HIPOTEKARNA BANKA AD, PODGORICA

Financial Statements
Year Ended December 31, 2013 and
Independent Auditors' Report

This Report is translation of the Auditors' Report issued in the Montenegrin language. In the case of any discrepancy between the Montenegrin and English versions, the Montenegrin shall prevail.

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INDEPENDENT AUDITORS' REPORT

To the Shareholder Assembly of Hipotekarna banka AD, Podgorica

We have audited the accompanying financial statements (pages 2 to 51) of Hipotekarna banka AD, Podgorica (the "Bank"), which comprise the statement of financial position as of December 31, 2013 and the related income statement, statement of changes in equity and cash flow statement for the year than ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2013 and its financial performance and cash flows for the year then ended in accordance with the the accounting regulations of Montenegro and regulations of the Central Bank of Montenegro governing financial reporting of banks.

Other Matter

The Bank's financial statements as of and for the year ended December 31, 2012 were audited by another auditor, whose report dated April 23, 2013 expressed and unqualified opinion thereon.

DRUŠTVO ZA REVIZIJU I KONSALTING D.O.O. "DELOITTE" PODGORICA

Deloitte d.o.o. Podgorica
Montenegro
May 5, 2014

Žarko Mionić, Certified Auditor
(License no. 062 issued on March 10, 2011)

INCOME STATEMENT
Year Ended December 31, 2013
(Thousands of EUR)

	Note	2013	2012 *(Restated)*
Interest income	3.1, 6a	12,854	11,717
Interest expenses	3.1, 6b	(4,632)	(4,312)
Net interest income		**8,222**	**7,405**
Dividend income		59	18
Impairment losses	3.7, 7	(1,041)	(1,171)
Provision charges	3.7, 7	(206)	(268)
Fee and commission income	3.1, 8a	5,251	4,045
Fee and commission expenses	3.1, 8b	(1,581)	(751)
Net fee and commission income		**3,670**	**3,294**
Net gains on investment securities		497	136
Foreign exchange gains, net		379	281
Staff costs	9	(4,137)	(3,842)
General and administrative expenses	10	(4,295)	(3,548)
Depreciation/amortization charge	11	(723)	(804)
Other expenses		(126)	(53)
Other income	12	313	345
OPERATING PROFIT		**2,612**	**1,793**
Income taxes	3.3, 13	(245)	(176)
PROFIT FOR THE YEAR		**2,367**	**1,617**

Notes on the following pages
form an integral part of these financial statements.

These financial statements were approved by the management of Hipotekarna banka AD, Podgorica, in Podgorica, on May 5, 2014.

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

HIPOTEKARNA BANKA AD PODGORICA

Esad Zaimović
Chief Executive Officer

Aleksandar Mitrović
Executive Director for support operations

STATEMENT OF FINANCIAL POSITION
As of December 31, 2013
(Thousands of EUR)

	Note	December 31, 2013	December 31, 2012
			(Restated)
ASSETS			
Cash and deposit accounts held with central banks	3.4, 14	26,684	20,366
Loans and receivables due from banks	3.4, 15	51,692	24,595
Loans and receivables due from customers	3.6, 16	122,734	119,374
Investment securities			
- available for sale	3.5, 17a	7,720	239
- held to maturity	3.8,17b	10,842	6,505
Investments in associates and joint ventures at equity method		8	8
Property and equipment	3.10, 3.11, 18	1,810	1,589
Intangible assets	19	885	613
Deferred tax assets	13c	18	10
Other financial receivables	20	509	515
Other operating receivables	21	1,175	725
TOTAL ASSETS		**224,077**	**174,539**
LIABILITIES			
Deposits due to banks		434	733
Deposits due to customers	22	163,207	118,920
Borrowings from banks	23	20,357	17,495
Borrowings from customers	24	5,119	6,877
Provisions	25	1,080	852
Current tax liabilities		252	202
Deferred tax liabilities	13c	1	-
Other liabilities	26	4,765	2,998
TOTAL LIABILITIES		**195,215**	**148,077**
EQUITY			
Share capital	27	16,006	16,006
Share issue premium		7,444	7,444
Retained earnings/Accumulated losses		1,311	(306)
Profit for the year		2,367	1,617
Other reserves		1,734	1,701
TOTAL EQUITY		**28,862**	**26,462**
TOTAL EQUITY AND LIABILITIES		**224,077**	**174,539**
OFF-BALANCE SHEET ITEMS	29	**501,522**	**487,523**

Notes on the following pages
form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2013
(Thousands of EUR)

	Share Capital	Share Issue Premium	Retained Earnings / Accumulated Losses	Profit for the Year	Other Reserves	Total
Balance at January 1, 2012	16,006	7,444	(306)	-	(54)	23,090
Effects of fair value adjustment of available-for-sale securities	-	-	-	-	34	34
Profit for the year	-	-	-	1,617	-	1,617
Balance at December 31, 2012	16,006	7,444	(306)	1,617	(20)	24,741
Effects pf first-time adoption of impairment of balance sheet assets under IAS 39	-	-	-	-	1,721	1,721
Balance at December 31, 2012, restated	16,006	7,444	(306)	1,617	1,701	26,462
Effects of fair value adjustment of available-for-sale securities	-	-	-	-	33	33
Transfer from profit	-	-	1,617	(1,617)	-	-
Profit for the year	-	-	-	2,367	-	2,367
Balance at December 31, 2013	16,006	7,444	1,311	2,367	1,734	28,862

Notes on the following pages
form an integral part of these financial statements.

CASH FLOW STATEMENT
Year Ended December 31, 2013
(Thousands of EUR)

	2013	2012 *(Restated)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts and similar income	12,751	11,911
Interest paid and similar expenses	(3,943)	(3,925)
Fee and commission receipts	5,251	4,045
Fees and commissions paid	(1,581)	(851)
Payments to and on behalf of employees and to suppliers	(9,048)	(8,035)
Increases in loans and other assets	(3,975)	(5,630)
Inflows from deposits	44,252	20,347
Paid taxes	(570)	(415)
Other inflows	(6,840)	(716)
Net cash generated by operating activities	36,297	16,731
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(847)	(375)
Purchase of intangible assets	(593)	(291)
Government Treasury bills and bonds	(2,955)	(3,778)
Sales of tangible and non-current assets	100	6
Net cash used in investing activities	(4,295)	(4,438)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in borrowings	1,064	(5,557)
Net cash generated by/(used in) financing activities	1,064	(5,557)
Foreign exchange gains	379	280
Net increase in cash and cash equivalents	33,445	7,016
Cash and cash equivalents, beginning of year	45,516	38,500
Cash and cash equivalents, end of year (Note 30)	78,961	45,516

Notes on the following pages
form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of EUR, unless otherwise stated

1. BANK'S FOUNDATION AND ACTIVITY

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

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

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

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

The Bank is headquartered in Podgorica, at no. 67, Josipa Broza Tita Street. At December 31, 2013, the Bank had 170 employees (December 31, 2012: 166 employees).).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

The Bank is obligated to maintain its accounting records and prepares its statutory financial statements in conformity with the Accounting and Auditing Law of Montenegro (Official Gazette of Montenegro no. 69/2005, no. 80/2008 and no. 32/11) which entails implementation of the International Financial Reporting Standards and Decisions of the Central Bank of Montenegro governing financial reporting of banks.

The Bank's financial statements have been prepared in accordance with the Decision On The Content, Deadlines and Manner of Compiling and Submitting Financial Statements of Banks (Official Gazette of Montenegro no. 15/12 and 18/13). Comparative information for 2012 were reclassified for comparability with the reporting format adopted for the year 2013 (Notes 2.3 and 4). Within the accompanying financial statements adjustments were made to the statement of financial position as of December 31, 2012 for the effects of postings the Bank made as of January 1, 2013 in accordance with the Guidelines on the Manner of Recording Reserves for Estimated Losses, Impairment Allowances and Written-Off Balance Sheet Items (Official Gazette of Montenegro no. 61/12).

Upon preparation of these financial statements, the Bank implemented policies in accordance with the regulations of the Central Bank of Montenegro, which depart from the requirements of IFRS and IAS effective as of December 31, 2013 in respect of recording receivables qualifying for derecognition form the Bank's statement of financial position.

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

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

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

In the preparation of the accompanying financial statements, the Bank has adhered to the accounting policies described in Note 3, which are in conformity with the accounting, banking and tax regulations prevailing in Montenegro.

The official currency in Montenegro and the Bank's functional and presentation currency is Euro (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 estimations and assumptions are based on historical experience and other information including the anticipation of future events that are believed to be reasonable under the circumstances. The estimates and assumptions are the basis of making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These estimations and assumptions are based on information available to us as at the financial statements preparation date. However, Actual values of assets and liabilities may differ from values estimated in this manner. The most significant estimates and assumptions were made for the following statement of financial position items:

- Provisions for loans and interest receivables;
- Provisions for deposits held with other banks;
- Provisions for permanent investments;
- Provisions for losses per off-balance sheet items;
- Provisions for retirement benefits;
- Provisions for litigations;
- Fair value of securities available for sale;
- Useful lives of intangible assets, property and equipment.

2.3. Amended Regulations of 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) (hereinafter: the "Decision")stipulates adoption and implementation of the International Accounting Standards in measurement of balance sheet assets and off-balance sheet items and presentation thereof in conformity with International Financial Reporting Standards.

The Bank has defined methodology for assessment of balance sheet assets' impairment and estimated losses per off-balance sheet items in accordance of the aforesaid Decision. The Bank applies the methodology consistently, reviews it at least annually and adjusts it to the results of such reviews, as appropriate. The Bank also adjusts the assumptions underlying the methodology.

The Guidelines on the Manner of Recording Reserves for Estimated Credit Losses, Impairment Allowances and Written-Off Balance Sheet Items upon Determining Opening Balances in Banks' Books of Account for 2013 govern the following:

- accounting for receivables classified into category E – loss;
- calculation and accounting for interest accrued on bad assets;
- accounting for reserves for potential losses per regulatory requirements and impairment allowances per IAS;
- recording reserves for potential losses in accordance with the Decision upon transition to the new chart of accounts (opening balance of the balance sheet – statement of financial position);
- recording impairment allowances upon transition to the new chart of accounts (opening balance of the balance sheet – statement of financial position);
- calculation and accounting for impairment allowance per IAS and reserves per Decision as of January 1, 2013 (in the statement of financial position and income statement).

In accordance with the guidelines, the Bank reclassified balance sheet and off-balance sheet items, calculated impairment allowances per IAS and regulatory reserves, and charged the net effects of the changes in in estimates to the other reserves within equity. In accordance with the aforecited regulatory requirements, the Bank did not adjust income statement of the comparative period.

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 asset or financial liability and allocating interest income or interest expense over the relevant period. 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 instrument (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. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into EUR at the official exchange rates prevailing 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 rates prevailing at the statement of financial position date.

Net foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the Income statement. 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.

3.3. Taxes and Contributions

Income Taxes

Current Income Tax

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

Taxable income is determined based on the profit stated in the Bank's statutory income statement after the adjustments of income and expenses performed in accordance with Montenegro 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 the New Layout of 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, these outstanding losses are available for carryforward during the ensuing 5 years.

Montenegro tax regulations do not envisage that any tax losses of the current period 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 determined 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 carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Taxes and Contributions (Continued)

Indirect Taxes, Contributions and Other Duties Payable

Indirect taxes, contributions and other duties payable include property ad other taxes, contributions and charges payable pursuant to various republic and municipal regulations.

3.4. Cash and Cash Equivalents

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.

3.5. Securities Available For Sale

Securities available for sale comprise equity instruments of other legal entities and debentures.

Subsequent to initial recognition, securities available for sale are stated at fair value. The fair value of securities quoted on the stock exchange is based on current bid prices. Unrealized gains and losses from securities available for sale are recorded within revaluation reserves, until such security is sold, collected or realized in any other way or until such security has been permanently impaired.

Interest income on debt securities is calculated and recognized on a monthly basis. Dividends from securities available for sale are recognized in the income statement when the right to such receivable has been established.

3.6. Loans

Loans originated by the Bank are recorded in the books of account at the moment of the transfer of funds to the loan beneficiary - borrower.

Loans originated by the Bank are stated in the statement of financial position in the amount originally approved, increased by interest and net of principal repaid and an allowance for impairment which is based on the management's estimate of the specifically identified risk exposures inherent in the Bank's loan portfolio.

3.7. Provisions and Impairment Allowance of Irrecoverable Receivables

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) defines elements of credit risk management, minimum criteria and manner of classification of assets and off-balance sheet items in respect of which the Bank is exposed to credit risk and the manner of determining reserves for potential losses arising from the Bank's credit risk exposure. Within the meaning of the aforesaid Decision, the Bank's risk-weighted assets comprise loans, interest, fees and commissions, lease receivables, deposits held with other banks and advances as well as all other asset items where the Bank is exposed to default risk, and, on the other hand, guarantees issued, other sureties, opened letters of credit, approved and unused loans and other off-balance-sheet items representing the Bank's contingent liabilities.

The Bank is obligated to assess balance sheet assets and off-balance sheet items for impairment at least on a monthly basis, where balance sheet items are assessed for impairment whereas for off-balance sheet items probable losses are estimated. All these items are to be classified in appropriate classification groups in accordance with the effective Decision on the Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro no. 22/12, 55/12 and 57/13). In addition, the Bank is under obligation to determine a methodology for assessment of impairment of balance sheet assets and probable losses per off-balance sheet items in accordance with IAS 39.

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)

Calculation of Provisions for Potential Losses:

Pursuant to the 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 implemented the following percentages and numbers of days in default per risk category in calculation of provisions:

	As at December 31, 2013	
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

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 balances sheet assets of the Bank exposed to credit risk as well as off-balance sheet exposures that may be exposed to risk.

Calculation of Impairment Allowance (for Balance Sheet Assets) and Estimate of the Probable Losses (for Off-Balance Sheet Items)

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

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

Individual Impairment Assessment

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

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

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

1. total gross exposure of the Bank toward a single entity or a group pf related entities is equal to or exceeds EUR 30,000;
2. default of over 90 days; and
3. receivables matured exceed EUR 20 and EUR 200 for retail and corporate customers, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In addition, all borrowers with objective possibility of impairment of financial instruments are also subject to individual assessment for impairment. Individual impairment allowance is determined based on the net present value of the future cash inflows and estimated collection from collateral foreclosure.

The amount of the expected 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 (for cash flows of over 12 months) decreased by the amount of mortgage and haircut (also discounted using the original contractual effective interest rate over a 5-year period). In instances of individual impairment allowances, the base represents the total sum of the balance sheet receivables (matured and outstanding principal, matured interest, etc.).

Group-Level Impairment Assessment

Impairment assessment is performed on a group (portfolio) level for individually less significant loans and for those individually significant loans where there is no objective evidence of individual impairment.

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

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

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

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

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

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

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

3.8. Securities Held to Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. In case the Bank sells a significant amount of held-to-maturity investments, the entire category is reclassified to securities available for sale.

After initial recognition, held-to-maturity securities are stated at amortized cost using the effective interest method net of impairment allowance, i.e. impairment losses. Amortized cost is calculated taking into account any discounts or premiums upon acquisition or over the maturity period. Interest income from such instruments is calculated using the effective interest method and presented within interest income.

All amounts expressed in thousands of EUR, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Property (Business Premises), Equipment and Intangible Assets

Business premises and other fixed assets are those assets whose useful lives exceed one year. As at December 31, 2013 business premises, other property, equipment and intangible assets were stated at cost less accumulated depreciation/amortization. Cost represents prices billed by suppliers plus all costs incurred in bringing the respective asset to the location and condition necessary for its intended use.

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 the sale or disposal 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.

Intangible assets comprise software and licenses. Intangible assets acquired are capitalized at cost. Subsequently, such assets are measured at cost, less accumulated amortization and accumulated impairment losses, if any.

Costs directly related to certain software which will generate economic benefits over a period exceeding one year are recognized as intangible assets. Costs of maintenance and development of new software are recorded as expenses as incurred.

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

Major groups of assets	Depreciation/Amortization rates (%)	Rates recognized for tax purposes (%)
Buildings	2.00	5.00
Vehicles	15.00	15.00
Furniture and other equipment	15.00 – 20.00	20.00
Computer equipment	33.33	30.00
Software	20	30.00
Tools and fixtures	50	100.00

The calculation of depreciation/amortization of business premises, equipment and intangible assets commences upon asset's placement in use.

3.10. 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 assets invested by the founders and shareholders of the Bank in the monetary or non-monetary form. The Law on Securities sets forth 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Employee Benefits

Taxes and Contributions for Social Security of Employees

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

Retirement Benefits or Other Long-Term Employee Benefits

In accordance with the Industry Collective Bargaining Agreement, the Bank is under obligation to pay retirement benefits to an employee upon his/her regular retirement in the amount of 6 net average salaries earned by the Bank's employees in the month preceding the month of benefit payment. The Bank's financial statements as of and for the year ended December 31, 2013 include provisions calculated by an independent certified actuary, based on the estimated present value of assets to be used for retirement benefits payable to employees upon fulfillment of the retirement criteria.

3.12. Fair Value

In accordance with International Financial Reporting Standards, the fair value of financial assets and liabilities should be disclosed in the notes to the financial statements. For these purposes, 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 Bank should disclose the fair value information of those components of assets and liabilities for which published market information is readily available, and for which their fair value is materially different from their recorded amounts.

In Montenegro, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables, investments and other financial assets or liabilities, for which published market information is presently not available. Therefore, fair value cannot readily be determined in the absence of active capital and financial markets, as generally required under the provisions of IFRS/IAS. According to the opinion of the Bank's management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions and accounting regulations of Montenegro and Central Bank's regulations governing the financial reporting of banks.

All amounts expressed in thousands of EUR, unless otherwise stated

4. RESTATEMENT OF THE FINANCIAL STATEMENTS FOR FY 2012

The Bank made certain adjustments to the balance sheet and off-balance sheet items stated as of December 31, 2012 as well as reclassifications to the statement of financial position/balance sheet and income statement for the purpose of comparability to the financial statements for FY 2013, modified as from January 1, 2013 in accordance with the new Decision on the Contents, Terms and Method of Preparation and Submission of Financial Statements of Banks (Official Gazette of Montenegro no. 15/12 and 18/13), Decision of the Chart of Accounts for Banks (Official Gazette of Montenegro no. 15/12), Decision on the Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro no. 22/12, 55/12 and 57/13) and the Guidance on the Manner of Recording Loan Loss Provisions, Value Adjustments and Written Off Items of the On-Balance Sheet Assets When Determining Opening Balance in Banks' Business Books for 2013 (Official Gazette of Montenegro no. 61/12), as disclosed in Note 2.3 and the following tables:

INCOME STATEMENT*)
Year Ended December 31, 2012
(Thousands of EUR)

	2012 prior to Adjustment	Adjustments	2012 Restated
Interest income	11,915	(198)	11,717
Interest expenses	(4,312)	-	(4,312)
NET INTEREST INCOME	**7,603**	(198)	**7,405**
Dividend income	-	18	18
Impairment losses	(1,651)	480	(1,171)
Provisions	-	(268)	(268)
Fee and commission income	4,045	-	4,045
Fee and commission expenses	(751)	-	(751)
NET FEE AND COMMISSION INCOME	**3,294**	-	**3,294**
Net gains on investment securities	136	-	136
Foreign exchange gains, net	281	-	281
Staff costs	(3,828)	(14)	(3,842)
General and administrative expenses	(3,548)	-	(3,548)
Depreciation/amortization charge	(804)	-	(804)
Other expenses	(53)	-	(53)
Other income	363	(18)	345
	(7,453)	(32)	(7,485)
OPERATING PROFIT	**1,793**	-	**1,793**
Income taxes	(176)	-	(176)
PROFIT FOR THE YEAR	**1,617**	-	**1,617**

*Forms in accordance with the new Chart of Accounts in accordance with the Central Bank's Decision of the Chart of Accounts for Banks (Official Gazette of Montenegro no. 15/12),).

All amounts expressed in thousands of EUR, unless otherwise stated

4. RESTATEMENT OF THE FINANCIAL STATEMENTS FOR FY 2012 (Continued)

STATEMENT OF FINANCIAL POSITION
As of December 31, 2012
(Thousands of EUR)

	December 31, 2012	Adjustments	December 31, 2012 Restated
ASSETS			
Cash and deposit accounts held with central banks	45,516	(25,150)	20,366
Loans and receivables due from banks	-	24,595	24,595
Loans and receivables due from customers	113,512	5,862	119,374
Investment securities			
- available for sale	239	-	239
- held to maturity	6,505	-	6,505
Investments in associates and joint ventures at equity method	8	-	8
Property and equipment	1,740	(151)	1,589
Intangible assets	462	151	613
Deferred tax assets	10	-	10
Other financial receivables	-	515	515
Other operating receivables	5,785	(5,060)	725
TOTAL ASSETS	**173,777**	**762**	**174,539**
LIABILITIES			
Deposits due to banks	-	733	733
Deposits due to customers	118,200	720	118,920
Borrowings from banks	21,157	(3,662)	17,495
Borrowings from customers	3,062	3,815	6,877
Provisions	954	(102)	852
Current tax liabilities	216	(14)	202
Deferred tax liabilities	-	-	-
Other liabilities	5,447	(2,449)	2,998
TOTAL LIABILITIES	**149,036**	**(959)**	**148,077**
EQUITY			
Share capital	16,006	-	16,006
Share issue premium	7,444	-	7,444
Accumulated losses	(306)	-	(306)
Profit for the year	1,617	-	1,617
Other reserves	(20)	1,721	1,701
TOTAL EQUITY	**24,741**	**1,721**	**26,462**
TOTAL EQUITY AND LIABILITIES	**173,777**	**762**	**174,539**

OFF-BALANCE SHEET ITEMS	December 31, 2012	Transfer to the Balance Sheet	Transfer to the Internal Records	December 31, 2012 Restated
Guarantees, sureties and commitments	41,331	-	-	41,331
Collaterals received	365,242	-	-	365,242
Consignment operations	131	-	-	131
Written-off loans	2,024	(1,374)	(650)	-
Other written-off assets	79,849	-	-	79,849
Written-off and suspended interest	1,444	(81)	(393)	970
Off-balance sheet liabilities	(490,021)	1,455	1,043	(487,523)

*Forms in accordance with the new Chart of Accounts in accordance with the Central Bank's Decision of the Chart of Accounts for Banks (Official Gazette of Montenegro no. 15/12).

5. FINANCIAL INSTRUMENTS

5.1. Risk Management

In its operations the Bank is exposed to various risks, the most significant of which are the following:

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

The risk management procedures are designed to identify and analyze risks, to define limits and controls required for risk management and to monitor the Bank's exposure to each individual risk. The risk management procedures are subject to regular review in order to allow adequate response to the changes in the market, products and services.

The Risk Management Department is responsible for monitoring the Bank's exposures to certain risks, which is reported to the Board of Directors on a monthly basis. In addition, monitoring of the Bank's exposures to certain risks is the responsibility of Credit Risk Management Committee, Operational Risk Management Committee and Asset and Liability Management Committee (ALCO).

5.2. Credit Risk

The Bank is exposed to credit risk which is a risk that counterparty will be unable to settle liabilities to the bank in full and as due. The Bank makes provisions for impairment losses related to the losses incurred as at the statement of financial position date. Significant changes in the economy and certain industries comprising the Bank's loan portfolio could result in the losses different from losses that gave rise to provisions formed as at the statement of financial position date. Hence, the bank's management manages credit risk exposure observing the prudency principle.

5.2.1. 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 an ongoing basis. All loans exceeding the defined limits are to be approved by the Credit Risk Management Committee.

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

Risk exposure per single borrowing entity, including other banks and broker-dealer companies, is further limited by determining sub-limits relative to the balance sheet and off-balance sheet exposures. Actual exposure relative to the limits defined is subject to regular monitoring.

Credit risk exposure is managed by means of regular analyses of the ability of borrowers and potential borrowers to discharge principal and interest repayment liabilities.

Loan-Related 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

5. FINANCIAL INSTRUMENTS (Continued)

5.2. Credit Risk (Continued)

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

As of the statement of financial position date, the Bank assesses whether there is any objective evidence that a financial asset or a group of financial assets has suffered impairment in accordance with IAS 39.

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

Calculation of the present value of the estimated future cash flows of a securitized financial asset reflects cash flows that may result from collateral foreclosure decreased by costs of collateral acquisition and sales, whether the foreclosure be 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.

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

	2013	2012
Balance sheet items		
Loans and receivables due from banks	51,692	24,595
Loans and receivables due from clients	120,275	118,270
Interest and other receivables	1,065	993
Factoring	1,394	111
Securities available for sale	7,720	239
Securities held to maturity	10,842	6,505
	192,988	**150,713**
Off balance sheet items		
Payment guaranties	34,372	30,849
Performance guaranties	5,975	5,509
Unsecured letters of credit	827	631
Undrawn loan facilities	8,265	4,972
	49,439	**41,961**
Total credit risk exposure	**242,427**	**192,674**

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

Types of collaterals are as follows:

- deposits;
- pledge liens instituted over industrial machinery, securities, inventories and vehicles;
- mortgages assigned over property and fiduciary transfer of ownership;
- bills of exchange;
- collection authorizations;
- garnishments and injunctions;
- guarantors;
- insurance policies; and
- guarantees.

All amounts expressed in thousands of EUR, unless otherwise stated

5. FINANCIAL INSTRUMENTS (Continued)

5.2. Credit Risk (Continued)

5.2.4. Loans and Advances

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, 2013								
Current account overdrafts	588	52	-	640	-	(42)	(42)	598
Customer loans	15,554	140	360	16,054		(408)	(408)	15,646
Credit cards	653	31	4	688	(2)	(46)	(48)	640
Special purpose loans	729	131	1	861		(152)	(152)	709
Other retail loans secured by mortgages	13,737	246	2,006	15,989	(488)	(502)	(990)	14,999
Loans to micro and small enterprises	46,472	872	8,133	55,477	(1,585)	(732)	(2,317)	53,160
Loans to medium and large enterprises	30,290	760	2,526	33,576	(26)	(450)	(476)	33,100
Loans to Government and municipalities	806	-	180	986	(4)	(6)	(10)	976
Loans to financial institutions	452	2	210	664	(210)	(7)	(217)	447
Loans and advances to banks	-	-	-	-	-	-	-	-
	109,281	**2,234**	**13,420**	**124,935**	**(2,315)**	**(2,345)**	**(4,660)**	**120,275**

	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, 2012								
Current account overdrafts	361	36	-	397	-	(24)	(24)	373
Customer loans	12,690	385	77	13,152	(1)	(320)	(321)	12,831
Credit cards	625	28	6	659	(4)	(34)	(38)	621
Special purpose loans	1,441	168		1,609		(222)	(222)	1,387
Other retail loans secured by mortgages	11,808	258	977	13,043	(323)	(378)	(701)	12,342
Loans to micro and small enterprises	57,067	1,379	-	58,446	(750)	(1,258)	(2,008)	56,438
Loans to medium and large enterprises	26,959	1,578	3,825	32,362	-	(384)	(384)	31,978
Loans to Government and municipalities	1,147	357	-	1,504	-	(15)	(15)	1,489
Loans to financial institutions	803	-	221	1,024	(200)	(13)	(213)	811
Loans and advances to banks	-	-	-	-	-	-	-	-
	112,901	**4,189**	**5,106**	**122,196**	**(1,278)**	**(2,648)**	**(3,926)**	**118,270**

Loans and advances neither past-due nor impaired in 2013 and 2012 are classified as 'good assets.'

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of EUR, unless otherwise stated

5. FINANCIAL INSTRUMENTS (Continued)

5.2. Credit Risk (Continued)

5.2.4. Loans and Advances (Continued)

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

December 31, 2013	Up to 30 days past-due	From 31 to 60 days past-due	From 61 to 90 days past-due	From 91 to 180 days past-due	From 181 to 365 days past-due	From 1 to 5 years past-due	Total
Current account overdrafts	15	4	4	4	8	17	52
Customer loans	58	35	-	21	14	12	140
Credit cards	1	2	2	3	10	13	31
Special purpose loans	4	8	-	16	33	71	132
Other retail loans secured by mortgages	29	35	-	18	28	136	246
Loans to micro and small enterprises	379	395	-	45	15	37	871
Loans to medium and large enterprises	650	110	-	-	-	-	760
Loans to Government and municipalities	-	-	-	-	-	-	-
Loans to financial institutions	2	-	-	-	-	-	2
	1,138	**589**	**6**	**107**	**108**	**286**	**2,234**

December 31, 2012	Up to 30 days past-due	From 31 to 60 days past-due	From 61 to 90 days past-due	From 91 to 180 days past-due	From 181 to 365 days past-due	From 1 to 5 years past-due	Total
Current account overdrafts	2	2	1	5	6	20	36
Customer loans	327	26	-	23	9	-	385
Credit cards	5	2	3	7	11	-	28
Special purpose loans	107	18	-	19	24	-	168
Other retail loans secured by mortgages	127	50	-	35	46	-	258
Loans to micro and small enterprises	582	635	16	84	56	6	1,379
Loans to medium and large enterprises	1,578	-	-	-	-	-	1,578
Loans to Government and municipalities	357	-	-	-	-	-	357
Loans to financial institutions	-	-	-	-	-	-	-
	3,085	**733**	**20**	**173**	**152**	**26**	**4,189**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of EUR, unless otherwise stated

5. FINANCIAL INSTRUMENTS (Continued)

5.2. Credit Risk (Continued)

5.2.4. Loans and Advances (Continued)

b) Fair Value of Collaterals

	December 31, 2013	December 31, 2012
Deposits	17,469	20,207
Pledge liens	47,315	70,626
Mortgages	299,706	262,785
Insurance policies	163	28
Guarantees	9,008	11,596
Total	**373,661**	**365,242**

Past due but not individually impaired	December 31, 2013	December 31, 2012
Deposits	15,801	19,979
Pledge liens	45,089	70,112
Mortgages	219,124	254,313
Insurance policies	163	28
Guarantees	9,008	9,208
Total	**289,185**	**353,640**

Individually impaired	December 31, 2013	December 31, 2012
Deposits	1,668	228
Pledge liens	2,226	514
Mortgages	80,582	8,472
Guarantees	-	2,388
Total	**84,476**	**11,602**

As collateral, the Bank accepts mortgages over properties the fair value of which is defined on an individual case basis for legal entities, which is under remit 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

5. FINANCIAL INSTRUMENTS (Continued)

5.2. Credit Risk (Continued)

5.2.4. Loans and Advances (Continued)

c) Restructured Loans and Advances

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

a. Extended the principal and interest maturity,
b. Replaced the existing loan with a new one,
c. Decreased the interest rate on the loan approved i
d. Made other concessions to facilitate the borrower’s financial position.

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

During 2013 the Bank restructured loans in the amount of EUR 12,081 thousand (2012: EUR 28,071 thousand).

d) Concentration per Geographic Regions

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

	Montenegro	European Union	USA and Canada	Other	Total
Loans and advances to banks	60	46,785	3,725	1,122	51,692
Loans and advances to customers	125,897	1,110	15	463	127,485
Securities available for sale	3,128	3,828	-	764	7,720
Securities held to maturity	10,842	-	-	-	10,842
December 31, 2013	**139,927**	**51,723**	**3,740**	**2,349**	**197,739**
December 31, 2012	**121,783**	**24,656**	**4,538**	**3,723**	**154,700**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of EUR, unless otherwise stated

5. FINANCIAL INSTRUMENTS (Continued)

5.2. Credit Risk (Continued)

5.2.4. Loans and Advances (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 and Insurance Sector	Transportation, Traffic and Tele-communication	Services, Tourism, Hotel Management	Wholesale and Retail and Vehicle Repairs	Construction Industry	Power Industry	Ore and Stone Mining	Administration and Service Industry	Real Estate Trade	Agriculture Hunting and Fishing	Manu-facturing	Other	Retail Clients	Total
Loans and advances to banks	12,211	-	-	-	-	-	-	-	-	-	-	39,481	-	51,692
Loans and advances to customers	1,537	10,762	7,541	43,451	4,192	-	2,912	259	9,037	1,491	3,422	8,523	34,358	127,485
Securities - available for sale	2,992	6	-	22	-	109	-	-	-	-	-	4,591	-	7,720
Securities held to maturity	10,842	-	-	-	-	-	-	-	-	-	-	-	-	10,842
December 31, 2013	**27,582**	**10,768**	**7,541**	**43,473**	**4,192**	**109**	**2,912**	**259**	**9,037**	**1,491**	**3,422**	**52,595**	**34,358**	**197,739**
December 31, 2012	**8,632**	**12,600**	**8,046**	**37,660**	**3,238**	**11**	**3,703**	**409**	**3,755**	**1,346**	**4,818**	**41,527**	**28,955**	**154,700**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of EUR, unless otherwise stated.

5. FINANCIAL INSTRUMENTS (Continued)

5.2. Credit Risk (Continued)

5.2.5. Off-Balance Sheet Items

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

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

	Undrawn Loan Facilities	Guarantees	Letters of Credit	Total
December 31, 2012				
Up to one year	4,076	28,882	40	32,998
From 1 to 5 years	577	7,476	591	8,644
Over 5 years	319	-	-	319
	4,972	**36,358**	**631**	**41,961**

5.3. 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.

5.3.1. 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, 2013 is presented in the following table:

EUR '000	**USD**	**GBP**	**CHF**	**Other**	**Total**
Assets in foreign currencies	11,049	68	167	91	11,375
Liabilities in foreign currencies	11,362	75	166	86	11,689
Net foreign exchange exposure:					
- December 31, 2013	**(313)**	**(7)**	**1**	**5**	**(314)**
- December 31, 2012	**(788)**	**8**	**-**	**2**	**(778)**
% of the core capital:					
- December 31, 2013	**-2%**	**-**	**-**	**-**	
- December 31, 2012	**-3%**	**-**	**-**	**-**	
Aggregate open position:					
- December 31, 2013	**(314)**				
- December 31, 2012	**(778)**				
% of the core capital:					
- December 31, 2013	**-1.57%**				
- December 31, 2012	**-3%**				

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of EUR, unless otherwise stated.

5. FINANCIAL INSTRUMENTS (Continued)

5.3. Market Risk (Continued)

5.3.2. Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank assumes exposure 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 repricing.

The following table presents the Bank's interest bearing and non-interest bearing assets and liabilities as of December 31, 2013:

	Interest Bearing	Non-Interest Bearing	Total
ASSETS			
Cash balances and deposits with the Central Bank	2,398	24,286	26,684
Loans and advances to banks	-	51,692	51,692
Loans and advances to customers	122,192	542	122,734
Securities available for sale	5,279	2,441	7,720
Securities held to maturity	10,842	-	10,842
Total assets	**140,711**	**78,961**	**219,672**
LIABILITIES			
Deposits due to banks	-	434	434
Deposits due to customers	136,432	26,775	163,207
Borrowings from banks	20,213	144	20,357
Borrowings from customers	5,071	48	5,119
Total liabilities	**161,716**	**27,401**	**189,117**
Interest rate GAP:			
- December 31, 2013	**(21,005)**	**51,560**	**30,555**

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

Loan type	**Interest rate %**
Corporate customers:	
- short-term loans from Bank's own funds	10-15
- short-term loans from other resources	9.75-9.90
- long-term loans from Bank's own funds	10-15
- long-term loans from other resources	5-12
- loans to entrepreneurs for periods of up to 24 months	9-12.5
- loans to entrepreneurs for periods of over 24 months	10
Deposits:	
Corporate customers up to EUR 100,000:	
Demand deposits	0.1
Short-term deposits	1.5-3
Long-term deposits	3.5
Retail customers up to EUR 100,000:	
Demand deposits	0.2-0.3
Short-term deposits	2.5-4.5
Long-term deposits	4.5-5.25

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of EUR, unless otherwise stated.

5. FINANCIAL INSTRUMENTS (Continued)

5.3. Market Risk (Continued)

5.3.2. Interest Rate Risk (Continued)

Lending interest rates applied to loans granted to retail customers during 2013 were as follows:

Loan type	Interest rate %
Retail customers:	
- cash loans	
- consumer loans	11.35 - 19.56
- loans for renovation and financing for periods of up to 60 months	11.35 - 14.03

Deposit interest rates applied to corporate customer deposits during 2013 were as follows:

Deposit type	Interest rate %
Demand deposits	0.1
Short-term deposits	0.1 - 5.25
Long-term deposits	1 - 6

Deposit interest rates applied to retail customer deposits during 2013 were as follows:

Deposit type	Interest rate %
Demand deposits	
Savings demand deposits	0.2
Term deposits in EUR placed:	
- for a month	0.2
- for 3 months	0.2 - 4.25
- for 6 months	2.5 - 5
- for 12 months	1 - 6
- for 24 months	4.5 - 6
- for 36 months	2.5 - 6
Term deposits in foreign currencies (USD):	
- for 3 months	0.2 - 0.5
- for 6 months	1
- for 12 months	1.2 - 2

5.4. 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.

5.4.1. 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.

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All amounts expressed in thousands of EUR, unless otherwise stated.

5. FINANCIAL INSTRUMENTS (Continued)

5.4. Liquidity Risk (Continued)

5.4.1. 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, 2013 was as follows:

	Up to a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Financial assets							
Cash balances and deposits with the Central Bank	26,684	-	-	-	-	-	26,684
Loans and advances to banks	51,148	559	(4)	(11)	-	-	51,692
Loans and advances to customers	11,208	9,694	12,226	28,420	50,453	10,733	122,734
Securities available for sale	7,685	-	-	35	-	-	7,720
Securities held to maturity	-	4,714	4,633	125	1,370	-	10,842
Total	**96,725**	**14,967**	**16,855**	**28,569**	**51,823**	**10,733**	**219,672**
Financial liabilities							
Deposits due to banks	434	-	-	-	-	-	434
Deposits due to customers	79,302	13,358	13,972	29,214	25,016	2,345	163,207
Borrowings from banks	71	61	709	793	10,863	7,860	20,357
Borrowings from customers	-	801	90	1,109	3,095	24	5,119
Total	**79,807**	**14,220**	**14,771**	**31,116**	**38,974**	**10,229**	**189,117**
Maturity GAP							
- December 31, 2013	**16,918**	**747**	**2,084**	**(2,547)**	**12,849**	**504**	**30,555**
- December 31, 2012	**1,519**	**483**	**7,360**	**4,407**	**14,327**	**1,389**	**29,486**
Cumulative GAP:							
- December 31, 2013	**16,918**	**17,665**	**19,749**	**17,202**	**30,051**	**30,555**	
- December 31, 2012	**1,519**	**2,002**	**9,363**	**13,770**	**28,097**	**29,486**	
% of total funds:							
- December 31, 2013	**8.95%**	**9.34%**	**10.44%**	**9.10%**	**15.89%**	**16.16%**	
- December 31, 2012	**1.03%**	**1.36%**	**6.36%**	**9.36%**	**19.09%**	**20.03%**	

The structure of the Bank's financial assets and liabilities as classified into their relevant maturity groups as of December 31, 2013 indicates the existence of a liquidity gap in maturity period 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. The cumulative gap shows maturity matching. As of December 31, 2013, demand deposits in the table above are presented by the expected maturity using the model based on the Bank's historical data. The Bank has applied this approach for liquidity management since December 31, 2012.

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

5. FINANCIAL INSTRUMENTS (Continued)

5.4. Liquidity Risk (Continued)

5.4.2. Outstanding Maturities of Financial Liabilities (Undiscounted Cash Flows)

	Demand	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2013							
Liabilities							
Deposits due to banks	434	-	-	-	-	-	434
Deposits due to customers	73,386	5,916	13,358	43,186	25,016	2,345	163,207
Borrowings from banks	-	71	61	1,502	10,863	7,860	20,357
Borrowings from customers	-	-	801	1,199	3,095	24	5,119
	73,820	**5,987**	**14,220**	**45,887**	**38,974**	**10,229**	**189,117**

	Demand	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2013							
Liabilities							
Deposits due to banks	268	-	-	465	-	-	733
Deposits due to customers	49,055	2,794	9,362	32,914	24,186	609	118,920
Borrowings from banks	-	-	25	1,249	6,547	9,674	17,495
Borrowings from customers	1	-	794	1,045	4,904	133	6,877
	49,324	**2,794**	**10,181**	**35,673**	**35,637**	**10,416**	**144,025**

5.5. Fair Value of Financial Assets and Liabilities

	Carrying Value		Fair Value	
	2013	2012	2013	2012
Financial assets				
Cash balances and deposits with the Central Bank	51,692	24,595	51,692	24,595
Loans and advances to banks	122,734	119,374	122,734	119,374
Loans and advances to customers	7,720	239	7,720	239
Securities available for sale	10,842	6,505	10,842	6,505
Financial liabilities				
Deposits due to customers	163,207	118,920	163,207	118,920
Borrowings from banks	20,357	17,495	20,357	17,495
Borrowings from customers	5,119	6,877	5,119	6,877

Fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. However, no readily available market prices exist for a certain portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow model or other pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the estimated fair market values cannot be realized in a current sale of a financial instrument.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used:

a) Loans and Advances to Banks

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

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

5. FINANCIAL INSTRUMENTS (Continued)

5.5. Fair Value of Financial Assets and Liabilities (Continued)

b) Loans and Advances to Customers

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

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

c) Available-for-Sale Securities

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

d) *Deposits and Borrowings*

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

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

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

e) Fair Value Hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) on active markets for identical assets or liabilities. This level includes listed equity securities.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an asset or a liability, either directly (that is, as prices) or indirectly (that is, as derived from prices).The Bank does not have financial instruments included within Level 2.

- Level 3 – inputs for an asset or a liability that are not based on observable market inputs. This level includes equity investments with Bank's market assumption (no observable market data available).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations wherever possible.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
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5. FINANCIAL INSTRUMENTS (Continued)

5.5. Fair Value of Financial Assets and Liabilities (Continued)

e) Fair Value Hierarchy (Continued)

December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income	-	-	-	-
Securities available for sale	2,741	-	4,979	7,720
Total assets	**2,741**	**-**	**4,979**	**7,720**

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

Fair values of securities available for sale and securities at fair value through other comprehensive income were based on market prices. Unless there were available market prices, market prices of quoted securities with similar characteristics were used. As of December 31, 2013, market prices of securities measured at fair value within the Bank's portfolio were available.

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

Fair values of financial instruments not measured at fair value was calculated for disclosure purposes only, without effects on the statement of financial position and income statement components. In addition, given the fact that there was no active trading in these instruments, determining fair values thereof requires significant use of estimates on the part of the management.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. However, there are no available market prices for a portion of the Bank's financial instruments. In the absence of available market prices, fair value is estimated using the discounted cash flow model or other valuation models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the estimated fair market values cannot be realized in a current sale of a financial instrument.

5.6. Capital Risk Management

The Bank's capital management objectives are:

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

The Bank's management controls capital adequacy by applying the methodology and limits prescribed by the Central Bank of Montenegro (Official Gazette of Montenegro no. 60/08, 41/09 and 55/12). In accordance with the regulations, the Bank submits quarterly reports on the balance and structure of capital to the Central Bank of Montenegro.

The Bank's own assets are comprised of:

- Tier 1 capital (paid-in share capital, retained earnings from prior years, profit for the year decreased for current year losses); and
- Tier 2 capital (reserves from profit after taxation, legal, statutory and other reserves, subordinated debt);
- 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 potential losses per off-balance sheet items as well as the amount in excess of the limit prescribed by the Central Bank of Montenegro for investments in properties and fixed assets.

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5. FINANCIAL INSTRUMENTS (Continued)

5.6. Capital Risk Management (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 loan 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 requirements of the Central Bank of Montenegro, the Bank is under obligation to maintain a minimum capital adequacy ratio of 10%. The Bank is required to maintain certain minimum or maximum ratios with respect to its activities and composition of risk assets in compliance with the Law on Banks of the Republic of Montenegro and with the Central Bank of Montenegro Regulations. As of December 31, 2013 the capital adequacy ratio calculated by the Bank for statutory financial statements equaled 13.12% (December 31, 2012: 15.05%), exceeding the prescribed minimum.

5.7. Sensitivity Analyses

5.7.1. Sensitivity Analysis (Currency Risk Exposure)

The management of currency risk, in addition to the analysis of Bank's assets and liabilities in foreign currencies, includes the analysis of risk inherent in the fluctuations in foreign currency exchange rates. The following table sets out the scenario for the changes in foreign currency exchange rates ranging from +10% to -10% against EUR.

		2013	Change in Exchange Rates	
	Total	**FX Amount**	**+10%**	**-10%**
Assets				
Cash balances and deposits with the Central Bank	26,684	341	34	(34)
Loans and advances to banks	51,692	10,196	102	(102)
Loans and advances to customers	122,734	559	56	(56)
Securities available for sale	7,720	278	28	(28)
Total assets	208,830	11,374	220	(220)
Liabilities				
Deposits due to banks	434	84	8	(8)
Deposits due to customers	163,207	11,381	114	(114)
Total liabilities	163,641	11,465	122	(122)
Net Open Currency Position:				
- December 31, 2013			98	(98)
- December 31, 2012			255	(255)

As of December 31, 2013, under the assumption that all other parameters remained unaltered upon the change in the EUR exchange rate against other currencies, by +10%, i.e., -10%, the Bank's profit would have increased/decreased by EUR 98 thousand (December 31, 2012: profit would have increased/decreased by EUR 255 thousand). The Bank's exposure to changes in the foreign exchange rates is insignificant due to the fact that the largest portion of the Bank's receivables and liabilities are denominated in EUR.

This Report is translation of the Auditors' Report issued in the Montenegrin language. In the case of any discrepancy between the Montenegrin and English versions, the Montenegrin shall prevail.

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All amounts expressed in thousands of EUR, unless otherwise stated.

5. FINANCIAL INSTRUMENTS (Continued)

5.7. Sensitivity Analyses (Continued)

5.7.2. Sensitivity Analysis (Interest Rate Risk Exposure)

In the process of interest rate risk management, the Bank analyzes the sensitivity of its receivables and liabilities with variable interest rates to changes in interest rates. The following table presents the effect of the changes in variable interest rates for receivables and liabilities denominated in EUR and foreign currencies ranging from +0.4% p.p. to -0.4% p.p., and from +0.3% p.p. to -0.3% p.p., respectively,

		Net effect of changes in interest rates	
	2013	**+0.4 b.p. EUR IR +0.3 b.p. FX IR**	**-0.4 b.p. EUR IR -0.3 b.p. FX IR**
Assets			
Cash balances and deposits with the Central Bank			
- with fixed interest rates	24,286	-	-
- with variable interest rates	2,398	10	(10)
Loans and advances to banks	51,692	-	-
Loans and advances to customers			
- with fixed interest rates	121,021	-	-
- with variable interest rates	1,713	7	(7)
Securities available for sale			
- with fixed interest rates	4,740	-	-
- with variable interest rates	2,980	12	(12)
Securities held to maturity	10,842	-	-
	219,762	**29**	**(29)**
Liabilities			
Deposits due to banks	434	-	-
Deposits due to customers	163,207	-	-
Borrowings from banks			
- with fixed interest rates	16,357	-	-
- with variable interest rates	4,000	16	(16)
Borrowings from customers	5,119	-	-
	189,117	**16**	**(16)**
Net interest rate sensitivity GAP:			
- December 31, 2013		**13**	**(13)**

Under the assumption that all other parameters remained unaltered, variable interest rate increase/decrease by 0.4 p.p. for EUR-denominated assets and liabilities and by 0.3 p.p. for assets and liabilities in foreign currencies, the Bank's profit would have decreased/increased by EUR 13 thousand.

The Bank's exposure to changes in the variable interest rates is insignificant due to the fact that the largest portion of the Bank's receivables and liabilities were contracted at fixed interest rates.

NOTES TO THE FINANCIAL STATEMENTS
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6. INTEREST INCOME AND EXPENSES

a) Interest Income

	2013	2012
Deposits with:		
- foreign banks	4	83
- Central Bank	1	16
	5	99
Loans approved to:		
- state institutions	837	-
- Government of Montenegro	48	-
- corporate customers	8,673	8,634
- retail customers	3,306	3,182
	12,864	11,816
	12,869	11,915
Impairment allowances of interest receivables	(15)	(198)
	12,854	**11,717**

b) Interest Expenses

	2013	2012
Deposits of:		
- financial institutions	(247)	(264)
- state institutions	(220)	(82)
- corporate customers	(797)	(848)
- retail customers	(2,456)	(2,087)
	(3,720)	(3,281)
Loans and other lent funds	(912)	(1,031)
	(4,632)	**(4,312)**

7. IMPAIRMENT LOSSES AND PROVISIONS

a) Impairment losses

	2013	2012
Net increase in provisions/(reversal of provision) in respect of:		
- loans	1,044	1,153
- fees and commissions	3	2
- other	(6)	16
	1,041	**1,171**

b) Provisions

	2013	2012
Net increase in provisions/(reversal of provision) in respect of::		
- off-balance sheet items	202	279
- other	4	(11)
	206	**268**

NOTES TO THE FINANCIAL STATEMENTS
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7. IMPAIRMENT LOSSES AND PROVISIONS (Continued)

c) Movements on the accounts of allowances for impairment of irrecoverable receivables and provisions in 2013

	Loans (Note 16)	Interest (Note 16)	Assets Acquired (Note 21)	Provisions for Operational Risk (Note 25)	Other	Provisions for Off-Balance Sheet Items (Note 25)	Total
Opening balance	3,953	23	352	303	130	654	5,415
Effects of adjustment of the opening balance under the new regulations CBM (Note 2.3)							
The effects of changes in the methodology for calculating impairment losses and provisions	(1,493)	(47)	-	-	-	(181)	(1,721)
Transfer of impaired loans to customers, interest accrued and other assets from off-balance sheet records to balance sheet records	1,374	81	-	-	-	-	1,455
Other	92	-	-	-	(12)	(2)	78
Restated balance as at January 1, 2013	3,926	57	352	303	118	471	5,227
Charge for the year, net	1,044	15	-	4	16	202	1,281
Other	-	-	(10)	-	-	1	(9)
Transfer to off-balance sheet items	(310)	(6)	-	-	-	-	(316)
Balance at the end of year	**4,660**	**66**	**342**	**307**	**134**	**674**	**6,183**

c) Movements on the accounts of allowances for impairment of irrecoverable receivables and provisions in 2012

	Loans	Interest	Assets Acquired	Provisions for Operational Risk	Other	Provisions for Off-Balance Sheet Items	Total
Opening balance	4,011	13	260	314	32	375	5,005
Charge for the year, net	1,074	198	92	(11)	98	279	1,730
Transfer to off-balance sheet items	(1,132)	(188)	-	-	-	-	(1,320)
Balance at the end of year	3,953	23	352	303	130	654	5,415

8. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and Commission Income

	2013	2012
Loan origination and processing fees	889	828
Fees and commissions from off-balance-sheet operations	659	554
Fees and commissions from payment transactions and e-banking	1,187	826
Fees and commissions for foreign payments	869	756
Fees and commissions on credit card operations	1,283	631
Other fees and commissions	364	450
	5,251	**4,045**

NOTES TO THE FINANCIAL STATEMENTS
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8. FEE AND COMMISSION INCOME AND EXPENSES (Continued)

b) Fee and Commission Expenses

	2013	2012
Fees and commissions payable to the Central Bank	(197)	(163)
Fees and commissions for foreign payment transactions	(115)	(86)
Deposit insurance premium fees	(622)	(368)
Fees paid for borrowings and guarantees	(21)	(15)
Visa and Master card fees	(476)	(57)
Other fees and commissions	(150)	(62)
	(1,581)	**(751)**

9. STAFF COSTS

	2013	2012
Net salaries	2,012	1,959
Taxes and contributions on salaries	1,653	1,427
Other employee benefits, net	66	196
Retirement benefits and jubilee awards	17	7
Remunerations to members of the Board of Directors	148	75
Employee transportation allowance, net	33	32
Business travel costs and per diems	112	81
Employee training costs	15	36
Provisions for employee retirement benefits and jubilee awards	35	14
Other staff costs	46	15
	4,137	**3,842**

10. GENERAL AND ADMINISTRATIVE EXPENSES

	2013	2012
Rental costs	843	810
Security services	425	345
Electricity and fuel bills	123	107
Cleaning services	69	46
Computer and other equipment maintenance	161	166
Premises-related taxes	13	19
Vehicle maintenance	35	31
Insurance costs	68	56
Audit fee	144	155
Court expenses	14	1
Other professional fees	29	18
Lawyer fees	10	9
Consultant services	12	-
Intellectual services	103	122
Telecommunication costs	109	101
Communication network costs	102	105
Postage	16	16
Office supplies	138	127
Utilities	14	13
Entertainment	140	129
Advertising and marketing	376	336
Subscriptions and donations	89	104
Miscellaneous expenses – software maintenance	230	167
Miscellaneous expenses – equipment rentals	206	61
Miscellaneous expenses – data processing services	173	158
Miscellaneous expenses – payment card operations	331	117
Other expenses	322	229
	4,295	**3,548**

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11. DEPRECIATION/AMORTIZATION CHARGE

	2013	2012
Property and equipment (Note 18)	540	568
Intangible assets (Note 19)	183	236
	723	**804**

12. OTHER INCOME

	2013	2012
Gains on the sale of property and equipment	100	-
Other operating income	71	30
Collected receivables previously written off	69	233
Other income	73	82
	313	**345**

13. INCOME TAXES

a) Components of Income Taxes

	2013	2012
Current income tax expense	252	202
Deferred income tax benefits	(7)	(26)
	245	**176**

b) Numerical Reconciliation between Tax Expense and the Product of Accounting Results Multiplied by the Applicable Tax Rate

	2013	2012
Profit before taxes	2,612	1,820
Income tax at statutory rate of 9%	235	164
Tax effects of expenses not recognized for tax purposes	17	39
Other	(7)	(27)
Income tax reported in the income statement	**245**	**176**
Effective interest rate	9,38%	9,65%

The tax rate used in 2013 and 2012 equals 9% and is applied to the taxable profit of legal entities in Montenegro as in accordance with the Corporate Income Tax Law.

c) Deferred Tax Assets/Liabilities

Deferred tax assets totaling EUR 18 thousand as of December 31, 2013 (December 31, 2012: EUR 10 thousand) and deferred tax liabilities of EUR 1 thousand refer to the taxable temporary differences between the amounts of property, equipment and intangible assets recognized for tax purposes and the carrying values of such assets included in the financial statements of the Bank as well as to the temporary differences in fair values of securities classified as available for sale.

All amounts expressed in thousands of EUR, unless otherwise stated.

14. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

	December 31, 2013	December 31, 2012
Cash on hand:		
- in EUR	4,190	3,360
- in foreign currencies	341	305
Gyro account	12,315	9,644
Obligatory reserves held with the Central Bank of Montenegro	9,592	7,057
Payment cards	246	-
	26,684	**20,366**

As of December 31, 2013, the Bank's obligatory reserves were set aside in accordance with the Decision of the Central Bank of Montenegro on Obligatory Reserves of Banks to Be Held with the Central Bank of Montenegro (Official Gazette of Montenegro no. 35/11, 22/12, 61/12 and 57/13), stipulating that banks calculate the obligatory reserve applying the following rates:

- 9.5% to the base comprised of demand deposits and deposits maturing within a year, i.e. 365 days; and
- 8.5% to the base comprised of deposits with maturities of over a year, i.e. 365 days.

The rate of 9.5% is also applied to deposits with contractually defined maturities of over a year, i.e. 365 days, with contractual clause on early withdrawal option.

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

The Bank sets aside the calculated reserves to the obligatory reserve accounts held with the Central Bank of Montenegro in the country and/or abroad. Pursuant to the Decision, the Bank may use 50% of the obligatory reserve for daily liquidity maintenance. Up to 35% of the obligatory reserve may be held in the form of treasury notes issued by the Montenegro Government. For the amount of 15% of the obligatory reserve requirement deposited by banks, the Central Bank pays fee calculated at an annual rate equal to EONIA (Euro Overnight Index Average) minus 10 basis points, but this rate cannot be less than zero, up to the eighth day of the month for the preceding month. The obligatory reserve is held in EUR.

15. LOANS AND RECEIVABLES DUE FROM BANKS

	December 31, 2013	December 31, 2012
Correspondent accounts with foreign banks	51,070	23,928
Deposits held with resident banks and other depositary institutions	60	291
Deposits held with non-resident banks and other depositary institutions	562	376
	51,692	**24,595**

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16. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

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

	December 31, 2013	December 31, 2012
Matured loans:		
- Montenegro Government	-	350
- municipalities (public organizations)	-	6
- privately-owned companies	4,041	3,682
- state owned companies	88	120
- retail customers	1,301	1,209
- others	134	61
Short-term loans:		
- municipalities (public organizations)	558	13
- privately-owned companies	23,935	21,152
- state owned companies	877	1,385
- retail customers	5,108	4,262
- others	863	8,735
Long-term loans:		
- municipalities (public organizations)	428	1,134
- privately-owned companies	54,299	51,091
- state owned companies	5,070	5,379
- retail customers	27,823	23,389
- others	410	228
	124,935	**122,196**
Interest receivables:		
- loans	1,284	1,181
Deferrals:		
- interest on loans	83	64
- fees	(808)	(808)
Factoring	1,416	113
Deposits with other depositary institutions	561	584
Activated guarantees	14	31
	2,550	**1,165**
Less:		
Impairment allowance of loans	(4,660)	(3,926)
Impairment allowance of interest receivables	(66)	(57)
Impairment allowance of deferrals, factoring and activated guarantees	(25)	(4)
	(4,751)	**(3,987)**
	122,734	**119,374**

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16. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

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

	December 31, 2013	December 31, 2012
Agriculture, forestry and fishing	1,491	1,349
Mining	2,895	3,686
Processing industry	3,415	4,752
Water supply	2,407	2,781
Construction industry	4,180	3,226
Trade	41,960	37,476
Transport and storage	8,966	11,252
Accommodation and catering services	7,420	8,067
Information and communications	1,813	1,188
Finance and insurance sector	1,525	1,840
Real estate trade	8,988	3,690
Professional, scientific and technical activities	3,685	3,714
Administrative and support service activities	257	407
Public administration, defense and compulsory social security	180	200
Education	155	352
Health and social care	639	648
Art, entertainment and recreational activities	375	1,565
Other services	310	245
Non-resident legal entities	42	6,898
Retail customers	34,232	28,860
	124,935	**122,196**

17. INVESTMENT SECURITIES

a) Securities Available for Sale

	December 31, 2013	December 31, 2012
Montenegro Government	2,979	-
Other residents	137	208
Non-residents	4,596	31
Unamortized discount/premiums	(12)	-
Other	20	-
	7,720	**239**

Securities classified as available for sale totaling EUR 2,979 thousand as of December 31, 2013 relate to the state issued bonds of the Ministry of Finance of the Montenegro Government with face value of EUR 3,000 thousand and maturity at December 9, 2016 and at interest rate of 3-month EURIBOR+595 bps, with a 12-month grace period for principal and quarterly coupon payments.

Other residents totaling EUR 137 thousand as of December 31, 2013 (as of December 31, 2012: EUR 208 thousand) refer to the following securities:

	December 31, 2013	December 31, 2012
- Crnogorski elektro prenosni sistem A.D., Podgorica	109	11
- Jugopetrol A.D., Kotor	16	15
- Autoremont A.D., Kotor	6	6
- Kontejnerski terminal i generalni tereti A.D., Bar	3	4
- Zetatrans A.D , Podgorica	2	2
- Crnogorski Telekom A.D, Podgorica	-	169
- Others	1	1
	137	**208**

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17. INVESTMENT SECURITIES (Continued)

a) Securities Available for Sale (Continued)

As of December 31, 2013 securities classified as available for sale totaling EUR 4,596 thousand (December 31, 2012: EUR 31 thousand) refer to the following:

1. Bonds of Ferrexpo Finance plc in the amount of EUR 291 thousand, with face value of USD 400 and maturity at April 7, 2016, at an interest rate of 7.875% and semi-annual coupon payments;
2. Bonds of Podravska banka d.d. Koprivnica in the amount of EUR 2,000 h thousand, with face value of EUR 2,000 thousand and maturity at December 23, 2021 at an interest rate of 6.5% and semi-annual coupon payments;
3. Shares in the New Millenium Sicav Fund totaling EUR 1,511 thousand; and
4. Shares in non-resident legal entities totaling EUR 794 thousand as of December 31, 2013 (December 31, 2012: EUR 31 thousand) pertain to the following securities:

	December 31, 2013	December 31, 2012
Investments in foreign companies:		
- Energoprojekt Holding A.D., Beograd	273	-
- Naftna industrija Srbije (NIS) A.D., Novi Sad, Republic of Serbia	162	31
- Gosa montaža A.D., Velika Plana	97	-
- Telekom Srpske A.D., Banja Luka	84	-
- Aik banka A.D., Niš	71	-
- Zvezda Helios Hemijska industrija, Gornji Milanovac	68	-
- Zavarovalnica Triglav D.D., Ljubljana	29	-
- Granit Pescar A.D., Ljig	10	-
	794	**31**

b) Securities Held to Maturity

As of December 31, 2013 securities held to maturity totaling EUR 10,842 thousand (December 31, 2012: EUR 6,505 thousand) refer to:

1. Treasury notes of the Montenegro Government with the face value of EUR 9,413 thousand and maturity within 6 months from the purchase date, at the annual interest rates ranging from 2.7% to 3.75%; unamortized discount amounted to EUR 65 thousand;
2. Bonds of the Montenegro Labor Fund totaling EUR 397 thousand, maturing up to July 27, 2017 at an annual interest rate of 7% and annual return model; the accrued interest not matured amounted to EUR 12 thousand; and
3. Bonds of the Montenegro Government with the face value of EUR 1,000 thousand and maturity at September 14, 2015, coupon interest rate of 7.875% and annual coupon payment. Unamortized premium amounted to EUR 62 thousand, whereas accrued interest not matured totaled EUR 23 thousand.

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18. PROPERTY AND EQUIPMENT

Movements on property and equipment and other assets for 2013 and 2012 are presented in the following table

	Buildings	Computer Equipment	Other Equipment	Investment In Progress	Total
Cost					
Balance at January 1, 2012	378	1,025	2,247	20	3,670
Additions	-	-	-	522	522
Transfers	-	77	310	(387)	-
Sales and disposals	(181)	(39)	(40)	-	(260)
Balance at December 31, 2012	**197**	**1,063**	**2,517**	**155**	**3,932**
Opening balance adjustment	-	-	-	(151)	(151)
Balance at December 31, 2012, restated	**197**	**1,063**	**2,517**	**4**	**3,781**
Additions	-	30	305	530	865
Transfers	-	18	365	(383)	-
Decreases (sales)	-	-	(188)	-	(188)
Retirement	-	(43)	(70)	-	(113)
Balance at December 31, 2013	**197**	**1,068**	**2,929**	**151**	**4,345**
Accumulated Depreciation					
Balance at January 1, 2012	61	796	863	-	1,720
Charge for the year (Note 11)	30	151	387	-	568
Sales and disposals	(43)	(39)	(14)	-	(96)
Balance at December 31, 2012	**48**	**908**	**1,236**	-	**2,192**
Charge for the year (Note 11)	4	104	432	-	540
Decreases (sales)	-	-	(88)	-	(88)
Retirement	-	(43)	(66)	-	(109)
Balance at December 31, 2013	**52**	**969**	**1,514**	-	**2,535**
Net Book Value:					
- at December 31, 2013	**145**	**99**	**1,415**	**151**	**1,810**
- at December 31, 2012	**149**	**155**	**1,281**	**4**	**1,589**

As of December 31, 2013, the Bank had no assets assigned under pledge liens to securitize the repayment of borrowings and other liabilities.

As of December 31, 2013, the Bank had investments in progress totaling EUR 151 thousand, which mostly relate to the equipment for a new server of EUR 60 thousand and equipment for POS terminal concentrator and Coin Sidecar ATM of EUR 47 thousand.

All amounts expressed in thousands of EUR, unless otherwise stated.

19. INTANGIBLE ASSETS

Intangible assets are mostly comprised of licenses and software. The movements on intangible assets in the course of 2013 and 2012 were as follows:

	Intangible Assets	Licenses	Software	Investment in Progress	Total
Cost					
Balance at January 1, 2012	545	226	637	-	1,408
Additions	51	-	97	-	148
Disposal and retirement	-	-	(1)	-	(1)
Balance at December 31, 2012	**596**	**226**	**733**	-	**1,555**
Opening balance adjustment	-	-	-	151	151
Balance at December 31, 2012, *restated*	**596**	**226**	**733**	**151**	**1,706**
Additions	-	28	98	330	456
Transfers	-	380	65	(445)	-
Disposal and retirement	(70)	-	(13)	-	(83)
Balance at December 31, 2013	**526**	**634**	**883**	**36**	**2,079**
Accumulated Amortization					
Balance at January 1, 2012	342	112	404	-	858
Charge for the year (Note 11)	84	46	106	-	236
Disposal and retirement	-	-	(1)	-	(1)
Balance at December 31, 2012	**426**	**158**	**509**	**-**	**1,093**
Charge for the year (Note 11)	58	43	82	-	183
Disposal and retirement	(70)	-	(12)	-	(82)
Balance at December 31, 2013	**414**	**201**	**579**	-	**1,194**
Net Book Value:					
- at December 31, 2013	**112**	**433**	**304**	**36**	**885**
- at December 31, 2012	**170**	**68**	**224**	**151**	**613**

Additions to the intangible assets during 2013 mostly relate to the activation of permanent licenses for VISA and MASTER card not subject to amortization in the amount of EUR 368 thousand as well as implementation of new application within application software Dabar of EUR 77 thousand.

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

Investment in progress amounted to EUR 36 thousand and principally pertained to the software projects related to the card and ATM operations.

20. OTHER FINANCIAL RECEIVABLES

	December 31, 2013	December 31, 2012
Receivables from custody operations	13	36
Advances paid	-	86
Other fee and commission receivables	184	191
Receivables from state funds	61	49
Accounts receivable	15	5
Receivables from payment card operations	30	4
Receivables from employees	23	14
Other financial receivables	192	164
Impairment allowance of other assets	(9)	(34)
	509	**515**

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21. OTHER OPERATING RECEIVABLES

	December 31, 2013	December 31, 2012
Assets acquired in lieu of debt collection	566	575
Other operating receivables	202	135
Prepaid expenses	749	367
Impairment allowance of other receivables	(342)	(352)
	1,175	**725**

Assets acquired in lieu of debt collection totaling EUR 566 thousand as of December 31, 2013 (December 31, 2012: EUR 575 thousand) relate to assets acquired from collateral foreclosure, which were in the Bank's ownership no longer than 12 months. Assets acquired in lieu of debt collection are recorded at the lower of the total amount of receivable and the estimated fair value of the assets.

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

Prepaid expenses of EUR 749 thousand as of December 31, 2013 (2012: EUR 367 thousand) mostly relate to the rental costs for new branches in the amount of EUR 320 thousand.

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22. DEPOSITS DUE TO CUSTOMERS

	December 31, 2013	December 31, 2012
Demand deposits:		
- financial institutions	672	247
- privately-owned companies	35,110	22,980
- state owned companies	2,867	2,131
- municipalities (public organizations)	2,246	2,097
- funds	194	270
- retail customers	19,622	14,433
- non-profit organizations	1,752	2,743
- others	8,936	3,859
	71,399	**48,760**
Funds on the escrow account	**266**	**155**
Short-term deposits:		
- financial institutions	2,287	3,363
- privately-owned companies	9,464	4,960
- state owned companies	1,390	509
- municipalities (public organizations)	4,377	957
- funds	500	500
- retail customers	19,945	24,102
- non-profit organizations	73	70
- others	1,314	1,429
	39,350	**35,890**
Long-term deposits:		
- financial institutions	3,640	620
- privately-owned companies	6,457	4,761
- state owned companies	709	1,356
- municipalities (public organizations)	40	-
- funds	-	124
- retail customers	35,673	21,671
- non-profit organizations	495	73
- others	3,196	4,057
	50,210	**32,662**
Interest and other liabilities		
Accrued interest on deposits	1,982	1,453
	163,207	**118,920**

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 6.25% 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 2% annually depending on the currency.

Short-term and long-term deposits of corporate customers denominated in EUR were placed at interest rates ranging from 0.1% to 6 % 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 foreign currencies were placed at interest rates ranging from 1% to 2.9%.

Demand deposits of public and other organizations accrued interest at the rates between 0% and 0.5% annually.

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23. BORROWINGS FROM BANKS

	Period (years)	Annual Interest Rate	December 31, 2013	December 31, 2012
European Investment Bank (EIB)	12	4.032%	2,076	2,292
European Investment Bank (EIB)	12	3.923%	1,162	1,283
European Investment Bank (EIB)	12	3.604%	3,487	3,832
European Investment Bank (EIB)	12	3.168%	1,836	2,010
European Investment Bank (EIB)	12	3.019%	1,817	1,990
European Investment Bank (EIB)	12	3.841%	2,972	3,101
European Investment Bank (EIB)	12	3.181%	863	899
European Investment Bank (EIB)	12	2.398%	2,000	2,000
European bank for Reconstruction and Development (EBRD)	5	4.75%+6M Euribor	4,000	-
			20,213	17,407
Interest not matured			144	88
Total			**20,357**	**17,495**

As at December 31, 2013, the Bank had liabilities towards the EIB based on long-term loans in the amount of EUR 16,213 thousand (December 31, 2012: EUR 17,407 thousand). In prior periods, EIB approved to the Bank loan funds totaling EUR 18,000 thousand for stimulating development of SME in Montenegro, with a grace period of maximum 2 years. As collateral securing timely loan repayment, the Bank provided the guarantee of the Government of Montenegro.

On November 5, 2012 the European Bank for Reconstruction and Development (EBRD) approved the Bank a loan of EUR 5,000 thousand at a variable annual interest rate of 4.75% plus officially published interbank interest rate for a period of 5 years (the ultimate loan agreement expiry date is January 15, 2018). The Bank is under obligation to use the borrowed funds for stimulating development of micro, small and medium-sized entities in Montenegro. In 2013 the Bank withdrew the total of EUR 4,000 thousand out of the available EUR 5,000 thousand. Pursuant to the loan agreement terms, the Bank, Bank is required to comply with certain covenants on financial ratios..

24. BORROWINGS FORM CUSTOMERS

	Period (years)	Annual Interest Rate	December 31, 2013	December 31, 2012
The European Fund for Southeast Europe (EFSE) Montenegro B.V.	5	5.43%	2,500	3,750
Investment and Development Fund of Montenegro, Podgorica	5-10	1.75%-7.5%	2,049	2,541
Directorate for SME Development	4-8	0-1%	521	521
			5,070	6,812
Accrued interest:				
Interest payable invoiced			-	9
Interest payable not matured			49	56
Total			**5,119**	**6,877**

Borrowed funds totaling EUR 2,500 thousand as of December 31, 2013 (December 31, 2012: EUR 3,750 thousand) refer to the loan extended to the Bank by EFSE during 2010 and 2011 in the amount of EUR 5,000 thousand at the annual interest rate of 5.43%, due for repayment within five years with a 12-month grace period. The Bank is obligated to use the borrowed funds to stimulate development of SME in Montenegro on condition that the individual loan amount approved cannot exceed EUR 100 thousand, i.e. the total amount of loans approved to a group of related parties cannot exceed EUR 300 thousand. The loans is repaid in equal semi-annual installments. In accordance with the loan agreement terms, the Bank is under obligation to comply with certain covenants on financial ratios.

All amounts expressed in thousands of EUR, unless otherwise stated.

24. BORROWINGS FORM CUSTOMERS (Continued)

Liabilities totaling EUR 2,570 thousand pertain to the liabilities arising from the long-term borrowings of EUR 2,049 thousand obtained from the Investment and Development Fund of Montenegro for co-financing SME in Montenegro, with grace periods ranging from 0 to 3 years. Liabilities totaling EUR 521 thousand refer to the funds received from the Directorate for SME Development with grace periods ranging from 0 to 24 months.

25. PROVISIONS

	December 31, 2013	December 31, 2012
Provisions for potential losses per:		
- off-balance sheet exposures	674	471
- operational risk	307	303
Provisions for employee retirement benefits and jubilee awards	99	78
	1,080	**852**

Provisions for employee retirement benefits totaling EUR 99 thousand as of December 31, 2013 were made based on the present value of the expected future payments of retirement benefits to the employees upon fulfillment of retirement criteria.

The present value of the expected future payments of retirement benefits to the employees upon fulfillment of retirement criteria was determined by an independent certified actuary as of December 31, 2013 in accordance with the rules of the actuarial profession. Technical basis used for the calculation of the present value of the expected future payments entailed the use of:

a) commutative numbers obtained from the calculated survivorship probability of the Montenegro population from the 1980 – 1982 census; and
b) annual interest rate of 10% for discounting future payments to the employees.

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

	Assessment as at December 31, 2013	December 31, 2012
	%	**%**
Discount rate for retirement benefits	10.00	12.00
Employee turnover ratio	1.19	3.07
Inflation rate	2.20	4.10
Expected salary growth rate	-	-

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

	2013	2012
Balance, beginning of year	78	65
Charge for the year (Note 9)	35	14
Reversal of provisions	(14)	(1)
Balance, at December 31	**99**	**78**

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26. OTHER LIABILITIES

	December 31, 2013	December 31, 2012
Liabilities from consignment operations	414	256
Advances received	1,089	1,011
Other taxes payable	11	14
Employee salary garnishment liabilities	84	6
Accounts payable	94	19
Accrued liabilities	294	213
Custody operation liabilities	1,725	932
Temporary and suspense accounts	856	217
Other liabilities	198	330
	4,765	**2,998**

27. CAPITAL

As of 31 December 2013 and 2012, the Bank's share capital was comprised of 31,305 ordinary shares with the par value of EUR 511.29. The Law on Banks (Official Gazette of Montenegro, no. 17/2008, 44/2010, and 40/2011) stipulates that the minimum cash amount of the share capital may not be less that EUR 5,000 thousand. At December 31, 2013, the Bank's capital complied with the prescribed minimum capital requirements.

The ownership structure of the Bank's share capital as of December 31, 2013 and 2012 was as follows:

	December 31, 2013			December 31, 2012		
Shareholder	**Share Count**	**EUR '000**	**% Ownership**	**Share Count**	**EUR '000**	**% Ownership**
HB – collective custody account 4	5,281	2,700	16.87	5,281	2,700	16.87
Cerere s.r.l	4,360	2,229	13.93	4,360	2,229	13.93
Gorgoni Antonia	3,131	1,601	10.00	3,131	1,601	10.00
Gorgoni Lorenzo	2,591	1,325	8.28	2,591	1,325	8.28
Todorović Miljan	2,316	1,184	7.40	2,316	1,184	7.40
Other shareholders	13,626	6,967	43.52	13,626	6,967	43.52
Total	**31,305**	**16,006**	**100.00**	**31,305**	**16,006**	**100.00**

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

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

In accordance with the Decision on Capital Adequacy in Banks ("Official Gazette of Montenegro," no. 38/2011, 55/2012), the Bank's capital is comprised of the Bank's core capital and supplementary capital, minus deductible items. The Bank's capital as of December 31, 2013 amounted to EUR 20,039 thousand (December 31, 2012: EUR 22,661 thousand).

The Bank's core capital formed in accordance with the Decision on Capital Adequacy in Banks, as of December 31, 2012 amounted to EUR 20,039 thousand (December 31, 2012: EUR 22,661 thousand). The Bank's capital as of December 31, 2013 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.

Pursuant to Decision on Capital Adequacy in Banks effective as of December 31, 2013, the Bank is required to maintain the minimum capital adequacy ratio of 10%. As of December 31, 2013, the Bank's capital adequacy ratio equaled 13.12% (December 31, 2012: 15.05%) and was above the prescribed minimum. As of December 31, 2013 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.

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29. OFF-BALANCE SHEET ITEMS

	December 31, 2013	December 31, 2012
Undrawn loan facilities	8,265	4,972
Irrevocable documentary letters of credit issued for payments abroad	226	39
Other letters of credit for payments abroad	601	592
Guarantees issued	**40,347**	**36,358**
- Payment guarantees	26,521	25,245
- Performance guarantees	5,975	5,509
- Other types of guarantees	7,851	5,604
Issued promissory notes and acceptances		
Collaterals securitizing receivables	373,661	365,242
Other items of the Bank's off-balance sheet exposures	77,485	79,350
Total	**500,585**	**486,553**
Off-balance sheet liabilities		
- Broken–period interest	937	970
Total	**501,522**	**487,523**

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

1) for unsecuritized receivables:
- when bankruptcy proceedings have been instigated over the debtor lasting for over a year; or
- when the debtor is in default of over two years;
2) for securitized receivables with the debtor default of over four years, i.e. if the Bank has not received a single payment from the collateral foreclosure within the aforesaid period.

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

30. CASH AND CASH EQUIVALENTS

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

	December 31, 2013	December 31, 2012
Cash on hand	4,190	3,360
Foreign currency cash on hand	341	305
Assets in the course of settlement	246	-
Gyro account	12,315	9,644
Correspondent accounts with foreign banks	51,070	23,928
Deposits placed with the Central Bank of Montenegro	9,592	7,057
Deposits placed with banks and other depositary institutions – residents	83	309
Deposits placed with banks/central banks and other depositary institutions – non-residents	1,124	913
	78,961	45,516

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All amounts expressed in thousands of EUR, unless otherwise stated.

31. RELATED PARTY TRANSACTIONS

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

	December 31, 2013	December 31, 2012
Receivables		
- Miljan Todorović	2	-
- Montinari Dario	317	-
- Jugopetrol a.d. Kotor	1	-
- Podravska Banka d.d. Koprivnica	3,543	66
	3,863	66
Payables		
Demand deposits:		
- Miljan Todorović	2	24
- Sigilfredo Montinari	1	-
- Jugopetrol a.d. Kotor	63	-
- Nereo Finance S.A	108	138
- Podravska Banka d.d. Koprivnica	325	132
- Gorgoni Lorenzo	23	20
- Cerere s.r.l.	-	6
	522	320
Term deposits		
- Miljan Todorović	284	346
Total payables	**806**	**666**

Expenses from transactions with related parties during 2013 amounted to EUR 180 thousand (2012: EUR 83 thousand), while income totaled EUR 56 thousand (2012: EUR 19 thousand).

As of December 31, 2013 receivables from employees totaling EUR 2,100 thousand (December 31, 2012: EUR 1,718 thousand) relate to the receivables arising from loans approved to employees, authorized current account overdrafts and credit card receivables.

In 2013, total gross remunerations paid to persons with special authorities and responsibilities amounted to EUR 761 thousand (2012: 806 thousand).

32. LITIGATION

As of December 31, 2013, there were 15 legal suits filed against the Bank by legal entities and private individuals totaling EUR 458 thousand, out of which EUR 440 thousand relates to the lawsuit filed by a private individual. The outcome of the pending legal suits cannot be currently anticipated with any certainty.

As of December 31, 2013 the legal suits involving the Bank as the plaintiff totaled EUR 6,548 thousand.

33. TAXATION RISKS

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

NOTES TO THE FINANCIAL STATEMENTS
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34. EVENTS AFTER THE REPORTING PERIOD

On March 12, 2014 a private individual plaintiff involved in a legal suit against the Bank totaling EUR 440 thousand (Note 32), withdrew the lawsuit filed with the Basic Court of Podgorica. The Court enacted Decision acknowledging that the lawsuit filed against the Bank was withdrawn.

35. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of the statement of financial position components denominated in foreign currencies into EUR as at December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
USD	1.3783	1.3182
CHF	1.2259	1.2080
GBP	0.8364	0.8169

36. GENERAL INFORMATION ON THE BANK

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

Bank's registered name:	Hipotekarna banka AD, Podgorica;
Registered address:	Ulica Josipa Broza Tita broj 67, 81000 Podgorica;
Bank's ID number:	02085020;
Telephone/Fax number:	+ +382 77 700 001;
Web page:	http://www.hipotekarnabanka.com;
Email address:	hipotekarna@hb.co.me;
The Bank has:	head office and17 branches;
Headcount s at December 31, 2013:	170;
Gyro account:	907-52001-93.

Information on the President and members of the Board of Directors

	First name, last name	Date of birth	Residence Place	Residence Address (street, number)
1. President	Sigilfredo Montinari	May 27, 1966	Lecce, Italy	Via P. Cecere 3
2. Member	Božana Kovačević	December 20, 1956	Koprivnica, Croatia	Ul. Vinodolska broj 51
3. Member	Snežana Pobi	June 29, 1962	Koprivnica, Croatia	Ul. Vinodolska broj 51
4. Member	Renata Vinković	September 19, 1971	Koprivnica, Croatia	Trg Kralja Zvonimira broj 22
5. Member	Esad Zaimović	March 17, 1964	Podgorica	Bulevar Revolucije broj 8
6. Member	Dolly Predović	June 20, 1966	Milan, Italy	Via Visconti di Modrone Uberto 1
7. Member	Miljan Todorović	May 22, 1964	Trieste, Italy	Salita Alla Madonna di Gretta 2/5 Trieste, Italy
Chief Executive Officer	Esad Zaimović	March 17, 1964	Podgorica	Bulevar Revolucije broj 8
Executive Officer authorized to sign documents	Esad Zaimović	March 17, 1964	Podgorica	Bulevar Revolucije broj 8

NOTES TO THE FINANCIAL STATEMENTS
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36. GENERAL INFORMATION ON THE BANK (Continued)

Top ten shareholders of the Bank:

Name, last name / Company name	Residence / Registered address (place, street, number)	Data on Shares Share count	Ownership %
HB – Collective custody account 4	Josipa Broza Tita 67	5,281	16.8695
CERERE S.R.L.	Via di Torrebianca 43, Trieste, Italy	4,360	13.9275
GORGONI ANTONIA	Corso Piave 16, Lecce, Italy	3,131	10.0016
GORGONI LORENZO	Cutrofiano, Via Umberol, Italy	2,591	8.2766
TODOROVIĆ MILJAN	Salita Alla Madonna di Gretta 2/5 Trieste, Italy	2,316	7.3982
PODRAVSKA BANKA DD	Opatička 3, Koprivnica, Croatia	2,047	6.5389
NEREO FINANCE S.A.	L-1510 Luxembourg 38, Avenue de la Faiencerie, Luxembourg	1,524	4.8682
JUGOPETROL AD KOTOR	Trg Mata Petrovića broj 2, Kotor	1,472	4.7021
MONTINARI DARIO	Piazza Libertini 10, Italy	1,445	4.6159
MONTINARI SIGILFREDO	Via P.Cecere 3, Lecce, Italy	1,445	4.6159
Total share capital	**EUR 16,006 thousand**		

Share issues and share issue designations:

Share issue designation	Share par value	Share count
2nd share issue	RSD 100,000	200
2nd share issue	RSD 10,000	1,000
3rd share issu	USD 1,000	1,200
3rd share issu	USD 1,000	300
4th share issue	New RSD 1,000	900
4th share issue	New RSD 1,000	100
5th share issue	New RSD 10,000	300
6th share issue	New RSD 10,000	500
7th share issue	New RSD 10,000	1,000
8th share issue	New RSD 10,000	2,500
Share issue based on profit distribution	RSD 10,000	1,365
9th share issue	DEM 1,000	3,000
Share issue based on profit distribution	DEM 1,000	2,186
10th share issue	DEM 1,000	5,000
Share issue for sales to the shareholders with preemptive rights	DEM 1,000	5,000
First closed issue	EUR 511,29	5,000
Share issue based on profit distribution	DEM 1,000	2,186
Share issue based on profit distribution	DEM 1,000	2,186
Share issue based on profit distribution	DEM 1,000	2,186

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

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

Share prices when traded on the stock exchange:

	Regular shares Lowest	Highest
In the previous year	600.0000	780.0000
In the current year	490.0000	600.0000

NOTES TO THE FINANCIAL STATEMENTS
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36. GENERAL INFORMATION ON THE BANK (Continued)

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

	Regular shares	
	Lowest	Highest
In the previous year	650.0000	613.7143
In the current year	613.7143	490.0000

Net profit per share:

In the previous year	51.68
In the current year	75.62

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

In the previous year	12.43
In the current year	7.03

Carrying value per share:

In the previous year	790.27
In the current year	921.99

The auditing company that audited the 2012 financial statements: Ernst & Young Montenegro d.o.o. Podgorica, Serdara Jola Piletića, Poslovni centar Palada, lokal 2A.