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T R A N S L A T I O N

TO THE SHAREHOLDERS

HIPOTEKARNA BANKA AD, PODGORICA

Independent Auditor's Report

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and true and objective presentation of these financial statements in accordance with the applicable legislation that regulates financial reporting of banks in Montenegro, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the applicable legislation that regulates audit of financial statements in Montenegro. This legislation which regulates accounting and auditing require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and objective 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 principles 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 opinion.

Opinion

In our opinion, financial statements present truly and objectively financial position of the Bank as at 31 December 2016, financial performance and cash flows for the year then ended in accordance with the applicable legislation that regulates financial reporting of banks in Montenegro.

Other Matter

The Bank's financial statements as at and for the year ended 31 December 2015 were audited by another auditor who on 31 May 2016 issued an unqualified opinion on these financial statements.

Podgorica, 31 May 2017

KPMG d.o.o. Podgorica

(L.S.)

Branko Vojnović
Certified Auditor

This is a translation of the original Independent Auditors' Report issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail. We assume no responsibility for the correctness of the English translation of the Bank's financial statements.

Podgorica, 31 May 2017

KPMG d.o.o. Podgorica

(L.S.)

Branko Vojnović
Certified Auditor

HIPOTEKARNA BANKA A.D., PODGORICA

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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INCOME STATEMENT for the year ended December 31, 2016
(Thousands of EUR)

	Note	2016	2015
Interest income	3.1., 5a	17,704	17,337
Interest expense	3.1., 5b	(5,316)	(5,647)
Net interest income		**12,388**	**11,690**
Dividend income		71	36
Impairment losses	3.7., 6a	(2,811)	(3,272)
Provision charges	3.12., 6b	(670)	(557)
Fee and commission income	3.1., 7a	10,644	9,237
Fee and commission expense	3.1., 7b	(4,463)	(3,730)
Net fee and commission income		**6,181**	**5,507**
Net gains on investment securities		203	172
Foreign exchange gains, net		775	630
Staff costs	3.10., 8	(4,622)	(4,601)
General and administrative expenses	9	(7,008)	(6,068)
Depreciation/amortization charge	3.8., 10	(849)	(811)
Other expenses	11	(218)	(120)
Other income	12	545	420
OPERATING PROFIT		**3,985**	**3,026**
Income taxes	3.4., 13	(361)	(297)
PROFIT FOR THE YEAR		**3,624**	**2,729**
Earnings per share / in EUR	34	116	87

Notes are an integral part of these financial statements

These financial statements were approved by the management of Hipotekarna banka A.D., Podgorica, in Podgorica, as at May 25, 2017.

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

BALANCE SHEET as of December 31, 2016
(Thousands of EUR)

	Note	December 31, 2016	December 31, 2015
ASSETS			
Cash and deposit accounts held with central banks	3.6., 14	99,455	124,783
Loans and receivables from banks	3.5.1., 15	15,481	22,710
Loans and receivables from customers	3.5.1., 16	216,049	188,289
Investment securities			
- available for sale	3.5.1., 17a	75,809	66,035
- held to maturity	3.5.1., 17b	16,785	3,719
Investments in associates and joint ventures at equity method		8	8
Property, plant and equipment	3.8., 18	1,501	1,880
Intangible assets	3.8., 19	1,498	1,079
Current tax assets		48	-
Deferred tax assets	3.4., 13c	33	25
Other financial receivables	20	842	780
Other operating receivables	21	1,281	1,167
TOTAL ASSETS		**428,790**	**410,475**
LIABILITIES			
Deposits due to banks	22	303	692
Deposits due to customers	23	333,350	317,533
Borrowings from other customers	3.13., 24	35,331	41,142
Provisions	3.12., 25	2,004	1,294
Current tax liabilities		389	294
Deferred tax liabilities	3.4., 13c	114	33
Other liabilities	26	8,490	5,130
Subordinated debt	3.14., 27	9,967	9,952
TOTAL LIABILITIES		**389,948**	**376,070**
EQUITY			
Share capital	3.9., 28	16,006	16,006
Share issue premium		7,444	7,444
Retained earnings		5,462	2,729
Other reserves		9,930	8,226
TOTAL EQUITY		**38,842**	**34,405**
TOTAL EQUITY AND LIABILITIES		**428,790**	**410,475**
OFF-BALANCE SHEET ITEMS	30	**542,974**	**550,355**

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Aleksandar Mitrović
Executive Director for Business Support

STATEMENT OF CHANGES IN EQUITY for the year ended December 31, 2016
(Thousands of EUR)

	Share Capital	Share Issue Premium	Retained earnings	Other Reserves	Total
Balance at January 1, 2015	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**
Effects of fair value adjustment of available-for sale securities	-	-	-	813	**813**
Transfer of profit	-	-	(891)	891	
Profit for the year	-	-	3,624	-	**3,624**
Balance at December 31, 2016	**16,006**	**7,444**	**5,462**	**9,930**	**38,842**

Notes are an integral part of these financial statements

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STATEMENT OF CASH FLOWS for the year ended December 31, 2016
(Thousands of EUR)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from interest and similar income	17,878	17,173
Outflows from interest and similar expenses	(4,768)	(5,133)
Inflows from fee and commission	10,644	9,237
Outflows from fees and commissions	(4,463)	(3,730)
Cash paid to employees and suppliers	(13,579)	(13,158)
Increases in loans and other assets	(27,977)	(42,730)
Inflows from deposits and other liabilities	18,149	102,233
Income taxes paid	(845)	(921)
Other inflows	(8,644)	(34,417)
Net cash (outflow)/inflow from operating activities	**(13,605)**	**28,554**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(449)	(522)
Purchase of intangible assets	(689)	(345)
Treasury bills	(12,820)	(3,117)
Inflows from sales of tangible and fixed assets	127	40
Net cash (outflow) from investing activities	**(13,831)**	**(3,944)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in borrowings	(5,837)	11,619
Net cash inflow from financing activities	**(5,837)**	**11,619**
Effect of foreign exchange in cash and cash equivalents	775	630
Net increase/(decrease) in cash and cash equivalents	(32,498)	36,859
Cash and cash equivalents at the beginning of the year	148,966	112,107
Cash and cash equivalents at the end of the year (Note 31)	**116,468**	**148,966**

Notes are an integral part of these financial statements

These financial statements were approved by the management of Hipotekarna banka A.D., Podgorica, in Podgorica, as at May 25, 2017.

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

Esad Zaimović	Aleksandar Mitrović
Chief Executive Officer	Executive Director for Business Support

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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). As at 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 activities of reception of cash deposits and approval of loans for its own account. In addition, the Bank is also registered to perform the following activities:

- issuance of guarantees and undertaking of other off-balance sheet commitments;
- the purchase, sale and collection of receivables (factoring, forfeiting and other);
- issuance, processing and recording of payment instruments;
- perform payment transactions in the country and abroad in accordance with the regulations governing payment transfer;
- financial leasing;
- engage in operations involving securities in accordance with the relevant regulations;
- trading in its own name and for its own account or on behalf of the 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;
- rental of safe deposit boxes;
- perform other ancillary operations and activities related to the Bank's core operations in accordance with the Articles of Incorporation;
- 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 5 (five) members, most of whom are not employees of the Bank.

The Bank is headquartered is located in Podgorica, at no. 67, Josipa Broza Tita Street. As at December 31 2016, the Bank had 169 employees (December 31, 2015: 176 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 (Official Gazette of Montenegro no. 052/16,) the Law on Banks (Official Gazette of Montenegro no. 17/08, 44/10 and 40/11) and other laws governing financial reporting of the banks.

In accordance with local regulation, International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) published by the (International Accounting Standards Board) IASB, have to 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 those translated in 2009 (excluding IFRS 7) and new adeptly IFRS 10, 11, 12, and 13 which are applicable from 2013.

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

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

The last official translation of International Accounting Standards and International Financial Reporting Standards has been published as at December 31, 2009. The translation includes only the base text of the standards and interpretations and does not include basis for conclusion, illustrative examples, and 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, 2016.

Bearing in mind the effects that differences of accounting regulations of Montenegro from IAS and IFRS 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 convention, unless otherwise is stated in the accounting policies.

For preparation of these financial statements Bank applied the accounting policies described in Note 3. The adopted accounting polices used in preparation of the financial statements are consistent with accounting polices applied in previous financial year.

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

2.2. Use of Estimates

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

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

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

2.2. Use of Estimates (Continued)

2.2.1 Impairment of financial assets

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

2.2.2 Impairment of securities available for sale

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

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

In the case of available for sale investments in equity instruments, objective evidence is considered as “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.

2.2.3 Fair value of financial instruments

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

2.2.4 Long term employee provision

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

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

2.2. Use of Estimates (Continued)

2.2.5 Useful life of intangible assets and PP&E

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

2.2.6 Litigations

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 61/13 and 055/16) 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.

Taxes, Contributions and Other Duties Payable

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 short 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 or services to the clients, without intention to trade with such receivables. Loans and receivables includes loans and receivables due to banks and loans and receivables due to clients.

(c) Available-for-sale financial assets

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

(d) Held to maturity financial assets

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

3.5.2 Measurement and Recognition

Financial assets are initially recognized at fair value plus transaction costs, except in the case of financial assets presented in fair value, whose changes in fair value are presented in income statement.

Financial assets measured at fair value whose effects in change of fair value are presented through profit or loss are initially recognized at fair value. Transaction costs are recognized as expenses in the Profit and loss statement.

Financial assets available for sale and financial assets at fair value through profit and loss 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Financial assets (Continued)

3.5.2 Measurement and Recognition (Continued)

Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in Equity 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. Unrealized 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 changes 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.

Individual assessmet is performed for all borrowers/loans who are meeting the following criteria:

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;
4. total gross exposure to a single party or a group of related parties that is greater or equal to EUR 1,000,000 and classification group C, D,E in accordance with regulations of the Central Bank of Montenegro
5. total gross exposure to a single party or a group of related parties that is greater or equal to EUR 1,000,000 and classified group A and B in accordance with regulations of the Central Bank of Montenegro and Methodology of impairment and probable losses bucket 2 and 3.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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:

- Huge 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 favour 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.

All amounts expressed in thousands of EUR, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Collective Impairment Assessment (Continued)

Properties, goods, equipment and other movables which are subject to pledge liens must be insured by an insurance company acceptable to the Bank, and insurance policies must be endorsed in favour 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

3.8. Property, Plant, Equipment and Intangible Assets

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Property, Equipment and Intangible Assets (Continued)

Intangible Assets

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

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

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

3.9. The Bank's Equity

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

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

3.10. Employee benefits

Taxes and Contributions for Social Security of Employees

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

Retirement Benefits or Other Long-Term Employee Benefits

In accordance with the Report of the Actuary, the Bank has calculated obligation 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Fair Value

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

3.13. Borrowings

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

3.14. Issued Debt Securities

Issued Debt Securities are initially recognized at fair value less transaction costs that are directly attributable to their issuance. 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 analyse 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, and compliance with procedures for managing risks and prescribed limits, 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. Also Bank applies internationally approved standards, follows changes in regulation and analyses impact of the risk in order to timely align its operations with the regulations. 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. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk

In its operations, the Bank seeks to do business with customers of good financial position, 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 as at 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 collaterals 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.

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

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

As at 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 are impaired in accordance with IAS 39. Objective evidence that there has been a decrease in the value of a financial asset or group of financial assets includes information that the holder of the asset can be observed on the following loss events such as:

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

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

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

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

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

Maximal credit risk exposure is given as follows:

	2016	2015
Balance sheet items		
Loans and receivables from banks	15,481	22,710
Loans and receivables from clients	216,049	188,289
Securities available for sale	71,717	63,616
Securities held to maturity	16,785	3,719
	320,032	**278,334**
Off balance sheet items		
Payment guarantees	51,177	44,706
Performance guarantees	15,356	8,736
Unsecured letters of credit	1,050	1,087
Undrawn loan facilities	22,707	13,080
	90,290	**67,609**
Total exposure to credit risk	**410,322**	**345,943**

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

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

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

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

Types of collaterals are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016
All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements

Loans and advances are presented in the following tables:

	Neither Past due nor Impaired	Past Due but not Impaired	Individually Impaired	Total. Gross	Individual Impairment Allowance	Group Impairment Allowance	Total Impairment Allowance	Total. Net
December 31, 2016								
Housing loans	795	-	-	795	-	(6)	(6)	**789**
Current account overdrafts	2,167	131	-	2,298	-	(109)	(109)	**2,189**
Customer loans	44,632	204	55	44,891	(55)	(1,077)	(1,132)	**43,759**
Credit cards	594	19	18	631	(15)	(33)	(48)	**583**
Special purpose loans	219	10	-	229	-	(8)	(8)	**221**
Other retail loans secured by mortgages	17,376	144	462	17,982	(155)	(203)	(358)	**17,624**
Loans to small enterprises	51,227	1,328	20,969	73,524	(2,679)	(979)	(3,658)	**69,866**
Loans to medium and large enterprises	39,455	2,075	27,836	69,366	(373)	(536)	(909)	**68,457**
Loans to Government and municipalities	359	3	10,000	10,362	(2)	(7)	(9)	**10,353**
Loans to financial institutions	600	1	-	601	-	(18)	(18)	**583**
	157,424	**3,915**	**59,340**	**220,679**	**(3,279)**	**(2,976)**	**(6,255)**	**214,425**

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016
All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

Loans and advances are presented in the following tables:

	Neither Past due nor Impaired	Past Due but not Impaired	Individually Impaired	Total. Gross	Individual Impairment Allowance	Group Impairment Allowance	Total Impairment Allowance	Total. Net
December 31, 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**
	147,851	**1,506**	**43,178**	**192,535**	**(3,732)**	**(2,564)**	**(6,296)**	**186,239**

Loans and receivables neither past-due nor impaired in 2016 and 2015 are classified as 'good assets.'

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016
All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

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

	Up to 30 days past-due	From 31 to 60 days past-due	From 61 to 90 days past-due	From 91 to 180 days past-due	From 181 to 365 days past-due	From 1 to 5 years past-due	Over 5 years past due	Total
December 31, 2016								
Current account overdrafts	50	12	9	16	15	29	-	**131**
Customer loans	40	33	-	28	38	61	4	**204**
Credit cards	2	2	-	-	4	11	-	**19**
Special purpose loans	1	-	-	-	-	9	-	**10**
Other retail loans secured by mortgages	24	28	-	11	26	55	-	**144**
Loans to micro and small Enterprises	918	305	-	25	60	20	-	**1,328**
Loans to medium and large enterprises	2,075	-	-	-	-	-	-	**2,075**
Loans to Government and municipalities	2	1	-	-	-	-	-	**3**
Loans to financial institutions	1	-	-	-	-	-	-	**1**
	3,113	**381**	**9**	**80**	**143**	**185**	**4**	**3,915**

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016
All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

b) Loans and Placements Past-Due but not Individually Impaired (Continued)

	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								
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**

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

b) Fair Value of Collaterals

	December 31, 2016	December 31 2015
Deposits	26,821	22,874
Pledge liens	46,271	49,601
Mortgages and fiduciaries	311,144	303,069
Insurance policies	573	387
Guarantees	8,722	11,354
Total	**393,531**	**387,285**

Past due but not individually impaired	December 31, 2016	December 31 2015
Deposits	25,164	22,078
Pledge liens	40,677	34,171
Mortgages and fiduciaries	236,689	236,921
Insurance policies	573	386
Guarantees	2,849	11,354
Total	**305,952**	**304,910**

Individually impaired	December 31, 2016	December 31 2015
Deposits	1,657	796
Pledge liens	5,594	15,430
Mortgages and fiduciaries	74,455	66,148
Policy	-	1
Guarantees	5,873	-
Total	**87,579**	**82,375**

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.

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

c) Restructured Loans and Placements

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

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

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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 2016 the Bank restructured loans in the amount of EUR 33,333 thousand (2015: 23,113 EUR thousand).

d) Concentration per Geographic Regions

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

In thousand EUR	Montenegro	European Union	USA and Canada	Other	Total
Loans and advances to banks	-	14,814	43	624	15,481
Loans and advances to customers	198,114	15,721	-	2,214	216,049
Securities available for sale	41,563	21,815	1,684	6,655	71,717
Securities held to maturity	16,785	-	-	-	16,785
December 31, 2016	**256,462**	**52,350**	**1,727**	**9,493**	**320,032**
December 31, 2015	**215,027**	**50,437**	**2,517**	**10,353**	**278,334**

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016
All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Placements (Continued)

e) Concentration per Industry

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

	Finance Sector	Transportation, Traffic and Tele-Communication	Accommodation and Catering Services	Wholesale and Retail and Vehicle Repairs	Construction Industry	Power Industry	Ore and Stone Mining	Administration and Service Industry	Real Estate Trade	Agriculture, Forestry and Fishing	Manual-factoring	Other	Retail Clients	Total
Loans and advances to banks	2,415	-	-	-	-	-	-	-	-	-	-	13,066	-	15,481
Loans and advances to customers	2,455	9,675	22,648	39,576	12,900	849	1,605	1,453	15,322	4,411	8,962	31,151	65,042	216,049
Securities - available for Sale	46,782	1,443	-	-	-	-	700	-	-	-	-	22,792	-	71,717
Securities held to maturity	16,785	-	-	-	-	-	-	-	-	-	-	-	-	16,785
December 31,2016	**68,437**	**11,118**	**22,648**	**39,576**	**12,900**	**849**	**2,305**	**1,453**	**15,322**	**4,411**	**8,962**	**67,009**	**65,042**	**320,032**
December 31,2015	**54,656**	**13,529**	**15,159**	**45,125**	**11,114**	**880**	**1,793**	**1,261**	**10,910**	**3,244**	**8,014**	**61,645**	**51,004**	**278,334**

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.5. Off-Balance Sheet Items

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

In thousand EUR

	Undrawn Loan Facilities	Guarantees	Letters of Credit	Total
December 31, 2016				
Up to one year	19,741	51,184	1,050	**71,975**
From 1 to 5 years	2,795	13,914	-	**16,709**
Over 5 years	171	1,435	-	**1,606**
	22,707	**66,533**	**1,050**	**90,290**

	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**

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.

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.1. Currency Risk

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

The Bank’s exposure to foreign currency risk as of December 31, 2016 is presented in the following table:

EUR '000	USD	GBP	CHF	Other	Total
Assets in foreign currencies	13,179	606	519	64	14,368
Liabilities in foreign currencies	13,539	601	539	58	14,737
Net foreign exchange exposure:					
- December 31, 2016	**(360)**	**5**	**(20)**	**6**	**(369)**
- December 31, 2015	**(478)**	**61**	**(36)**	**6**	**(447)**
% of the core capital:					
- December 31, 2016	**(2)%**	**-**	**-**	**-**	
- December 31, 2015	**(2)%**	**-**	**-**	**-**	
Aggregate open position:					
- December 31, 2016	**(369)**				
- December 31, 2015	**(447)**				
% of the core capital:					
- December 31, 2016	**(1.59)%**				
- December 31, 2015	**(2.08)%**				

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.2. Operational risk

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

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

4.3.3. Interest Rate Risk

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

The following table presents the Bank's interest bearing and non-interest bearing assets and liabilities as of December 31, 2016:

In thousand EUR

	Interest Bearing	Non-Interest Bearing	Total
ASSETS			
Cash balances and deposits with the Central Bank	7,630	91,825	99,455
Loans and advances to banks	-	15,481	15,481
Loans and advances to customers	216,049	-	216,049
Securities available for sale	66,803	9,006	75,809
Securities held to maturity	16,785	-	16,785
Total assets	**307,267**	**116,312**	**423,579**
LIABILITIES			
Deposits due to banks	31	272	303
Deposits due to customers	300,427	32,923	333,350
Borrowings from other customers	35,331	-	35,331
Subordinated debt	9,967	-	9,967
Total liabilities	**345,756**	**33,195**	**378,951**
Interest rate GAP:			
December 31, 2016	**(38,489)**	**83,117**	**44,628**
December 31, 2015	**(60,065)**	**96,282**	**36,217**

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.3. Interest Rate Risk (Continued)

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

Loan type	**Interest rate %**
Corporate customers:	
- short-term loans from Bank's own funds	2%p.a. -10%p.a.
- short-term loans from other resources	-
- short term loans to banks and other financial authorities	-
- arranging loans	-
- long-term loans from Bank's own funds	2.3%p.a.-11%p.a.
- long-term loans from other resources	4%p.a.-9.5%p.a.
- loans to SMEs for period up to 24 months	At rates sanctioned by the bank
- loans to SMEs for period over 24 months	At rates sanctioned by the bank
- loans to entrepreneurs for periods of up to 24 months	4.7%p.a.-10%p.a.
- loans to entrepreneurs for periods of over 24 months	8%p.a.-9.5%p.a.

Lending interest rates applied to loans granted to retail customers during 2016 were as follows:

Loan type	**Interest rate %**
Retail customers:	
- cash loans	0.83%p.m.-12%p.a.
- consumer loans	1%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	6.5%p.a.-7.5%p.a.

Deposit interest rates applied to corporate customer deposits during 2016 were as follows:

Deposit type	**Interest rate %**
Demand deposits	-
Short-term deposits	0-2.5%p.a.
Long-term deposits	0-2.4%p.a.

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.3. Interest Rate Risk (Continued)

Deposit interest rates applied to retail customer deposits during 2016 were as follows:

Deposit type	Interest rate %
Demand deposits	
Savings demand deposits in EUR	0.01%p.a
Term deposits in EUR placed:	
- for a month	0.01%p.a.-0.9%p.a.
- for 3 months	0.2%p.a.-2.85p.a.
- for 6 months	0.3%p.a.-3.2%p.a.
- for 12 months	0.5%p.a.-3.5%p.a.
- for 24 months	0.5%p.a.-3.6%p.a.
- for 36 months	1%p.a.-3.5%p.a.
Term deposits in foreign currencies (USD):	
- for 3 months	0.05%p.a.
- for 6 months	0.05%p.a-0.1%p.a.
- for 12 months	0.3%p.a-0.5%p.a.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016
All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.3. Interest Rate Risk (Continued)

The exposure to risk from interest rate changes as of December 31, 2016 is as follows:

In thousand EUR

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	7,630	-	-	-	-	7,630
Loans and receivables from clients	12,933	29,286	19,127	45,581	109,122	216,049
Securities held to maturity	9,869	6,806	-	-	110	16,785
Securities available for sale	65,768	19	5	(17)	1,028	66,803
Total	**96,200**	**36,111**	**19,132**	**45,564**	**110,260**	**307,267**
% total interest earning assets	31%	12%	6%	15%	36%	100%
Sensitive liabilities	31	-	-	-	-	31
Interest bearing deposits due to banks	156,942	23,437	31,820	55,367	32,861	300,427
Interest bearing deposits due to clients	1,018	239	764	1,920	31,390	35,331
Subordinated debt	(33)	-	-	-	10,000	9,967
Total	**157,958**	**23,676**	**32,584**	**57,287**	**74,251**	**345,756**
% interest bearing liabilities	46%	7%	9%	17%	21%	100%
Interest rate risk exposure						
- December 31, 2016	**(61,758)**	**12,435**	**(13,452)**	**(11,723)**	**36,009**	**(38,489)**
- December 31, 2015	**(46,317)**	**(3,081)**	**(5,703)**	**(19,038)**	**(14,074)**	**(60,065)**
Cumulative GAP:						
- December 31, 2016	**(61,758)**	**(49,323)**	**(62,775)**	**(74,498)**	**(38,489)**	
- December 31, 2015	**(46,317)**	**(49,398)**	**(55,101)**	**(74,139)**	**(60,065)**	

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.3.3. Interest Rate Risk (Continued)

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

Influence of increase in interest rates by 200 basis points on equity measured as of December 31, 2016 is shown in the following table:

In thousand EUR

Securities AFS - fixed rate	Amount	Changes in interest rate	Weighted average b.p.	Changes in EUR	Mark
Short-term	15,842	50 b.p.	12	79	+/-
Mid-term	49,924	100 b.p.	75	499	+/-
Long-term	1,037	200 b.p.	3	21	+/-
Total	**66,803**		**90**	**599**	**+/-**

4.4. Liquidity Risk

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

4.4.1. Liquidity Risk Management

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

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

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

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016
All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)
4.4. Liquidity Risk (Continued)
4.4.1. Liquidity Risk Management (Continued)

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

The expected maturity matching of financial assets and liabilities as of December 31, 2016 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	99,455	-	-	-	-	-	99,455
Loans and advances to banks	14,498	983	-	-	-	-	15,481
Loans and advances to Customers	12,971	29,248	19,127	45,581	71,593	37,529	216,049
Securities held to maturity	11,071	3,502	1,907	8,367	49,925	1,037	75,809
Securities available for sale	9,869	6,806	-	-	110	-	16,785
Total	**147,864**	**40,539**	**21,034**	**53,948**	**121,628**	**38,566**	**423,579**
Financial liabilities							
Deposits due to banks	303	-	-	-	-	-	303
Deposits due to customers	45,586	50,304	58,151	93,485	83,682	2,142	333,350
Borrowings from customers	-	1,018	239	2,684	13,578	17,812	35,331
Subordinated debt	-	(33)	-	-	10,000	-	9,967
Total	**45,889**	**51,289**	**58,390**	**96,169**	**107,260**	**19,954**	**378,951**
Maturity GAP							
- December 31, 2016	**101,975**	**(10,750)**	**(37,356)**	**(42,221)**	**14,368**	**18,612**	**44,628**
- December 31, 2015	**51,632**	**(2,384)**	**(5,990)**	**(19,722)**	**19,762**	**(7,081)**	**36,217**
Cumulative GAP:							
- December 31, 2016	**101,975**	**91,225**	**53,869**	**11,648**	**26,016**	**44,628**	
- December 31, 2015	**51,632**	**49,248**	**43,258**	**23,536**	**43,298**	**36,217**	
% of total funds:							
- December 31, 2016	**24.07%**	**(2.54)%**	**(8.82)%**	**(9.97)%**	**3.39%**	**4.39%**	
- December 31, 2015	**12.73%**	**(0.59)%**	**(1.48)%**	**(4.86)%**	**4.87%**	**(1.75)%**	

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk (Continued)

4.4.1. Liquidity Risk Management (Continued)

The structure of the Bank’s financial assets and liabilities as classified into their relevant maturity groups as at December 31, 2016 indicates the existence of a liquidity gap in maturity period from 1 to 3 months, from 3 to 6 months and from 6 to 12 months. 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. In the cumulative gap there is no maturity mismatching in maturity of assets and liabilities. As at December 31, 2016 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

In thousand EUR

	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, 2016 Liabilities							
Liabilities due to banks	283	20	-	-	-	-	**303**
Liabilities due to customers	181,928	7,937	23,437	31,820	55,367	32,861	**333,350**
Borrowings from other customers	-	1,018	239	2,684	13,578	17,812	**35,331**
Subordinated debt	-	(33)	-	-	10,000	-	**9,967**
	182,211	**8,942**	**23,676**	**34,504**	**78,945**	**50,673**	**378,951**

	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							
Liabilities due to banks	692	-	-	-	-	-	692
Liabilities 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**

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Fair Value of financial assets and liabilities

In thousand EUR

	Carrying Value		Fair Value	
	2016	**2015**	**2016**	**2015**
Financial assets				
Loans and receivables to banks	15,481	22,710	15,481	22,710
Loans and receivables to customers	216,049	188,289	216,049	188,289
Securities available for sale	75,809	66,035	75,809	66,035
Securities held to maturity	16,785	3,719	16,785	3,719
	324,124	**280,753**	**324,124**	**280,753**
Financial liabilities				
Deposits of customers	333,350	317,533	333,350	317,533
Borrowings from other customers	35,331	41,142	35,331	41,142
Subordinated debt	9,967	9,952	9,967	9,952
	378,648	**368,627**	**378,648**	**368,627**

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, the interest rates do not materially differ from prevailing market interest rates in the banking sector of Montenegro accordingly the fair value of loans to customers calculated as the present value of future cash flows discounted using current market rates, or the average weighted interest rate for the banking sector does not materially differ from the carrying value of the loans on the balance sheet date. According to the Bank’s management, carrying values as presented in the Bank’s financial statements represent values that are believed to be the most valid under the circumstances and most useful for the purposes of financial reporting.

4. FINANCIAL INSTRUMENTS (Continued)

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

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) *Held-to-maturity securities*

Held-to-maturity securities refer to government bonds with a maturity date in the first quarter of 2017, issued by the Ministry of Finance of Montenegro. Considering the maturity of those bonds, the Bank's management believes that the carrying value of these financial instruments reflect their fair value at the balance sheet date.

e) 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.

In the opinion of Bank’s management, the carrying value of subordinated debt approximates its fair value at the statement of financial position date.

f) Fair Value Hierarchy

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

- Level 1 - Listed value (non-adjusted) in active markets for identical assets or liabilities. This level includes listed equity securities.
- Level 2 – Amounts other than quoted included in Level 1, which are available and refer to given asset or liability, either directly (i.e. 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).

All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

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

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, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities available for sale	59,643	4,913	11,253	75,809
Total assets	**59,643**	**4,913**	**11,253**	**75,809**

December 31, 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
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.

In the case that at the day of valuation market prices are not available, the fair value can be considered as the last available price of these securities for the previous 30 days of evaluation. In that case, it will be performed the check of the accuracy of the last available prices and it will be determined whether there is a basis for determination of the fair value.

Equity securities for which conditions for evaluation of fair value with available market prices have not been achieved for more than 365 days it will be performed valuation by assessment techniques.

Long-term debt securities for which conditions for evaluation of fair value have not been available in accordance with available market prices or it has not established “mark to model” more than 90 days, it will be evaluated using effective interest rate, provided that the initial value is last established fair value of that security available in the market. Once when the conditions for evaluation with prescribed fair value are met again, it will be evaluated in accordance with these regulations.

Techniques of evaluation include the following:
a) Factors which market participants would consider in process of price determination
b) In accordance with the accepted economic methodologies used for determine the price of financial instruments

In the process of assessing the fair value, the following indicators or information are also taken into account:

- A significant decrease in the volume and activity level (amount and price)
- A wide margin between supply and demand (bid ask spread)
- A significant decline or lack of new release
- A significant increase in premium for liquidity risk i.e. required yield until maturity with fixed income,
- Market prices represent expectations of market participants rather than being based on current information
- Quoted prices significantly vary over the time in the marketplace which is comprised of brokers (market makers trading)
- Other indicators that can be used in determine fair value

4. FINANCIAL INSTRUMENTS (Continued)

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

Market (quoted) prices in an inactive market could be input for measuring fair value, but it is not necessarily a measure of fair value. Characteristics of an inactive market include a significant decline in volume, in price levels, in activities of trading with financial instruments, in the availability of market prices change significantly over time or among market participants or available market prices are not updated (current).

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 the most favourable) 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 prices 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 cannot 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)
- additional 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.

4. FINANCIAL INSTRUMENTS (Continued)

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

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 at December 31, 2016 the capital adequacy ratio calculated by the Bank for statutory financial statements equalled 11.34% (December 31. 2015: 12.85%), 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:

In thousands EUR

		2016.	Change in exchange rates	
	Total	**Amount in foreign currency**	**10%**	**(10)%**
Assets				
Cash and deposit accounts with central banks	99,455	999	100	(100)
Loans and advances to banks	15,481	6,117	612	(612)
Loans and advances to customers	216,049	1,497	150	(150)
Securities availablefor sale	75,809	5,607	561	(561)
Other financial receivables	842	2	-	-
Other operating receivables	1,281	147	15	(15)
Total assets	**408,917**	**14,369**	**1,438**	**(1,438)**
Liabilities				
Deposits due to banks	303	41	4	(4)
Deposits due to customers	333,350	12,639	1,264	(1,264)
Provision	2,004	3	-	-
Other liabilities - Balance	8,490	1,793	179	(179)
Other liabilities (guarantees and letters of credit) - Off-Balance Sheet	67,583	1,248	125	(125)
Total liabilities	**411,730**	**15,724**	**1,572**	**(1,572)**
Net exposure to currency risk::				
- December 31, 2016			**(134)**	**134**
- December 31, 2015			**(45)**	**45**

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016
All amounts expressed in thousands of EUR, unless otherwise stated

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Sensitivity analysis (Continued)

4.7.1. Sensitivity analysis (foreign currency risk)

As at December 31, 2016, 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 decrease, or increase in the amount of EUR 134 thousand (as at December 31, 2015: profit would have decreased or increased by an amount of EUR 45 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 analyses 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% pp., 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	
	2016	+0.4 b.p. EUR IR +0.3 b.p. FX KS	-0.4 b.p. EUR IR -0.3 b.p. FX KS
Assets			
Cash and deposits with central banks	**7,630**		
-With variable interest rate	7,630	31	(31)
Loans and advances to customers	**216,049**	-	-
- With fixed interest rate	215,932	-	-
- With variable interest rate	117		
Securities available for sale	**66,803**	-	-
- With fixed interest rate	66,803	-	-
Securities held to maturity	**16,785**	-	-
	307,267	31	(31)
Liabilities			
Deposits due to banks	**31**	-	-
Deposits due to customers	**300,427**	-	-
Borrowings from other customers	**35,331**		
- With fixed interest rate	31,175	-	-
- Variable interest rate	4,156	17	(17)
Subordinated debt	**9,967**	-	-
	345,756	**17**	**(17)**
Net exposure to changes Interest rate Decembar31, 2016	**(38,489)**	**14**	**(14)**

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 increase, or decrease in the amount of EUR 14 thousand.

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

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016
All amounts expressed in thousands of EUR, unless otherwise stated

5. INTEREST INCOME AND EXPENSES

a) Interest Income

In thousands EUR	2016	2015
Deposits with:		
- foreign banks	20	91
- Other deposit istitutions	2	-
	22	**91**
Loans approved to:		
- State institutions	386	569
- Government of Montenegro	3	-
- corporate customers	9,332	10,013
- retail customers	5,467	4,902
	15,188	**15,484**
Securities:		
Securities held to maturity	323	116
Securities available for sale	2,188	1,661
	2,511	**1,777**
Other interest income	3	-
Total interest income	**17,724**	**17,352**
Impairment allowances of interest receivables	(20)	(15)
	17,704	**17,337**

b) Interest Expenses

In thousand EUR	2016	2015
Deposits of:		
- banks	61	-
- financial institutions	112	172
- state institutions	423	352
- corporate customers	411	684
- retail customers	2,565	2,655
	3,572	3,863
Loans and other borrowings	1,129	1,171
Subordinated debt	615	613
	5,316	**5,647**

All amounts expressed in thousands of EUR, unless otherwise stated

6. IMPAIRMENT LOSSES AND PROVISIONS

a) Impairment losses

In thousand EUR	2016	2015
Net increase in provisions/(reversal of provision) in respect of:		
- loans	1,436	1,798
- fees and commissions	-	2
- other operating receivables	462	-
- AFS securities	878	1,322
- other	35	150
	2,811	**3,272**

b) Provision expenses

In thousand EUR	2016	2015
Net increase in provisions/(reversal of provision) in respect of:		
- off-balance sheet items	644	554
- other	26	3
	670	**557**

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016
All amounts expressed in thousands of EUR, unless otherwise stated

6. IMPAIRMENT LOSSES AND PROVISIONS (Continued)

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

Year 2016
In thousand EUR

	Loans and leases (Note 16)	Interest (Note16)	Repossessed assets (Note21)	Provisions for Operational Risk and Country Risk (Note 25)	Other receivables (Note 20 and 21)	Provisions for Off-Balance Sheet Items (Note 25)	Impairment of AFS securities (Note 17a)	Impairment of deposits	Total
Balance at the beginning of the year	**6,295**	**84**	**580**	**315**	**294**	**845**	**1,322**	**-**	**9,735**
Impairment during the year	1,437	-	-	26	459	644	878	38	3,482
Reverse of provisions with no effect on IS	-	26	701	-	30	-	-	-	757
Transfer to Off- Balance sheet	(1,477)	(28)	-	-	(6)	-	-	-	(1,511)
Balance at the end of the year	**6,255**	**82**	**1,281**	**341**	**777**	**1,489**	**2,200**	**38**	**12,463**

Year 2015

In thousand EUR	Loans and leases (Note 16)	Interest (Note16)	Repossessed assets (Note 21)	Provisions for Operational Risk and Country Risk (Note 25)	Other receivables	Provisions for Off-Balance Sheet Items (Note 25)	Impairment of AFS securities (Note 17a)	Impairment of deposits	Total
Balance at the beginning of the year	5,239	50	495	312	140	290	-	-	**6,526**
Impairment during the year	1,798	-	-	3	151	555	1,322	-	**3,829**
Reverse of provisions with no effect on IS	-	37	85	-	3	-	-	-	**125**
Transfer to Off- Balance sheet	(742)	(3)	-	-	-	-	-	-	**(745)**
Balance at the end of the year	**6,295**	**84**	**580**	**315**	**294**	**845**	**1,322**	**-**	**9,735**

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016
All amounts expressed in thousands of EUR, unless otherwise stated

7. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and Commission Income

In thousand EUR	2016	2015
Loan origination and processing fees	1,225	1,132
Fees and commissions from off-balance-sheet operations	937	896
Fees and commissions from payment transactions and e-banking	1,232	2,060
Fees and commissions for foreign payments	2,329	1,179
Fees and commissions on credit card operations	4,270	3,241
Other fees and commissions	651	729
	10,644	**9,237**

b) Fee and Commission Expenses

In thousand EUR	2016	2015
Fees and commissions payable to the Central Bank	313	270
Fees and commissions for foreign payment transactions	313	267
Deposit insurance premium fees	1,575	1,252
Fees paid for borrowings and guarantees	31	60
Visa and Master card fees	1,897	1,418
Other fees and commissions	334	463
	4,463	**3,730**

8. STAFF COSTS

In thousand EUR	2016	2015
Net salaries	2,270	2,258
Taxes and contributions on salaries	1,694	1,765
Other employee benefits, net	64	65
Retirement benefits	35	39
Remunerations to members of the Board of Directors	140	145
Remunerations to members of the Development committee	60	17
Remunerations to members of the Credit risk committee	18	60
Employee transportation allowance, net	34	35
Business travel costs and per diems	192	135
Employee training costs	37	7
Provisions for employee retirement benefits (Note 25)	40	32
Aid to employees	6	4
Other costs	32	39
	4,622	**4,601**

All amounts expressed in thousands of EUR, unless otherwise stated

9. GENERAL AND ADMINISTRATIVE EXPENSES

In thousand EUR	2016	2015
Rental costs	1,051	1,081
Security services	550	508
Electricity and fuel bills	99	131
Cleaning services	106	107
Computer and other equipment maintenance	209	183
Premises-related taxes	15	11
Vehicle maintenance	47	55
Insurance costs	319	170
External control expense	310	221
Court expenses	1	7
Other professional fees	48	24
Lawyer fees	21	17
Consultant services	360	123
Intellectual services	113	111
Telecommunication costs	110	108
Communication network costs	111	107
Postage	19	28
Office supplies	170	120
Utilities	18	18
Representation expenses	284	292
Advertising and marketing	413	449
Subscriptions and donations	137	86
Miscellaneous expenses – software maintenance	304	267
Miscellaneous expenses – equipment rentals	425	400
Miscellaneous expenses – data processing services	233	219
Miscellaneous expenses – payment card operations	1,095	726
Other expenses	440	499
	7,008	**6,068**

10. DEPRECIATION AND AMORTIZATION

In thousand EUR	2016	2015
Property plant and equipment (Note 18)	631	624
Intangible assets (Note 19)	218	187
	849	**811**

11. OTHER EXPENSE

In thousand EUR	2016	2015
Direct write off of receivables	17	9
Other charges	34	31
Losses on the sale and write-offs of property, plant and equipment	154	58
Extraordinary expenses	12	21
Other	1	1
	218	**120**

All amounts expressed in thousands of EUR, unless otherwise stated

12. OTHER INCOME

In thousand EUR	2016	2015
Gains on the sale of property, plant and equipment	127	40
Gains from the sale of repossessed assets	82	96
Other operating income	106	95
Collected receivables previously written off	115	86
Other income	115	103
	545	**420**

13. INCOME TAXES

a) Components of Income Taxes

In thousand EUR	2016	2015
Current income tax expense	368	294
Deferred income tax expense/(benefits)	(7)	3
	361	**297**

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

In thousand EUR	2016	2015
Profit before taxes	3,985	3,026
Income tax at statutory rate of 9%	358	272
Tax effects of expenses not recognized for tax purposes	10	22
Other	(7)	3
Income tax reported in the income statement	**361**	**297**

The tax rate used in 2016 and 2015 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	2016	2015
Deferred tax based on unrealized losses on AFS securities	(114)	(33)
Differed tax based on temporary differences between book and tax value for property plant and equipment	33	25
	(81)	**(8)**

All amounts expressed in thousands of EUR, unless otherwise stated

14. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

	December 31, 2016	December 31, 2015
Cash on hand:	**9,487**	**20,010**
- in EUR	8,488	19,068
- in foreign currencies	999	942
Gyro account	58,755	73,746
Obligatory reserves held with the Central Bank of Montenegro	30,518	30,701
Other	695	326
	99,455	**124,783**

As at December 31, 2016 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 as at December 23, 2015 and 33/16 as at May 27, 2016), 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 EUR.

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.

All amounts expressed in thousands of EUR, unless otherwise stated

14. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS (Continued)

On the day of implementation of this decision as at December 23, 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 March 31, 2017.

15. LOANS AND RECEIVABLES FROM BANKS

In thousand EUR	**December 31, 2016**	**December 31, 2015**
Correspondent accounts with foreign banks	14,498	21,758
Deposits held with non-resident banks and other depositary institutions	983	952
	15,481	**22,710**

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016
All amounts expressed in thousands of EUR, unless otherwise stated

16. LOANS AND RECEIVABLES FROM CUSTOMERS

In thousand EUR	December 31, 2016	December 31, 2015
Due loans:		
Government of Montenegro		
- municipalities (public organizations)	3	1,140
- privately-owned companies	4,847	7,117
- state owned companies	711	-
- retail customers	679	1,032
- others	82	3
Short-term loans:		
Government of Montenegro	10,000	-
- municipalities (public organizations)	115	546
- privately-owned companies	47,867	42,443
- state owned companies	1,217	1,096
- retail customers	5,996	6,608
- others	14,742	14,836
Long-term loans:		
Government of Montenegro		
- municipalities (public organizations)	244	69
- privately-owned companies	69,404	65,626
- state owned companies	3,977	6,976
- retail customers	60,150	44,797
- others	645	246
	220,679	**192,535**
Interest receivables:		
- loans	1,362	1,537
Accruals:		
- interest on loans	85	235
- fees	(1,237)	(1,121)
Factoring	-	7
Deposits with other depositary institutions	1,529	1,473
Activated guarantees	10	9
	1,749	**2,140**
Less:		
Impairment allowance of loans, activated guarantees and factoring (note 6c)	(6,255)	(6,295)
Impairment allowance of interest receivables(note 6c)	(82)	(84)
Impairment of deposits	(38)	-
Impairment allowance of accruals	(4)	(7)
Impairment allowance	**(6,379)**	**(6,386)**
	216,049	**188,289**

All amounts expressed in thousands of EUR, unless otherwise stated

16. LOANS AND RECEIVABLES FROM CUSTOMERS (Continued)

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

In thousand EUR	December 31, 2016	December 31, 2015
Agriculture, forestry and fishing	4,411	3,244
Mining	1,605	1,793
Processing industry	8,962	7,072
Water supply	849	880
Construction industry	12,900	11,114
Trade	39,576	45,125
Transport and storage	8,712	12,586
Accommodation and catering services	22,648	15,159
Information and communications	963	1,801
Finance and insurance sector	2,455	2,380
Real estate trade	15,322	10,910
Professional, scientific and technical activities	4,495	7,900
Administrative and support service activities	1,453	1,261
Public administration, defence and compulsory social security	10,002	68
Education	205	54
Health and social care	1,012	607
Art, entertainment and recreational activities	416	455
Other services	1,410	368
Non-resident legal entities	13,611	14,508
Retail customers	65,042	51,004
	216,049	**188,289**

17. INVESTMENT SECURITIES

a) Securities Available for Sale

In thousand EUR	December 31, 2016	December 31, 2015
Debt Securities		
Government of Montenegro	41,563	40,435
Non-residents	30,154	23,333
	71,717	63,768
Allowance for Impairment of debt securities available for sale (Note 6c)	-	(152)
	71,717	63,616
Equity Securities		
Residents	2,837	2,785
Non-residents	3,455	804
	6,292	3,589
Allowance for Impairment t of equity securities available for sale (Note 6c)	(2,200)	(1,170)
	4,092	2,419
	75,809	**66,035**

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016
All amounts expressed in thousands of EUR, unless otherwise stated

17. INVESTMENT SECURITIES (Continued)

Securities classified as available for sale amounting to EUR 41,563 thousand as at December 31, 2016 (December 31, 2015: EUR 40,435 thousand), refer to public bonds issued by the Ministry of Finance of the Government of Montenegro, with nominal value of EUR 39,196 thousand (December 31, 2016: EUR 38,930 thousand), maturing from March 2018 to November 2020, with interest rate mostly amounting from 3.875% to 5.375%.

Debt securities of non-residents classified as available for sale amounting to EUR 30,154 as of December 31. 2016 (December 31, 2016: EUR 23,333 thousand), with nominal value of EUR 28,746 (December 31, 2016: EUR 22,500 thousand), maturing from January 2017 to March 2025 with interest rate from 1,375% to 10.375%.

b) Securities held to maturity

Securities held to maturity amounting to EUR 16,785 thousand as at 31 December 2016 (December 31, 2015: EUR 3,719 thousand) relate to:

1. Treasury bills by Government of Montenegro with face value of EUR 16,704 thousand (December 31, 2016 EUR 3,500 thousand) and maturity of six months from the purchase date, with annual interest rate from 0,81% to 2,86%, and
2. Bonds of the Montenegro Labour Fund totalling EUR 110 thousand (December 31, 2016: 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 2016 and 2015 are presented in the following table:

In thousand EUR	**Buildings**	**Computer equipment**	**Other equipment**	**Investments In progress**	**Total**
Cost					
Balance as at January 1, 2015	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 December 31. 2015	**290**	**1,161**	**3,742**	**36**	**5,229**
Additions	-	50	154	195	399
Transfers	-	13	212	(225)	-
Sales and disposals	(197)	(40)	(141)	-	(378)
Balance as at December 31,2016	**93**	**1,184**	**3,967**	**6**	**5,250**
Accumulated Depreciation					
Balance as at January 1, 2015	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**
Depreciation (Note 10)	3	106	522	-	631
Sales and disposals	(61)	(40)	(130)	-	(231)
Balance as at December 31, 2016	**4**	**1,081**	**2,664**	**-**	**3,749**
Net book value:					
-As at December 31,2016	**89**	**103**	**1,303**	**6**	**1,501**
-As at December 31,2015	**228**	**146**	**1,470**	**36**	**1,880**

All amounts expressed in thousands of EUR, unless otherwise stated

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at December 31, 2016 the Bank doesn't have any property under mortgage as a collateral for repayment of loans and other liabilities.

19. INTANGIBLE ASSETS

Intangible assets are mostly comprised of licenses and software. The movements on intangible assets in the course of 2016 and 2015 were as follows:

In thousand EUR

	Other intangible assets	Licenses	Software	Investment in Progress	Total
Cost					
Balance as at January 1, 2015	526	724	1,007	71	2,328
Additions	-	70	184	74	328
Transfers	-	-	53	(53)	-
Sales and disposals	-	-	(32)	-	(32)
Balance as at December 31, 2015	**526**	**794**	**1,212**	**92**	**2,624**
Additions	-	18	214	406	638
Transfers	-	-	232	(233)	(1)
Sales and disposals	-	-	(16)	-	(16)
Balance as at December 31,2016	**526**	**812**	**1,642**	**265**	**3,245**
Accumulated Amortization					
Balance as at January 1,2015	467	227	695	-	1,389
Amortization (Note 10)	36	24	127	-	187
Sales and disposals	-	-	(31)	-	(31)
Balance as at December 31,2015	**503**	**251**	**791**	**-**	**1,545**
Amortization (Note 10)	13	26	179	-	218
Sales and disposals	-	-	(16)	-	(16)
Balance as at December 31, 2016	**516**	**277**	**954**	**-**	**1,747**
Net book value:					
- As at December 31, 2016	**10**	**535**	**688**	**265**	**1,498**
- As at December 31, 2015	**23**	**543**	**421**	**92**	**1,079**

Additions to intangible assets during 2016 related mainly to increase in software and implementation of new applications within the application software Dabar, caused by transition on new (GWT) version amounting to EUR 229 thousand and software improvements related to card and e-banking operations (Visa-Paywave, E-Commerce, Unattended POS,MCHIP Advanced).

All amounts expressed in thousands of EUR, unless otherwise stated

19. INTANGIBLE ASSETS (Continued)

Investment in progress amounting to EUR 265 thousand (as at December 31, 2016: EUR 92 thousand). Those investment mainly relates to software projects related to card and ATM operations.

In accordance with IAS 38 the Bank does not amortize licenses with unlimited lifetime. The useful life is reviewed at the end of each reporting period.

20. OTHER FINANCIAL RECEIVABLES

In thousand EUR	December 31, 2016	December 31, 2015
Receivables from custody operations	26	27
Advances paid	201	199
Other fee and commission receivables	214	281
Receivables from state funds	39	55
Receivables from customers	137	65
Receivables from card operations	71	46
Receivables from employees	54	33
Other financial receivables	252	225
Allowance for Impairment (Note 6c)	(152)	(151)
	842	**780**

21. OTHER OPERATING RECEIVABLES

In thousand EUR	December 31, 2016	December 31, 2015
Repossessed assets	1,290	597
Other operating receivables	907	346
Prepaid expenses	811	805
Impairment (Note 6c)	(1,727)	(581)
	1,281	**1,167**

Repossessed assets in the amount of EUR 1,290 thousand as at December 31, 2016 (December 31, 2015: EUR 597 thousand) relate to assets acquired based on the foreclosure of collaterals, which are owned by the Bank for a period exceeding 12 months. Repossessed assets 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 which exceeding 50% of the bank's own funds is treated as a deduction in the calculation of the total amount of own funds.

All amounts expressed in thousands of EUR, unless otherwise stated

21. OTHER OPERATING RECEIVABLES (Continued)

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

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

Allowance for impairment of the other assets refers to the repossessed assets in the amount of EUR 1,281 thousand (as at 31 December 2015: EUR 580 thousand) and EUR 446 thousand refers to impairment of other receivables (as at 31 December 2015: EUR 1 thousand).

22. DEPOSITS DUE TO BANKS

In thousand EUR	December 31, 2016	. December 31, 2015
Demand deposits:	283	692
Term deposits	20	-
	303	**692**

All amounts expressed in thousands of EUR, unless otherwise stated

23. DEPOSITS DUE TO CUSTOMERS

In thousand EUR	December 31, 2016	. December 31, 2015
Demand deposits:		
- financial institutions	1,300	748
- privately-owned companies	66,583	69,427
- companies with majority state ownership	7,157	7,387
- municipalities (public organizations)	6,503	4,559
- funds	742	364
- retail customers	72,759	56,055
- non-profit organizations	6,198	4,247
- others	19,455	24,252
	180,697	167,039
Funds on the escrow account	1,230	111
Short-term deposits::		
- financial institutions	710	515
- privately-owned companies	7,632	10,571
- companies with majority state ownership	25,001	2,000
- municipalities (public organizations)	66	759
- retail customers	48,535	12,363
- non-profit organizations	114	102
- others	1,196	607
	83,254	26,917
Long-term deposits::		
- financial institutions	1,153	2,750
- privately-owned companies	11,051	19,009
- companies with majority state ownership	7,830	24,023
- municipalities (public organizations)	847	296
- retail customers	41,883	68,468
- non-profit organizations	99	2,177
- others	2,737	4,028
	65,600	120,751
Interest and other liabilities		
Accrued interest on deposits	2,569	2,715
	333,350	**317,533**

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 7.0% 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 1.8% 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 5.9% 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% to 0.25%.

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, 2016	December 31 , 2015
European Investment Bank (2009)	12	4.032%	1,374	1,617
European Investment Bank (2009)	12	3.923%	768	904
European Investment Bank (2010)	12	3.604%	2,375	2,759
European Investment Bank (2010)	12	3.168%	1,281	1,472
European Investment Bank (2010)	12	3.019%	1,265	1,454
European Investment Bank (2011)	12	3.841%	2,147	2,433
European Investment Bank (2011)	12	3.181%	632	711
European Investment Bank (2012)	12	2.398%	1,568	1,745
			11,410	13,095
European Bank for Reconstruction and Development (2014, 2015)	4-7	3% - 4.559%	4,156	6,071
Investment Development Fund Montenegro AD, Podgorica (2005 to 2015)	1.9-12	1% - 7.64%	19,429	21,489
Directorate for Development of Small and Medium Enterprises(2007 to 2010)	5-8	0% - 1%	245	422
			23,830	**27,982**
			35,240	**41,077**
Accruals:				
Accrued interest expense			91	65
Total			**35,331**	**41,142**

As at December 31, 2016, the Bank has liabilities towards European Investment Bank (“EIB”) relating to long term loans in the amount EUR 11,410 thousand (as at December 31,2015: EUR 13,095 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 with the annual interest rate of 4.75% plus the official inter-banking interest rate 6M EURIBOR on period of 5 years (loan is due as at 15 January 2018). In addition, as at 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 as at 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. As at December 31, 2016, the Bank is in breach of Loan Portfolio Concentration Ratio), which gives the creditor the opportunity to declare their claims due in full amount. As at December 31, 2016 the Bank obtained approval from EBRD by which the creditor waives the right to require the Bank’s debt matured as at December 31, 2016 in its entirety. Accordingly, the Bank classified the liabilities towards EBRD in accordance with repayment schedules.

All amounts expressed in thousands of EUR, unless otherwise stated

25. PROVISIONS

In thousand EUR	**December 31, 2016**	**December 31, 2015**
Provisions for potential losses for:		
- off-balance sheet exposures (note 6c)	1,489	845
- operational risk (note 6c)	341	315
Provisions for employee retirement benefits and jubilee awards	174	134
	2,004	**1,294**

Provisions for employee retirement benefits totalling EUR 174 thousand as at December 31, 2016 were made based on the present value of the expected future payments of retirement benefits to the employees upon fulfilment of retirement criteria.

The present value of the expected future payments of retirement benefits to the employees upon fulfilment of retirement criteria was determined by an independent certified actuary as at December 31, 2016 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 7% 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, 2016	**December 31, 2015**
	%	**%**
Discount rate for retirement benefits	7.00	8.00
Employee turnover ratio	(3.98)	(2.22)
Inflation rate	(0.30)	1.50

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

In thousand EUR	**2016**	**2015**
Balance, at beginning of the year	134	109
Provisions during the year (Note 8)	40	32
Usage of provisions	-	(7)
	174	**134**

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All amounts expressed in thousands of EUR, unless otherwise stated

26. OTHER LIABILITIES

In thousand EUR	December 31, 2016	December 31, 2015
Liabilities from consignment operations	390	374
Advances received	2,549	1,984
Liabilities for other taxes	50	33
Liabilities relating to deductions from salaries	4	9
Trade payables	231	186
Accrued liabilities	548	389
Custody operation liabilities	2,961	1,652
Suspense accounts	963	224
Other liabilities	794	279
	8,490	**5,130**

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 (until December 1, 2021). Bonds have a fixed interest rate of 6% p.a. with semi-annual coupon payments. Bonds have been issued in a public offering. As at November 28, 2014, the Securities Commission of Montenegro has issued a Statement on the success of the bond issue.

28. CAPITAL

The ownership structure of the Bank’s share capital as at December 31, 2016 and 2015 was as follows:

	December 31,2016			December 31,2015		
Shareholder	**Number of shares**	**In thousand EUR**	**% share**	**Number of shares**	**In thousand EUR**	**% share**
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	4,063	2,077	12.98
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	12,154	6,215	38.82
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 additional capital, minus deductible items. The Bank's capital as at December 31, 2016 amounted to EUR 31,159 thousand (December 31, 2015: EUR 31,481 thousand).

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

The Bank's core capital formed in accordance with the Decision on Capital Adequacy of Banks as at December 31, 2016 amounted to EUR 23,159 thousand (December 31, 2015: EUR 21,481 thousand). The Bank's capital as at December 31, 2016 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 additional capital as at December 31, 2016 amounted to EUR 10,000 thousand relate to subordinated debt for which the requirements of Article 6 of the Decision on the capital adequacy of banks are fulfilled, i.e. 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 at December 31, 2016 the Bank is required to maintain the minimum capital adequacy ratio of 10%. As at December 31, 2016 the Bank's capital adequacy ratio equalled 11.34% (December 31, 2015: 12.85%) and was above the prescribed minimum. As at December 31, 2016 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.

		The realized indicators of business performance	
(in thousands of EUR)	**Prescribed limits**	**2016.**	**2015.**
Capital	Minimum amount of EUR 5 million	38,842	34,405
The solvency ratio	Minimum 10%	11%	13%
The Bank's exposure to a single entity or group of related entities	limit 25% of regulatory capital of the Bank	22%	21%
The sum of large exposures	limit 800% of regulatory capital of the Bank e	287%	187%
The total exposure to related parties of the Bank	limit 200% of regulatory capital of the Bank	28%	10%
Total exposure to a shareholder who does not have a qualified participation in the bank	limit 10% of regulatory capital of the Bank	1%	1%
Minimum liquidity ratio	0,9 on daily basis/1 on decade basis	RLS 1.63 / DPL 1.63	RLS 2.36 / DPL 2.40
Foreign exchange risk – net open position to a single currency	15% of Equity	2%	1%

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All amounts expressed in thousands of EUR, unless otherwise stated

30. OFF-BALANCE SHEET ITEMS

In thousand EUR	December 31, 2016	December 31, 2015
Undrawn loan facilities	22,707	13,080
Irrevocable documentary letters of credit issued for payments abroad	63	120
Other letters of credit for payments abroad	987	967
Guarantees issued		
- Payment guarantees	33,681	29,261
- Performance guarantees	15,356	8,736
- Other types of guarantees	17,496	15,445
	90,290	**67,609**
Collaterals securing receivables	393,531	387,285
Other items of the Bank's off-balance sheet exposures	58,559	94,817
Interest of off-balance evidence	594	644
Total	**452,684**	**482,746**
Total	**542,974**	**550,355**

31. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statement, cash and cash equivalents comprises of 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, 2016	December 31 , 2015
Cash on hand	8,488	19,068
Cash on hand-foreign currency	999	942
Assets in the course of settlement	695	326
Gyro account	58,755	73,746
Correspondent accounts with foreign banks	14,498	21,759
Deposits placed with the Central Bank of Montenegro	30,518	30,701
Deposits placed with banks and other depositary institutions – Residents	39	37
Deposits placed with banks/central banks and other depositary institutions – non-residents	2,476	2,387
	116,468	**148,966**

All amounts expressed in thousands of EUR, unless otherwise stated

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:

RELATED PARTY TRANSACTIONS	December 31, 2016	December 31, 2015
Assets		
Loans and receivables due to Banks		
Podravska Banka d.d., Koprivnica	4,199	70
Loans and receivables due to customers		
Todorović Mijan	-	1
Montinari Dario	399	377
Gorgoni Mario	10	-
	409	378
Investment securities – available for sale		
Podravska Banka d.d., Koprivnica	2,271	2,068
	2,271	2,068
Other financial receivables		
Podravska Banka d.d., Koprivnica	-	3
		3
Total Asset	6,879	2,519
Liabilities		
Bank Deposits		
Podravska Banka d.d. Koprivnica	106	160
Deposits from clients		
Miljan Todorović	286	290
Sigilfredo Montinari	-	1
Gorgoni Lorenzo	47	47
Cerere s.r.l.	3	3
Gorgoni Mario	17	-
Gorgoni Paolo	2	3
	355	344
Other liabilities		
CERERE S.P.A.	28	-
Gorgoni Paolo	1	3
	29	3
Total liabilities	490	507

All amounts expressed in thousands of EUR, unless otherwise stated

32. RELATED PARTY TRANSACTIONS (Continued)

Expenses from transactions with related parties during 2016 amounted to EUR 314 thousand (2015: EUR 389 thousand), while income totalled EUR 156 thousand (2015: EUR 141 thousand).

As at December 31, 2016 receivables from employees amounted EUR 1,798 thousand (as at 31 December 2015 amounted EUR 1,999 thousand). These receivables relate to receivables for approved loans, receivables for overdrafts and credit cards. During 2016, total gross fees of persons with special authorization and responsibilities amounted to EUR 626 thousand (2015: EUR 650 thousand).

33. LITIGATION

As at December 31, 2016 there were 22 legal suits filed against the Bank by legal entities and private individuals totalling EUR 3,543 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 2016.

As at December 31, 2016 the legal suits involving the Bank as the plaintiff amounts EUR 6,666 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.

	2016	**2015**
Basic and diluted earnings per share		
Net profit (In 000 EUR)	3,624	2,729
Weighted average number of ordinary shares outstanding	31,305	31,305
Earnings per share / in EUR	115.76	87.17

35. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting date that could have affected the financial position and results reported in financial statements for the year ended December 31, 2016.

36. 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, 2016 and 2015 were as follows:

	December 31, 2016	**December 31, 2015**
USD	1.0541	1.0926
CHF	1.0739	1.0814
GBP	0.85618	0.73799