Risk

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

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

	Interest Bearing	Non-Interest Bearing	Total
ASSETS			
Cash balances and deposits with the Central Bank	4,605	120,178	124,783
Loans and advances to banks	-	22,710	22,710
Loans and advances to customers	188,252	37	188,289
Securities available for sale	59,927	6,108	66,035
Securities held to maturity	3,719	-	3,719
Total assets	**256,503**	**149,033**	**405,536**
LIABILITIES			
Deposits due to banks	3	689	692
Deposits due to customers	265,471	52,062	317,533
Borrowings from other customers	41,142	-	41,142
Subordinated debt	9,952	-	9,952
Total liabilities	**316,568**	**52,751**	**369,319**
Interest rate GAP:			
December 31, 2015	**(60,065)**	**96,282**	**36,217**
December 31, 2014	**(58,487)**	**91,090**	**32,603**

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

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

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

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

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

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

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

Deposit type	Interest rate %
Demand deposits	
Savings demand deposits	
- EUR	0.01
- other currencies	-
Term deposits in EUR placed:	
- for a month	0.01 - 3.3
- for 3 months	0.01 - 3.2
- for 6 months	1.5 - 3.4
- for 12 months	0.01 - 3.75
- for 24 months	2.6 - 4
- for 36 months	0.6 - 4.25
Term deposits in foreign currencies (USD):	
- for 3 months	0.05
- for 6 months	0.1
- for 12 months	0 - 1.5

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

Cumulative GAP:					
- December 31, 2015	**(46,317)**	**(49,398)**	**(55,101)**	**(74,139)**	**(60,065)**
- December 31, 2014	**(42,225)**	**(45,192)**	**(48,240)**	**(55,783)**	**(58,487)**

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

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

Securities AFS - fixed rate	Amount	Changes in interest rate	Weighted average b.p.	Changes in EUR	Mark
Short-term	12,244	50 b.p.	50	61	+/-
Mid-term	-	100 b.p.	-	-	+/-
Long-term	-	200 b.p.	-	-	+/-
Total	**12,244**		**50**	**61**	**+/-**

4.4. Liquidity Risk

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

4.4.1. Liquidity Risk Management

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

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

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

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

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

In thousand EUR

	Up to a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Financial assets							
Cash balances and deposits with the Central Bank	124,783	-	-	-	-	-	124,783
Loans and advances to banks	21,758	952	-	-	-	-	22,710
Loans and advances to Customers	20,033	24,853	15,064	33,337	62,804	32,198	188,289
Securities held to maturity	64,225	131	1,027	275	377	-	66,035
Securities available for sale	6	-	3,500	-	213	-	3,719
Total	**230,805**	**25,936**	**19,591**	**33,612**	**63,394**	**32,198**	**405,536**

Financial liabilities							
Deposits due to banks	692	-	-	-	-	-	692
Deposits due to customers	173,518	28,320	25,343	51,856	36,128	2,368	317,533
Borrowings from customers	5,011	-	238	1,478	7,504	26,911	41,142
Subordinated debt	(48)	-	-	-	-	10,000	9,952
Total	**179,173**	**28,320**	**25,581**	**53,334**	**43,632**	**39,279**	**369,319**
Maturity GAP							
- December 31, 2015	**51,632**	**(2,384)**	**(5,990)**	**(19,722)**	**19,762**	**(7,081)**	**36,217**
- December 31, 2014	**47,965**	**(2,967)**	**(2,193)**	**(7,498)**	**4,904**	**(7,608)**	**32,603**
Cumulative GAP:							
- December 31, 2015	**51,632**	**49,248**	**43,258**	**23,536**	**43,298**	**36,217**	
- December 31, 2014	**47,965**	**44,998**	**42,805**	**35,307**	**40,211**	**32,603**	
% of total funds:							
- December 31, 2015	**12.73%**	**-0.59%**	**-1.48%**	**-4.86%**	**4.87%**	**-1.75%**	
- December 31, 2014	**16.65%**	**-1.03%**	**-0.76%**	**-2.60%**	**1.70%**	**-2.64%**	

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

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

	Demand	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2015							
Liabilities							
Deposits due to banks	692	-	-	-	-	-	**692**
Deposits due to customers	167,150	6,368	28,320	77,199	36,128	2,368	**317,533**
Borrowings from other customers	-	5,011	-	1,716	7,504	26,911	**41,142**
Subordinated debt	-	(48)	-	-	-	10,000	**9,952**
	167,842	**11,331**	**28,320**	**78,915**	**43,632**	**39,279**	**369,319**

	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**

4.5. Fair Value of financial assets and liabilities

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

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

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

a) Loans and Advances to Banks

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

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

b) Loans and Advances to Customers

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

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

c) Available-for-Sale Securities

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

d) Deposits and Borrowings

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

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

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

e) Fair Value Hierarchy

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

» Level 1 - Listed value (non-adjusted) in active markets for identical assets or liabilities. This level includes listed equity securities.

» Level 2 – Amounts other then quoted included in Level 1, which are available and refer to given asset or liability, either directly (ie. in the form of price / value) or indirectly (in the form of conclusions based on price / value)

» Level 3 - entries for assets and liabilities that are not based on available market data. This level includes investments in the capital market under the assumptions of the Bank (no data are available).

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

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

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

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

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

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

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

4.6. Capital Risk Management

The Bank's capital management objectives are:

» to comply with the capital requirements set by the regulator;
» to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns to shareholders and ensure benefits for other

» stakeholders; and to maintain a strong capital base to support further growth of its business.

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

The Bank own funds are comprised of:

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

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

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

4.7. Sensitivity analysis

4.7.1 Sensitivity analysis (foreign currency risk)

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

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

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

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

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

In thousands of EUR

Net effect of changes in interest rates

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

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

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

5. INTEREST INCOME AND EXPENSES

a) Interest Income and similar income

In thousands EUR	2015	2014
Deposits with:		
- foreign banks	91	4
- Central Bank	-	1
	91	**47**

Loans approved to:		
- state institutions	569	570
- Government of Montenegro	-	31
- corporate customers	10,013	8,429
- retail customers	4,902	4,110
	15,484	**13,140**
Securities:		
Securities held to maturity	116	232
Securities available for sale	1,661	886
	1,777	**1,118**
Total interest income	**17,352**	**14,305**
Impairment allowances of interest receivables	(15)	78
	17,337	**14,383**

b) Interest Expenses

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

6. IMPAIRMENT LOSSES AND PROVISIONS

a) Impairment losses

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

b) Provision expenses

In thousand EUR	2015	2014
Net increase in provisions/(reversal of provision) in respect of:		
- off-balance sheet items	554	(384)
- other	3	5
	557	**(379)**

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

Year 2015 — *In thousand EUR*

	Loans and leases (Note 16)	Interest (Note16)	Repossessed assets (Note21)	Provisions for Operational Risk and Country Risk (Note 25)	Other receivables	Provisions for Off- Balance Sheet Items (Note 25)	Impairment of AFS securities (Note 17a)	Total
Balance at the begining of the year	5,239	50	495	312	140	290	-	6,526
Impairment during the year	1,798	-	-	3	151	555	1,322	3,829
Reverse of provisions with no effect on IS	-	37	85	-	3	-	-	125
Transfer to Off- Balance sheet	(742)	(3)	-	-	-	-	-	(745)
Balance at the end of the year	**6,295**	**84**	**580**	**315**	**294**	**845**	**1,322**	**9,735**

Year 2014 — *In thousand EUR*

	Krediti i poslovi lizinga (napomena 16)	Kamate (napomena 16)	Stečena aktiva (napomena 21)	Rezerve za operativni rizik (napomena 25)	Ostala potraživanja	Rezervisanja na vanbilansnu evidenciju (napomena 25)	Obezvrjeđenje inv.HoV raspoloživih za prodaju (napomena 17a)	Ukupno
Balance at the begining of the year	4,660	66	342	307	134	674	6,183	6,526
Impairment during the year	1,510	-	-	5	64	(384)	1,195	3,829
Reverse of provisions with no effect on IS	-	(13)	153	-	(58)	-	82	125
Transfer to Off- Balance sheet	(931)	(3)	-	-	-	-	(934)	(745)
Balance at the end of the year	**5,239**	**50**	**495**	**312**	**140**	**290**	**6,526**	**9,735**

7. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and Commission Income

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

b) Fee and Commission Expenses

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

8. STAFF COSTS

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

9. GENERAL AND ADMINISTRATIVE EXPENSES

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

10. DEPRECIATION AND AMORTIZATION

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

11. OTHER EXPENSE

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

12. OTHER INCOME

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

13. INCOME TAXES

a) Components of Income Taxes

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

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

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

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

c) Deferred Tax Assets/Liabilities

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

14. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

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

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

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

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

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

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

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

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

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

Exceptionally, until December 31, 2016:

» The Bank can up to 25% of required reserves set aside and keep in the form of treasury bills issued by Montenegro.

» The fee prescribed the Central Bank pays to banks on the amount which is the difference between 50% of the total required reserves and the amount of funds that were allocated in the form of Treasury bills, but are maximum of 25% of the total funds required reserves. On the day of implementation of this decision by December 21, 2015, the Bank who had set aside and kept more than 25% of the required reserve in T-bills can continue to keep T-bills as part of the required reserves up to the date of their maturity. Banks that as at December 31, 2016 had set aside and held the required reserve in T-bills can continue to keep- T bills as part of the mandatory reserve until their due date, but not later than June 30, 2017.

15. LOANS AND RECEIVABLES DUE FROM BANKS

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

16. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

In thousand EUR	December 31, 2015	December 31, 2014
Due loans:		
- Government of Montenegro	-	
- municipalities (public organizations)	1,140	8
- privately-owned companies	7,117	5,396
- state owned companies	-	94
- retail customers	1,032	1,450
- others	3	4
Short-term loans:		
- Government of Montenegro	-	-
- municipalities (public organizations)	546	-
- privately-owned companies	42,443	33,063
- state owned companies	1,096	1,079
- retail customers	6,608	5,002
- others	14,836	1,342

Long-term loans:		
- Government of Montenegro	-	-
- municipalities (public organizations)	69	1,794
- privately-owned companies	65,626	53,992
- state owned companies	6,976	4,482
- retail customers	44,797	38,424
- others	246	796
	192,535	**146,926**
Interest receivables:		
- loans	1,537	1,373
Accruals:		
- interest on loans	235	62
- fees	(1,121)	(948)
Factoring	7	2,736
Deposits with other depositary institutions	1,473	1,090
Activated guarantees	9	42
	2,140	**4,355**
Less:		
Impairment allowance of loans, activated guarantees and factoring (note 6c)	(6,295)	(5,239)
Impairment allowance of interest receivables(note 6c)	(84)	(50)
Impairment allowance of accruals	(7)	(15)
Impairment allowance	(6,386)	(5,304)
	188,289	**145,977**

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

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

17. INVESTMENT SECURITIES

a) Securities Available for Sale

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

Allowance for Impairment t of equity securities available for sale (Note 6c)	(1,170)	-
	2,419	2,471
	66,035	26,560

Securities classified as available for sale amounting to EUR 40,435 thousand as of December 31, 2015, refer to public bonds issued by the Ministry of Finance of the Government of Montenegro, with nominal value of EUR 38,930 thousand, maturing from April 2016 to March 2020, with interest rate mostly amounting 3M EURIBOR+595bps.

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

b) Securities held to maturity

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

» Treasury bills by Government of Montenegro with face value of EUR 3,500 thousand and maturity of six months from the purchase date, with annual interest rate of 0.5%, and 2.

» Bonds of the Montenegro Labor Fund totaling EUR 213 thousand maturing as of July 27, 2017with the interest rate of 7%.

18. PROPERTY, PLANT AND EQUIPMENT

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

	Buildings	Computer equipment	Other equipment	Investments In progress	Total
Cost					
Balance as at January 1, 2014	197	1,068	2,929	151	4,345
Additions	-	81	81	723	885
Transfers	-	117	742	(859)	-
Sales and disposals	-	(37)	(181)	-	(218)
Balance as at Decembar 31. 2014	**197**	**1,229**	**3,571**	**15**	**5,012**
Additions	3	41	329	145	518
Transfers	90	22	12	(124)	-
Sales and disposals	-	(131)	(170)	-	(301)
Balance as at Decembar 31. 2015	**290**	**1,161**	**3,742**	**36**	**5,229**
Accumulated Depreciation					
Balance as at January 1, 2014	52	969	1,514	-	2,535
Depreciation (Note 10)	4	107	477	-	588

Sales and disposals	-	(36)	(107)	-	(143)
Balance as at December 31, 2014	**56**	**1,040**	**1,884**	**-**	**2,980**
Depreciation (Note 10)	6	106	512	-	624
Sales and disposals	-	(131)	(124)	-	(255)
Balance as at December 31, 2015	62	1,015	2,272	-	3,349
Net book value:					
- at December 31,2015	**228**	**146**	**1,470**	**36**	**1,880**
- at December 31,2014	**141**	**189**	**1,687**	**15**	**2,032**

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

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

19. INTANGIBLE ASSETS

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

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

- at December 31, 2015	**23**	**543**	**421**	**92**	**1,079**
- at December 31, 2014	**59**	**497**	**312**	**71**	**939**

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

20. OTHER FINANCIAL RECEIVABLES

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

21. OTHER OPERATING RECEIVABLES

U hiljadama EUR	December 31, 2015	December 31, 2014
Repossessed assets	597	518
Other operating receivables	346	278
Prepaid expenses	805	646
Impairment (Note 6c)	(581)	(505)

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

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

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

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

22. DEPOSITS DUE TO BANKS

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

23. DEPOSITS DUE TO CUSTOMERS

In thousand EUR	December 31, 2015	December 31, 2014
Demand deposits:		
- financial institutions	748	577
- privately-owned companies	69,427	37,900
- companies with majority state ownership	7,387	3,273
- municipalities (public organizations)	4,559	3,094
- funds	364	947
- retail customers	56,055	34,271
- non-profit organizations	4,247	2,020
- others	24,252	12,853
	167,039	**94,935**
Funds on the escrow account	**111**	**1,454**
Short-term deposits:		
- financial institutions	515	3,876
- privately-owned companies	10,571	14,178
- companies with majority state ownership	2,000	6,083
- municipalities (public organizations)	759	4,598
- funds	-	600
- retail customers	12,363	38,187
- non-profit organizations	102	129
- others	607	1,168
	26,917	**68,819**
Long-term deposits:		
- financial institutions	2,750	1,673

- privately-owned companies	19,009	9,810
- companies with majority state ownership	24,023	876
- municipalities (public organizations)	296	40
- funds	-	-
- retail customers	68,468	30,818
- non-profit organizations	2,177	498
- others	4,028	3,890
	120,751	**47,605**
Interest and other liabilities		
Accrued interest on deposits	**2,715**	**2,505**
	317,533	**215,318**

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

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

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

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

24. BORROWINGS FROM OTHER CUSTOMERS

In thousands of EUR	Period/ Year	Annual interest rate	December 31, 2015	December 31, 2014
European Investment Bank (2009)	12	4.032%	1,617	1,851
European Investment Bank (2009)	12	3.923%	904	1,035
European Investment Bank (2010)	12	3.604%	2,759	3,130
European Investment Bank (2010)	12	3.168%	1,472	1,657
European Investment Bank (2010)	12	3.019%	1,454	1,638
European Investment Bank (2011)	12	3.841%	2,433	2,708
European Investment Bank (2011)	12	3.181%	711	788
European Investment Bank (2012)	12	2.398%	1,745	1,916
			13,095	14,723
European Bank for Reconstruction and Development (2014, 2015)	4-7	3% - 4.8%	6,071	5,000

The European Fund for Southeast Europe („EFSE") Montenegro B.V. (2014, 2015)			-	1,250
Investment Development Fund Montenegro AD, Podgorica (2005 to 2015)	1.9-12	1% - 7.64%	21,489	7,964
Directorate for Development of Small and Medium Enterprises(2007 to 2010)	5-8	0% - 1%	422	521
			41,077	29,458
Accruals:				
Invoiced interest expense			-	-
Non-Due interest expense			65	216
Total			**41,142**	**29,674**

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

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

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

25. PROVISIONS

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

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

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

a) commutative numbers obtained from the calculated survivorship probability of the Montenegro population from the 1980 – 1982 census; and

b) annual interest rate of 8% for discounting future payments to the employees.

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

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

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

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

26. OTHER LIABILITIES

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

27. SUBORDINATED DEBT

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

28. CAPITAL

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

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

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

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

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

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

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

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

Pursuant to Decision on Capital Adequacy of Banks effective as of December 31, 2014 the Bank is required to maintain the minimum capital adequacy ratio of 10%. As of December 31, 2015 the Bank's capital adequacy ratio equaled 12,85% (December 31, 2014: 15.25%) and was above the prescribed minimum. As of December 31, 2014 all of the Bank's performance adequacy ratios were in compliance with the prescribed minimum values required by the regulations of the Central Bank of Montenegro.

30. OFF-BALANCE SHEET ITEMS

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

31. CASH AND CASH EQUIVALENTS

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

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

32. RELATED PARTY TRANSACTIONS

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

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

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

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

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

33. LITIGATION

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

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

34. EARNINGS PER SHARE

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

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

35. TAXATION RISKS

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

36. EVENTS AFTER THE REPORTING PERIOD

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

37. EXCHANGE RATES

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

In thousand EUR	December 31, 2015	December 31, 2014
USD	1.0926	1.216
CHF	1.0814	1.2028
GBP	0.73799	0.7823

38. GENERAL INFORMATION ON THE BANKI

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

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

The Bank has head office and 18 branches and offices.

Number of employees as at 31 December 2015 is 176.

Gyro account: 907-52001-93.

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

	Ime i prezime	Datum rođenja	Podaci o prebivalištu	
			Mjesto	Adresa (ulica i broj)
1. Presindent	Sigilfredo Montinari	27 May1966	Lecce, Italy	Via P. Cecere 3
2. Member	Božana Kovačević	20 December 1956	Koprivnica, Croatia	Ul. Vinodolska br. 51

3. Member	Dolly Predović	20 June 1966	Milano, Italy	Via Visconti di Modrone 1
4. Member	Miljan Todorović	22 May 1964	Trieste, Italy	Salita Alla Madonna di Gretta 2/5
5. Member	Renata Vinković	19 September 1971	Koprivnica, Croatia	Križevačka 31b
6. Member	Goran Varat	03 January 1977	Zaprešić, Croatia	Grada Kaštela br.8
7. Member	Esad Zaimović	17 March 1964	Podgorica	Bul. Džordža Vašingtona br.92/VII

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

	Name, Last name / Company name	Date of birth	Residence / Registered address	
			Place	Street, number
Chief Executive Director	Esad Zaimović	17 March 1964	Podgorica	Bul. Džordža Vašingtona br.92/VII
Executive Director authorised for signing	Esad Zaimović	17 March 1964	Podgorica	Bul. Džordža Vašingtona br.92/VII

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

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

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

Share issues and share issue designations:

Share issue designation	Share par value	Share count
2nd share issue	100,000 RSD	200
2nd share issue	10,000 RSD	1,000
3rd share issue	1,000 USD	1,200
3rd share issue	1,000 USD	300
4th share issue	1,000 novih RSD	900

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

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

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

Share prices when traded on the stock exchange:

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

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

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

Net profit per share:

In the previous year	**78.39**
In the current year	**87.13**

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

In the previous year	**6.63**
In the current year	**4.58**

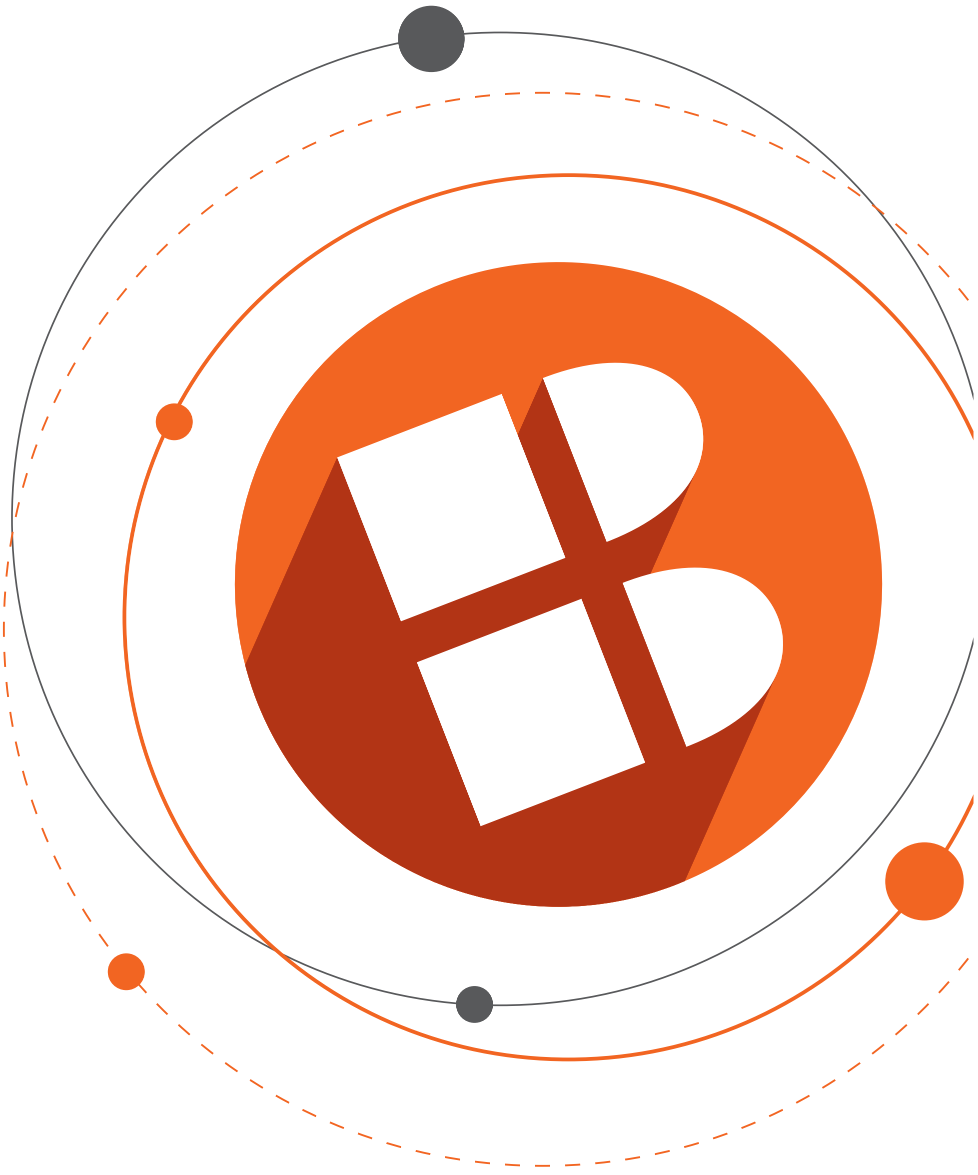
Carrying value per share:

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

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

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

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



4 BANK PROFILE

BANK’S MANAGEMENT AND ORGANISATION CHART

BOARD OF DIRECTORS	Sigilfredo Montinari, Chairman Božana Kovačević, Deputy Chairman Dolly Predović, Member Miljan Todorović, Member Renata Vinković, Member Goran Varat, Member Esad Zaimović, Member
AUDIT COMMITTEE	Draško Popović, Chairman Božana Kovačević, Member Marko Žigmund, Member
CREDIT RISK MANAGEMENT COMMITTEE	Renata Vinković, Chairman Sigilfredo Montinari, Member Esad Zaimović, Member
EXECUTIVE OFFICERS	Esad Zaimović, Chief Executive Officer Aleksandar Mitrović, Executive Officer for Business Support Operations
CHIEF INTERNAL AUDITOR	Veselin Ivanović
AUTHORISED COMPLIANCE OFFICER	Slavko Rakočević
AUTHORISED AML AND TERRORIST FINANCE OFFICER	Mirjana Jovanović
HEAD OF IT SECURITY	Haris Dizdarević
SECTORS	Ana Golubović, Director of Corporate Sector Nikola Špadijer, Director of Retail Sector Jelena Vuletić, Director of Credit Risk Management Sector Nikola Milović, Director of Support and Organisation Sector Nataša Lakić, Director of Payment Operations and Asset Management Support

BRANCH NETWORK

HIPOTEKARNA BANK HEAD OFFICE

Address: Ul. Josipa Broza Tita br. 67
Tel: +382 19905
E-mail: ekspozitura.centrala@hb.co.me

BRANCHES

Podgorica Branch
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