UNIVERSAL CAPITAL BANK AD, PODGORICA

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015 AND INDEPENDENT AUDITORS' REPORT

CONTENTS

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders Assembly of Universal Capital Bank AD, Podgorica

We have audited the accompanying financial statements (pages 3 to 44) of Universal Capital Bank AD, Podgorica, (hereinafter: the "Bank"), which comprise the balance sheet as of December 31, 2015 and the related income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Accounting and Auditing of Montenegro and the International Standards on Auditing. 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 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 Bank's internal controls. 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 solid basis for our audit opinion.

Opinion

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

(Continues)

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INDEPENDENT AUDITORS' REPORT (continued)

To the Shareholders Assembly of Universal Capital Bank AD, Podgorica (continued)

Emphasis of Matter

We draw attention to the facts disclosed in the Notes 14, 15 and 26 accompanying the financial statements, where it is disclosed that the Bank is required to harmonize the scope and structure of its operations and risk placements with the performance indicators prescribed by the Law on Banks and the decisions of the Central Bank of Montenegro. As of December 31, 2015, certain performance indicators were not harmonized with the prescribed limits. Possible measures that the Central Bank of Montenegro may take upon these inconsistencies cannot be predicted at the moment. The Bank's management is taking necessary activities to bring the indicators in compliance with the legally prescribed framework.

Our opinion is not modified in respect to this matter.

Deloitte d.o.o. Podgorica	Katarina Bulatović, Certified Auditor
May 31, 2016	(License No. 067, issued on March 31, 2015)

INCOME STATEMENT
In the period from January 1 to December 31, 2015
(in thousands EUR)

	Notes	2015	Adjusted 2014
Interest income	5a	1,934	1,698
Interest expense	5b	(508)	(332)
NET INTEREST INCOME		1,426	1,366
Impairment losses	6a	(9)	(152)
Provision charges	6b	(5)	(4)
Fee and commission income	7a	1,188	1,104
Fee and commission expenses	7b	(507)	(368)
NET FEE INCOME		681	735
Foreign exchange gains, net		210	162
Staff costs	8	(1,128)	(986)
General and administrative costs	9	(729)	(830)
Depreciation/amortization charge	10	(211)	(182)
Other expenses		(4)	(4)
Other income	11	78	6
OPERATING PROFIT		309	112
Income tax	12a	(15)	-
NET PROFIT FOR THE YEAR		294	112

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

Signed on behalf of Universal Capital Bank AD, Podgorica as at May 31, 2016 by:

Georgios Lychnos
Chief Executive Officer

Miloš Pavlović
Executive Director

Kolja Krcić
Director of Accounting Department

BALANCE SHEET
As at December 31, 2015
(in thousands EUR)

	Notes	December 31, 2015	December 31, 2014 *(Adjusted)*
ASSETS			
Cash and deposit accounts held with central banks	13	10,182	10,133
Loans and receivables from banks	14	31,452	26,103
Loans and receivables from customers	15	33,890	16,715
Investment securities			
- held to maturity	16	1,500	167
Investments in subsidiaries	17	755	-
Property, plant and equipment	18	3,534	1,514
Intangible assets	19	205	212
Other financial receivables		264	272
Other operating receivables	20	4,260	4,287
TOTAL ASSETS		**86,042**	**59,403**
LIABILITIES			
Deposits from clients	21	72,142	47,523
Borrowings from clients	22	5,087	4,657
Reserves		10	5
Current tax liabilities		1	-
Deferred tax liabilities		15	-
Other liabilities	23	120	133
Subordinated loans		-	1,000
TOTAL LIABILITIES		**77,375**	**53,318**
EQUITY			
Share capital	24	16,002	13,714
Retained earnings		(7,730)	(7,842)
Profit for the year		294	112
Other reserves		101	101
TOTAL EQUITY		**8,687**	**6,085**
TOTAL EQUITY AND LIABILITIES		**86,042**	**59,403**
OFF-BALANCE SHEET ITEMS	27	**75,188**	**52,349**

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

STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2015
(In thousands of EUR)

	Share Capital	Retained earnings	Profit for the year	Other reserves	Total
Balance, as of January 1, 2014	12,214	(7,904)	62	101	4,473
Issued shares	1,500	-	-	-	1,500
Prior year profit carried forward	-	62	(62)	-	-
Net profit for the year	-	-	112	-	112
Balance, as of December 31, 2014	13,714	(7,842)	112	101	6,085
Recapitalization	2,288	-	-	-	2,288
Prior year profit carried forward	-	112	(112)	-	-
Net profit for the year	-	-	294	-	294
Balance, as of December 31, 2015	16,002	(7,730)	294	101	8,687

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

STATEMENT OF CASH FLOW
For the Year Ended December 31, 2015
(In thousands of EUR)

	2015.	2014.
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from interest and similar income	1,766	1,591
Outflows from interest and similar expense	(389)	(227)
Inflows from fees and commissions	1,161	1,120
Outflows from fees and commissions	(507)	(369)
Cash paid to employees and suppliers	(1,828)	(1,781)
Increase in loans and other assets	(17,533)	(2,290)
Inflows from deposits	24,509	30,608
Other inflows	167	-
Net cash inflow from operating activities	7,346	28,652
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(277)	(560)
Purchase of intangible assets	(97)	(150)
Treasury bills and treasury bonds	(1,333)	233
Income from sale of tangible and fixed assets	146	-
Net cash outflow from investing activities	(1,561)	(477)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in borrowings	(591)	664
Emission of ordinary shares	-	1,500
Net cash (outflow)/inflow from financing activities	(591)	2,164
Effects of foreign exchange in cash and cash equivalents	204	162
Net increase in cash and cash equivalents	5,398	30,501
Cash and cash equivalents, beginning of year	36,236	5,735
Cash and cash equivalents, end of year (Note 13 and 14)	41,634	36,236

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

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

1. FOUNDATION AND BUSINESS ACTIVITY OF THE BANK

Universal Capital Bank AD, Podgorica was founded under the name First Financial Bank AD, Podgorica (hereinafter: the Bank) established on October 18, 2007. The name First Financial Bank AD, Podgorica was changed to Universal Capital Bank AD, Podgorica as at June 04, 2014. The Decision of the Shareholders Assembly of the Bank's name change was adopted at the session held on May 30, 2014. The Bank is headquartered in Podgorica, at Stanka Dragojević Street bb.

The Bank has obtained a permit from the Central Bank of Montenegro (Decision No. 0101-2933/3-2 dated July 12, 2007). The Bank is inscribed in the Register of the issuers of securities maintained by the Securities Commission under the number 472 (Decision No. 02/3-33/2-07 dated October 31, 2007).

In accordance with the Law on Banks, the Decision on Incorporation and the Articles of Incorporation, the Bank performs the banking operations i.e. activities of reception of cash deposits and approval of loans for its own account.

In addition to these activities, the Bank may perform the following tasks:
1. Issuance of guarantees and undertaking of other off-balance sheet commitments;
2. The purchase, sale and collection of receivables (factoring, forfeiting and other);
3. The issuance, processing and recording of payment instruments;
4. Payments in the country and abroad, in accordance with the regulations governing the payment transactions;
5. Financial leasing;
6. The activities with securities, in accordance with the law governing the securities;
7. Trading in its own name and for its own account or on behalf of clients: with foreign currencies, including exchange transactions in financial derivatives;
8. Depot operations;
9. Analysis and provision of information and advice on the creditworthiness of companies and entrepreneurs and other issues regarding operations;
10. Rental of safe deposit boxes;
11. The activities that are part of banking operations, ancillary tasks in relation to the operations of the Bank, other activities directly related to the operations of the Bank in accordance with the Articles of Incorporation.

With prior approval of the Central Bank, the Bank may perform other activities in accordance with the law.

As of December 31, 2015, the Bank was comprised of a Central Office located in Podgorica, 2 branch offices located in Podgorica and one branch office located in Sveti Stefan. The Bank had 59 employees (December 31, 2014: 54 employees).

As of December 31, 2015, the Members of the Board of Directors were the following:

Name and surname	Position
Božo Milatović	President of the Board of Directors
Georgios Lychnos	Member of the Board of Directors
Predrag Drecun	Member of the Board of Directors
Jurij Daneu	Member of the Board of Directors
Nasrulla Babayev	Member of the Board of Directors

As of December 31, 2015, the Executive Directors were as follows:

Name and surname	Position
Georgios Lychnos	Chief Executive Officer
Miloš Pavlović	Executive Director

As of December 31, 2015, the Members of the Board for Auditing were as follows:

Name and surname	Position
Stylianos Katevatis	President
Petros Stathis	Deputy President
Niki Pantzali	Member

As of December 31, 2015, the Members of the Committee for Management of Assets, Equity and Liabilities were as follows:

Name and surname	Position
Georgios Lychnos	Chief Executive Officer
Miloš Pavlović	Executive Director
Mirza Redžepagić	Head of the Funds Management Department

As of December 31, 2015, the internal auditor of the Bank was Lana Kalezić.

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis for preparation and presentation of the financial statements

The Bank is obligated to prepare its financial statements in accordance with the Accounting and Auditing Law of Montenegro (Official Gazette of Montenegro, No. 69/05, 80/08 and 32/11) entailing the application of International Accounting Standards and International Financial Reporting Standards, as well as the decisions of the Central bank of Montenegro governing the financial reporting of banks.

The accompanying financial statements are prepared in accordance with the Decision on the Contents, Deadlines and Manner of Preparation and Submission of the financial Statements of Banks (Official Gazette of Montenegro, no. 15/12 and 18/13).

In preparation of these financial statements the Bank applied policies in conformity with the regulations of the Central Bank of Montenegro, which however, in the part regarding recording receivables eligible for derecognition from the Bank's balance sheet and in the form for presentation of the financial statements depart from the requirements of IFRS and IAS effective as of December 31, 2015.

In accordance with the Law on Accounting and Auditing of Montenegro, the International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS") published by the International Accounting Standards Board, should be adopted and published by a respective competent authority of Montenegro who got the right on translation and publishing from the International Federation of Accountants (IFAC). Therefore, only IFRS and IAS officially adopted and published by the respective and competent authority of Montenegro may be applicable. The last officially translated IAS and IFRS are those translated in 2009 (except for IFRS 7) and newly adopted IFRS 10, 11, 12 and 13, which are applicable from 2013.

Bearing in mind the effects that differences of accounting regulations of Montenegro from IFRS and IAS may have on the presentation of the Bank’s financial statements, the accompanying financial statements in that section are different and differ from IFRS and IAS and cannot be treated as having been prepared in accordance with IFRS and IAS.

The Bank has prepared these unconsolidated financial statements based on and according to the requirements of the laws and regulations of Montenegro, with the investment in subsidiary i.e. Universal Capital Development d.o.o. Podgorica stated in these financial statements at cost reduced for possible impairment. A better understanding of the financial position and results of the Company can be obtained by examining the consolidated financial statements of the Bank.

These financial statements have been prepared in accordance with the historical cost convention, unless otherwise stated in the accounting policies.

In the preparation of the accompanying financial statements, the Bank has adhered to the accounting policies described in Note 3.

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

2.2. Use of Estimates

The presentation of financial statements requires the Bank’s management to make the best possible estimates and reasonable assumptions that affect the presented values of assets and liabilities, as well as the disclosure of contingent liabilities and receivables as of the date of the preparation of the financial statements, and the income and expenses arising during the accounting period. These estimations and assumptions are based on information available to us as at the financial statements preparation date. However, the actual results may differ from the values estimated in this manner. The most significant estimates and assumptions were made in the following balance sheet positions:

- Provisions on loans and interest receivables
- Provisions on deposits placed in other banks
- Provision on equity investments
- Provisions on off - balance sheet items
- Provisions on employee benefits
- Provisions on litigations and claims
- Useful life of intangible and tangible assets.

2.3. Going Concern

The financial statements are prepared in accordance with the going concern basis, which presupposes that the Bank will continue to operate over an unlimited period in the near future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest and Fee Income and Expense Recognition

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

The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of a financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the bank estimates cash flows considering all contractual terms of the financial instrument (i.e. prepayment options) but does not consider future credit losses. The calculations include 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.

Interest income and interest expense, including penalty interest and operating income and expenses related to interest-bearing assets and liabilities are accounted for on an accrual basis.

Fees for banking services and fee and commission expenses are recorded when due, i.e., when realized.

Income and expenses arising from loan and guarantee origination are accounted for on an accrual basis using effective interest method.

3.2. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated in EUR using official average exchange rates determined on the Interbank Market effective on date of each transaction.

Assets and liabilities denominated in foreign currencies are translated in EUR by applying the official average exchange rates, as determined on the Interbank Market, effective on the balance sheet date.

Net foreign exchange gains or losses arising from transactions in foreign currencies and from translation of balance sheet items denominated in foreign currencies are credited or charged to the income statement, as positive or negative foreign exchange differences.

Commitments and contingent liabilities denominated in foreign currencies are translated in EUR by applying the official average exchange rates, as determined on the Interbank Market, effective on the balance sheet date.

3.3. Leasing

The leases entered into by the Bank are operating leases. The payments made under operating lease are charged to operating expenses in the income statement on a straight-line basis over the period of the lease agreement duration.

3.4. Taxes and Contributions

Income Taxes

Current income taxes

Income taxes are calculated and paid in conformity with the Corporate Income Tax Law (Official Gazette of Montenegro, No. 80/04, 40/08, 86/09, 14/12 and 61/13). The income tax rate is a proportionate rate of 9% applied to the tax base.

Capital losses may be set off against capital gains earned in the same year. In case there are outstanding capital losses even after the set-off of capital losses against capital gains earned in the same year, these outstanding losses are carried forward in the following 5 years.

Montenegrin tax regulations do not envisage that any tax losses of the current period can be used to recover taxes paid in prior periods. However, current year losses reported in the tax return can be used to decrease taxable profits for future periods, but not longer than five years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Taxes and Contributions (Continued)

Income Taxes (Continued)

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 book values. The tax rates effective at the balance sheet date, or the tax rates that came into effect after that 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.

Taxes, contributions and other duties not related to operating results

Taxes, contributions and other duties that are not related to the bank's operating result, include property taxes and other various taxes and contributions paid pursuant to republic and municipal regulations.

3.5. Cash and Cash Equivalents

Cash and cash equivalents comprise cash (EUR and foreign currencies) and balances with the Central Bank of Montenegro and other banks.

3.6. Loans

Loans approved by the bank are recorded in the books when funds are transferred to the loan beneficiary's account.

Loans are stated in the balance sheet for loan increased for matured interest, decreased by the principal and interest repaid and allowance for impairment that is based on the assessment of precisely identified risks inherent in certain placements and risks, which have been historically identified in the credit portfolio. The bank's management applies the methodology prescribed by the Central Bank of Montenegro in its evaluation of the risks, which is disclosed hereinafter.

3.7. Allowances for Impairment and Provisions for Potential Losses

In accordance with the Decision issued by the Central Bank of Montenegro regarding minimal standards for credit risks management in banks (Official Gazette of Montenegro, no. 22/12, 55/12 and 57/13) the following were established: elements of credit risk management, minimum criteria and manner of classifying assets and off-balance sheet items which render the bank is exposed to credit risk and the manner of determining the minimum provisions for potential losses arising from credit risk exposure. The bank's risk-weighted assets, within the meaning of this Decision, are comprised of loans, borrowings, interest, fees and commissions, lease receivables, deposits with banks, advances and all other items included in the balance sheet exposing the bank to default risk, as well as guarantees issued, other sureties, effectuated letters of credit and approved, but undrawn loan facilities, as well as all other off-balance sheet items being the bank's contingent liabilities.

In accordance with the Decision on Minimum standards for credit risk management in banks (Official Gazette of Montenegro, no. 22/12, 55/12 and 57/13) the bank shall perform at least once in a quarter an impairment assessment (for balance sheet items) and assessment of probable loss (for off-balance sheet items) for balance sheet assets and off-balance sheet items based on which it is exposed to credit risk and classify them into appropriate classification categories. According to IAS 39 the Bank is also required to establish a methodology for assessing impairment of balance sheet assets and probable losses related to off-balance sheet items.

For the purpose of calculation of credit risk provisions, the Bank applies Methodology for assessment of asset impairment and probable loss for off-balance items. The Methodology is in compliance with the requirements of IAS 39.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Allowances for Impairment and Provisions for Potential Losses (Continued)

When assessing the value of impairment of financial assets, the Bank complies with the requirements of IAS 39 that follows:

- The estimation of impairment is based on incurred losses, instead of the expected or future losses. The Impairment is only recognized as incurred;
- There must be objective evidence of impairment, which is derived from one or more events that occurred after the initial recognition of the asset (loss event);
- It is necessary to ensure that impairment is not recognized on initial recognition of assets;
- Impairment is recognized both individually and on a group (portfolio) basis;
- Impairment calculation is based on an estimation of expected future cash flows of the financial asset;
- Cash flows of a financial asset carried at amortized cost is discounted at the effective interest rate;

IFRS require individual estimation for individually significant receivables and group estimation of receivables that are not individually significant. Accordingly, the Bank identifies the items of balance sheet assets and probable loss on off-balance sheet items and calculates an adequate amount of that impairment, or probable loss on:

- individual basis (individual estimation for individually significant receivables)
- group basis (group estimation of receivables that are not individually significant)
- group basis (group estimation of individually significant items for which the estimates are first carried out on an individual basis but not individually devalued).

Bank on a quarterly basis estimates whether there is an objective reason for the devaluation of exposure or group of exposures. If the bank assess that an event that has a negative effect on expected cash flows has occurred, exposure will be reclassified from healthy in defaulted loans/exposures.

The objective evidence of assets impairment i.e. probable loss per off-balance items is data on one or more events that have negative influence on debtor’s ability to regularly settle its obligations towards the Bank.

The bank is obliged to perform individual assessment of assets impairment and probable loss per off-balance items for individually significant receivables.

Individually significant should be considered an exposure to a single party or group of related parties exceeding EUR 20 thousand (for legal entities and individuals). Individually significant should also be considered the existence of a default on materially significant amounts (delay in repayment of the loans exceeding 30 days for legal entities i.e. 90 days for individuals, above the established limit of materiality of EUR 200 for legal entities, or EUR 20 for individuals).

Objective evidences of impairment are particularly defined for legal entities and individuals. As for the entrepreneurs’ portfolio, the Bank applies the same criteria as applied for the legal entities.

If there is an objective evidence of impairment, impairment test is performed and in case of need recognition of impairment loss for balance sheet items and probable loss for off-balance sheet items. Impairment or a loss should be recognized in the period when it is determined that receivable will not be fully reimbursed.

Assessment of future cash flows is performed based on days of delay, client’s financial situation and collateral and direct selling costs of collateral.

<u>Corporate loans (including SMEs)</u>

All placements exceeding EUR 20 thousand shall be individually assessed. In addition, all loans given to legal entities are considered to be individually significant if there is a delay on materially significant amounts (delay in settling the obligations on the grounds of any loan to customers for more than 30 days, for all exposures exceeding EUR 200).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Allowances for Impairment and Provisions for Potential Losses (Continued)

Objective evidences indicating the impairment of placements are as follows:

- Significant financial difficulties of the issuer or borrower;
- Breach of Contract / or delay or non-settling of interest or principal;
- Bank approves to the debtor, for economic or legal reasons related to financial difficulties of the debtor, a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or financial reorganization;
- Observable data indicating that there is a measurable reduction in future cash flows or group of financial assets from the initial recognition of those assets, although the reduction can still not be identified with the individual financial asset in the group, including: a) adverse changes in the payment status of the debtor or the debtor group (i.e. the increase in the number of delayed payments due to the problems in the sector) and b) adverse conditions in the market of the client's business performance;
- The restructuring of the loan – if the terms of the contract modified in favour of the borrower, without justification by improving creditworthiness or changes in market prices (or interest rates). These restructured loans also include loans that are not in accordance with the general Loan Policy of the Bank, pursuant to which new loans are to be approved;
- The worsening of liquidity of the client / decrease in working capital;
- Significant reduction in fixed assets;
- Loss exceeding equity;
- Significant reduction in capital;
- Other relevant information.

If it is determined the existence of one or more objective evidences of impairment, it shall be estimated the impairment on an individual basis for all placements given to legal entities.

Placements for which no impairment was estimated on the individual estimation shall be estimated on a group basis, together with a portfolio of micro loans.

After a selection of individually significant loans is performed and determined the existence of one or more objective evidences of impairment of receivables, the impairment is assessed on an individual basis. The amount of the impairment loss in accordance with IFRS is calculated as the difference between the carrying amount and the present value of estimated cash flows discounted at the effective interest rate.

The assessment of a client consists of estimates of future cash flows. Expected future cash flows are comprised of the following:

- Future cash flows from collection of loans from ordinary activities;
- Future cash flows from the realization of collateral.

The estimation of loan repayment can be derived from the loan repayment plan, correcting the original repayment plan, in a manner agreed upon with the client or probable or some changes would better reflect the current situation of the client.

When assessing the cash flows from the collateral, the Bank proceeds starting from the list of eligible collateral. The Bank treats other collaterals as unacceptable or irrecoverable. The Bank will estimate the repayment from solid collateral by the appropriate haircut and within a defined repayment plan. Assessment of the recoverable amount from the collateral arises as a result of a combination of experience of the Bank, the direct costs of enforced collection and the value of the collateral at the time of sale. Depending on the frequency of updating the assessment collateral, in a case of an individual estimates, the Bank will consider the potential costs of forced collection of collateral and potential changes in the value of collateral.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Allowances for Impairment and Provisions for Potential Losses (Continued)

Retail loans

All placements of a client or its related parties that are individually significant (total exposure exceeding EUR 20 thousand) are individually assessed. Additionally, all client placements, regardless of whether those are individually significant, but taking into consideration the fact if there is a delay in settlement of obligations exceeding 90 days, above the set limits of materiality (EUR 20) are individually assessed in order to determine if there is objective evidence of impairment.

The objective evidences of impairment are considered the following:

- Significant financial difficulties of the borrower (e.g. the total monthly liabilities of the borrower reach or exceed the amount of the monthly income of the borrower);
- Breach of Contract / i.e. delay or non-settlement of interest or principal;
- litigation filing against the borrower;
- The restructuring of the loan – if the terms of the contract modified in favour of the borrower, without justification by improving creditworthiness or changes in market prices (or interest rates). These restructured loans also include loans that are not in accordance with the general Loan Policy of the Bank, pursuant to which new loans are to be approved;
- Blocked account of a physical entity;
- Other relevant information.

For all retail loans, for which no objective evidence of impairment has been determined on an individual basis, the impairment calculation is performed on a group basis, together with the portfolio of micro loans.

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), loans and other assets exposed to risk are classified into the following categories:

- A category (“Good Assets”) - including assets assessed as collectable in full and as agreed;

- B category (“Special Mention”) – with B1 and B2 subcategories including items for which there is remote probability of loss, but which, require special attention, as potential risk, if not adequately monitored, could diminish collectability;

- C category (“Substandard assets”) – with C1 and C2 subcategories for which there is high probability of loss, due to the clearly identified collectability issues;

- D category (“Doubtful assets”) – including items the collection of which is, given the creditworthiness of borrowers, quality of collaterals, highly unlikely;

- E category (“Loss”) – including the items which are uncollectable in full, or will be collectable in an insignificant amount.

The calculation of provision is conducted on a monthly basis.

On monthly basis, based on the performed classification the Bank is required to calculate the allowances for losses related to the balance sheet and off-balance sheet items, applying percentages in the following table:

Risk category	% Provisions	Days of delay
A	-	<30
B1	2	31-60
B2	7	61-90
C1	20	91-150
C2	40	151-270
D	70	271-365
E	100	>365

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Allowances for Impairment and Provisions for Potential Losses (Continued)

The Bank shall determine the difference between the amount of loan loss provisions calculated in accordance with the above given table and the sum of the amount of allowances for impairment losses and provisions for off-balance sheet items calculated in accordance with the provisions of Decision regulating the manner of valuation of asset items by applying International Accounting Standards.

The positive difference between the accrued provisions for impairment losses and the sum of allowances for items of balance sheet assets and provisions for off-balance sheet items, is a required reserves for estimated losses. At the time of adoption of the annual financial statements the Bank is required to transfer amount of necessary reserves for estimated losses from the profit in the current year or retained earnings from previous years to the account of reserves for estimated losses on regulatory requirements..

The Bank has developed a comprehensive strategy to deal with non-performing loans for a period of three years and establish annual goals related to reducing the level of non-performing loans (operational objectives). "Non-performing loans" are considered the loans classified by the Bank, using the criteria provided in the Decision on Minimum Standards for Credit Risk Management, in the classification groups "C", "D" or "E". Through an adequate monitoring of structure and credit portfolio quality and credit risk arising from the credit portfolio, this strategy aims to provide an adequate management of non-performing loans. The positive effects that the Bank achieves relate to a) increase in stability by reducing the level of provisions, a reasonable increase in the likelihood of repayment of loans, and ultimately the establishment of effective risk management system, which contributes to the preservation of capital and b) mitigate losses - through effective restructuring (sustainable borrowers) and the speed of recovery.

In accordance with the Decision on Minimum Standards for Credit Risk Management in Banks ("Off. Gazette of Montenegro", 22/12, 55/12 and 57/13), if the conditions for derecognition of a bank's receivable are met, the bank is obliged to write off such a receivable and to disclose it at the debt amount in the internal records until the finalization of the collection process. Such exclusion of the receivable from the Bank's statements is carried out in the following cases: if the Bank in the process of collection of receivables estimates that the value of receivables measured at amortized cost will not be compensated and that the requirements for derecognition of financial assets are met, which includes the following cases:
1) for unsecured receivable - when the borrower is initialized a bankruptcy proceedings against for a period of more than one year, or - if the borrower is late with payments for more than two years;
2) for secured receivable - when the borrower is late with payments for more than four years, or if the Bank, during this period, received no payments from the realization of collateral.

3.8. Investment securities held to maturity and investments in the capital of other legal entities

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, for which management of the Bank has the positive intent and ability to hold to maturity. Purchases and sales of financial assets held to maturity are recognized on transaction-date - the date on which the Bank commits to purchase or sell the asset. Investments held to maturity are recorded at amortized cost using the effective interest rate method. Securities held to maturity refer to government bonds with a maturity of 182 days, issued by the Ministry of Finance. On a monthly basis the revenues from the approved (contracted) discount is being recognized. Part of the bonds was financed from the funds of the obligatory reserve which the Bank holds with the Central Bank of Montenegro.

Investments in equity financial instruments that do not have a quoted market price in an active market and fair value of which cannot be reliably measured are recognized at cost less any accumulated depreciation reflecting the reduction in value due to losses incurred in the operations of the legal entity.

3.9. Business Premises, Other Property and Equipment and Intangible Assets

Business premises, other property, equipment and intangible assets on December 31, 2015 are recorded at cost less accumulated depreciation and/or amortisation. Purchase value represents the prices billed by suppliers together with all costs incurred in bringing the respective asset to the location and condition necessary for its intended use.

Depreciation and/or amortization is calculated on a straight-line basis on value of business premises and other property, equipment and intangible assets in order to write them off over their expected useful lives. Calculation of depreciation commences when the assets are put into use.

		Rate in %
	2015	**2014**
Property	1	3
Intangible assets, Computer equipment, ATMs	20	20
Furniture and other equipment	11	11
Air conditioning system, vehicles	15	15

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In 2015, the Bank made a change in an accounting estimate relating to the useful life of buildings. The estimation involves judgments based on the latest available, reliable information. Change in estimated useful life or the expected spending schedule of future economic benefits embodied in the assets being depreciated, affects the cost of depreciation for the current period and for each future period during the remaining useful life of the asset. The effect of changes in accounting estimates amounts to EUR 51 thousand, for the amount the depreciation costs in 2015 were higher if the Bank had used the rate of 3%.

Pursuant to the Corporate Income Tax Law ("Official Gazette of Montenegro" No. 80/04, 40/08, 86/09, 14/12 and 61/13), the value of buildings for tax purposes is calculated using the proportional method and value of equipment and application software by applying digressive method for the entire period, regardless the date of activation. Business premises belong to the group I for which is applied rate is of 5%, while the remaining fixed asset, equipment and software, are arranged in groups II to V, for which is applied rates are in range from 15% to 30%.

3.10. Impairment of tangible and intangible assets

On each balance sheet date, the bank's management reviews the carrying amounts of the bank's tangible and intangible assets. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense of the current period and is recorded under other operating expenses. Where impairment loss subsequently reverses, the carrying amount of the asset is increased up to the revised estimate of its recoverable value. However, this is performed so that the increased carrying amount does not exceed the carrying value that would have been determined had no impairment loss been recognised for the asset in prior years.

3.11. Provisions

Provisions are recognised when the bank has a present legal or constructive obligation as a result of past events, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3.12. Acquired Assets

Acquired assets are assets that became the property of the Bank based on the collection of receivables for loans that were secured by such assets. Bank records the received assets at the lower of the gross carrying amount or market value of the collateral less costs to sell.

In accordance with the Decision on minimum standards for bank investments in real estate and fixed assets ("Official Gazette of Montenegro", No. 24/09, 66/10, 58/11, 61/12, 13/13, 51/13 and 16/15), the total investment of the Bank in real estate and fixed assets shall not be greater than 50% of the Bank's own funds. Exceptionally, the Bank may have investments in real estate and fixed assets even above the level of 50% of its own funds, if the following conditions are met:

1) the amount of investment in real estate and fixed assets exceeding 50% of own funds is treated by the Bank as a deduction item in the calculation of the total amount of own funds of the Bank;

2) after the deduction of own funds of the Bank, performed in accordance with point 1), own funds and the solvency ratio of the Bank exceed the regulatory minimum.

For immovable property acquired in exchange for receivables in the process of debt restructuring, in bankruptcy or liquidation of the debtor of the Bank, in the process of reorganization of the debtor in accordance with the regulations governing bankruptcy or execution procedure for the settlement of claims, the Bank is obliged to, when calculating the total amount of investments in real estate and fixed assets, include in the calculation the value of the related real estate in the minimum following percentages:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Employee Benefits

/a/ 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 for social security of employees. 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.

/b/ Retirement Benefits

The present value of future obligations under the General Collective Agreement in Montenegro, such as severance payments for retirement after fulfilling the conditions, as assessed by the Bank's management does not have a material effect on the financial statements taken as a whole, and, therefore, these financial statements do not comprise provisions based on the above employee benefits.

3.14. Financial Liabilities – Borrowings

Borrowings are initially recognised at fair value less transaction costs. Subsequently, borrowings are carried at their amortized value; all differences between the realized inflows (less transaction costs) and the amounts repaid are carried through profit and loss over the period of using the amounts borrowed by applying the effective interest rate method.

3.15. 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 is obliged to disclose the fair value information of those components of assets and liabilities for which 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. 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 management of the bank, 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 for financial reporting. In the amount of the identified estimated risk that the carrying value will not be realized, a provision is recognised based on a relevant decision of the bank's management.

4. RISK MANAGEMENT

4.1. Introduction

Bank is exposed in its operation to a various risks, including the most important:

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

The risk management strategies, policies, procedures and other documents are designed to identify and analyse risks, to define limits and controls required for risk management and to monitor Bank's exposure to each individual risk. Procedures for risk management are subject to regular control in order to adequately respond to the changes in the market, products and services.

Department for Risk monitoring, management and reporting is responsible for monitoring of the Bank's exposure to a certain risks which is reported to the Committee on asset and liability management and the Board of Directors on a monthly basis.

4.2. Credit risk

Banks is exposed to credit risk which is a risks that counterparty will be unable to pay full amount due to the bank and on time. Bank is creating provisions for impairment losses, related to losses expected on reporting date. Significant changes in the economic environment or certain industries included in bank's loan portfolio could result in losses that are different from the losses provided for in the statement of financial position. Therefore, management carefully manages Bank's exposure to credit risk.

4.2.1. Credit risk management

Credit risk exposure is a risk of a financial loss resulting from the borrower's inability to meet all the contractual obligations toward the Bank. The credit risk is identified as the most significant one in the Bank's portfolio. The strategic commitment of the Bank is directed towards increase in the participation in investments in small amounts granted to small and medium-sized companies and citizens; providing of financial support to sound projects (clients and sectors of small and medium enterprises) and ensuring optimal risk diversification and sources of income in the direction of increasing the profitability of the segment of existing products and services, as well as the promotion and affirmation of new ones. The bank manages the risk assumed by setting limits in respect of large loans, single borrowing entities and related parties. Such risks are monitored and reviewed on an ongoing basis.

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

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 secured by the underlying deliveries of goods that they relate to and therefore carry less risk than loans.

4.2.2. Impairment Losses in Accordance with Requirements of IAS 39

For the items of balance sheet and off-balance sheet items on the basis of which it is exposed to credit risk, the Bank assesses the impairment (for balance sheet asset items), i.e. assesses the probable loss (for off-balance sheet items). In accordance with its own methodology, the Bank has the financial resources divided into the groups (portfolios) with similar credit risk characteristics, and, bearing in mind the current size and structure of the loan portfolio, the segmentation is made on the following: loans for corporate clients (companies and entrepreneurs) and Retail loans. As of the reporting date, the Bank establishes if there was the impairment of financial assets. The objective evidence indicating if there has been impairment of loans are explained in Note 3.7.

4. RISK MANAGEMENT (continued)

4.2. Credit risk (continued)

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

According to the adopted Methodology for the assessment of impairment of balance sheet assets and probable losses on off balance sheet items, the Bank determines whether there is objective evidence of impairment for all financial assets considered individually significant. Based on the size and nature of the loan portfolio, the Bank considered an individually significant receivable the total gross exposure to a single entity or group of related parties exceeding EUR 20 thousand, the placement is recognized as individually significant because there is a delay in settling the liabilities exceeding the established limit for legal and physical person or there are other objective evidence of impairment.

4.2.3. Maximum exposure to credit risk for balance sheet and off balance sheet items

	(In thousands of EUR) 2015	2014
Balance sheet items		
Loans and receivables from banks	31,452	26,103
Loans and receivables from clients	33,890	16,715
Securities – held to maturity	1,500	167
Investments in subsidiaries	755	-
	67,597	42,985
Off-balance sheet items		
Payment guaranties	2,973	2,063
Performance guarantees	84	12
The customs guarantees	20	70
The tender guarantees	34	4
Letters of credit	-	221
Undrawn credit facilities	539	201
	3,650	2,571
Total exposure to credit risk	**71,247**	**45,556**

The catalogue of eligible collaterals defines the types of collateral (collateral of loan repayment collection of the Bank) and establishes the objects and rights treated as collateral, i.e. which objects and rights and under which conditions the Bank takes into account in the analysis and assessment of the credit risk of the borrower. Credit risk management is thus partially controlled.

Taking into account the risk of the value of collateral change, when estimating the cash flows from the collateral, the Bank applies to all immovable property the haircut of 30% (most of the collateral is in Podgorica and Budva).

Types of securing the loans:

- deposits;
- pledges placed against industrial machines, securities, inventories and vehicles;
- mortgages and fiduciary transfer of ownership;
- bills of exchange;
- authorizations;
- administrative injunctions;
- guarantors and
- insurance policies.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

4. RISK MANAGEMENT (continued)

4.2. Credit risk (continued)

4.2.4. Loans and Advances

December 31, 2015	Neither Past due nor Impaired	Past Due but not Impaired	Individually estimated	Total, Gross	Individual Allowance for Impairment	Group Allowance for Impairment	Total Allowance for Impairment	Total, net
Liquidity (current assets)	39	-	1,251	1,290	20	-	20	1,270
Purchase of fixed assets	29	5	20,376	20,410	130	-	130	20,280
Overdraft	13	-	2,074	2,087	47	-	47	2,040
Preparation of tourist season	87	1	570	658	16	-	16	642
Housing loans	82	-	1,090	1,172	23	-	23	1,149
Other	25	3	7	35	6	1	7	28
Cash loans (general purpose)	2,361	32	2,217	4,610	128	49	177	4,433
Refinancing of liabilities towards to other banks	11	-	3,845	3,856	55	-	55	3,801
Interest receivables and prepayments	-	-	284	284	37	-	37	247
	2,647	41	31,714	34,402	462	50	512	33,890

December 31, 2014	Neither Past due nor Impaired	Past Due but not Impaired	Individually estimated	Total, Gross	Individual Allowance for Impairment	Group Allowance for Impairment	Total Allowance for Impairment	Total, net
Liquidity (current assets)	10	1	831	842	100	-	100	742
Purchase of fixed assets	45	1	3,356	3,402	61	-	61	3,341
Overdraft	68	-	2,360	2,428	26	-	26	2,402
Preparation of tourist season	46	-	1,408	1,454	31	-	31	1,423
Housing loans	73	-	1,140	1,213	20	-	20	1,193
Other	50	-	240	290	4	-	4	286
Cash loans (general purpose)	2,594	42	2,696	5,332	160	76	236	5,096
Construction and adaptation of buildings	-	-	1,122	1,122	217	-	217	905
Refinancing of liabilities towards to other banks	-	-	1,257	1,257	13	-	13	1,244
Interest receivables and prepayments	-	-	128	128	45	-	45	84
	2,886	44	14,538	17,468	677	76	753	16,715

a) Past Due but not Impaired loans and advances

(In thousands of EUR)

	Past due up to 30 days	Past due 31- 90 days	Past due 91-270 days	Past due 270- 365 days	Over 356 days	Total
December 31, 2015						
Advances to legal entities	2	-	-	-	-	2
Advances to entrepreneurs	3	-	-	-	-	3
Advances to individuals – residents	13	23	-	-	-	36
Advances to individuals - non-residents	-	-	-	-	-	-
	18	23	-	-	-	41
December 31, 2014						
Advances to legal entities	3	-	-	-	-	3
Advances to entrepreneurs	3	-	-	-	-	3
Advances to individuals – residents	16	22	-	-	-	38
Advances to individuals - non-residents	-	-	-	-	-	-
	22	22	-	-	-	44

4. RISK MANAGEMENT (continued)

4.2. Credit risk (continued)

4.2.4. Loans and Advances (continued)

b) Restructured Loans and Advances

The Bank restructured a loan if the borrower has, due to deterioration of the debtor's creditworthiness:

- extended the principal and interest maturity,
- decreased the interest rate on the loan approved,
- took over the receivable that the borrower has towards a third party, on behalf of the full or partial loan repayment;
- reduced the amount of debt, principal or interest;
- capitalized the interest on the loan approved to a borrower;
- replaced the existing loan or existing loans with new loans (revolving);
- made other concessions that place the borrower in a better financial position.

Upon restructuring of the loan, the Bank performs financial analysis of the borrower and assesses its capacitates to realize cash flows necessary for the repayment of the loan principal, as well as the corresponding interest once the loan is restructured. During 2015, the Bank restructured loans in the amount of EUR 2,732 thousand, out of which the amount of EUR 2,159 thousand related to legal entities, and EUR 573 thousand to individuals (2014: EUR 1,357 thousand).

c) Geographic Concentration

Geographic concentration of the Bank's exposure to the credit risk, exclusive of the allowance for impairment is as follows:

(In thousands of EUR)

	Montenegro	European Union	USA and Canada	Other	Total
Loans and receivables from banks	-	22,738	7,524	1,190	31,452
Loans and receivables from clients	33,716	1	-	173	33,890
Securities held to maturity	1,500	-	-	-	1,500
Investments in subsidiaries	755	-	-	-	755
December 31, 2015	**35,971**	**22,739**	**7,524**	**1,363**	**67,597**
December 31, 2014	**17,348**	**24,625**	**1,249**	**388**	**43,610**

4. RISK MANAGEMENT (continued)

4.2. Credit risk (continued)

4.2.4. Loans and Advances (continued)

e) Industry Concentration

Industry concentration of the Bank's exposure to the credit risk, exclusive of the allowance for impairment is as follows:

	Finances	Transportation, traffic and tele-communication	Services, tourism and hospitality	Trade	Building and construction	Mining	Adminis-tration	Property trade	Agriculture, hunting and fishing	Manufa-cturing	Other	Individuals	Total
Loans and receivables from banks	-	-	-	-	-	-	-	-	-	-	31,452	-	31,452
Loans and receivables from customers	-	1,813	1,128	1,753	15,998	1,069	1,802	1,410	162	1,046	795	6,914	33,890
Securities held to maturity	1,500	-	-	-	-	-	-	-	-	-	-	-	1,500
Investments in subsidiaries	755	-	-	-	-	-	-	-	-	-	-	-	755
December 31, 2015	2,255	1,813	1,128	1,753	15,998	1,069	1,802	1,410	162	1,046	32,247	6,914	67,597
December 31, 2014	167	1,737	1,384	2,136	143	100	29	-	174	1,010	28,798	7,932	43,610

4. RISK MANAGEMENT (continued)

4.2. Credit risk (continued)

4.2.5. Off-Balance Sheet Items

The maturities of off-balance sheet items exposing the Bank to credit risk are as follows:

(In thousands of EUR)

	Undrawn Loan Facilities	Guarantees	Uncovered Letters of Credit	Total
December 31, 2015				
Up to one year	26	290	-	316
From 1 to 5 years	513	2,821	-	3,334
	539	3,111	-	3,650

(In thousands of EUR)

	Undrawn Loan Facilities	Guarantees	Uncovered Letters of Credit	Total
December 31, 2014				
Up to one year	201	765	221	1,186
From 1 to 5 years	-	1,385	-	1,385
	201	2,149	221	2,571

4.3. Market Risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. Limits for the exposure to market risks are internally prescribed, and in compliance with the prescribed limits by the Central Bank of Montenegro.

4.3.1. Foreign Exchange Risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The exposure to currency risk is regularly monitored by harmonizing them with the limits prescribed by the Central Bank of Montenegro. The exposure to the exchange rate as of December 31, 2015 is shown in the following table:

(In thousands of EUR)	**USD**	**GBP**	**CHF**	**Other**	**Total**
Assets in foreign currencies	8,182	20,463	38	2	28,685
Liabilities in foreign currencies	8,079	20,442	2	-	28,523
Net open position:					
- December 31, 2015	103	21	36	2	162
- December 31, 2014	(22)	(56)	36	-	(42)
% of tier one capital::					
- December 31, 2015	2%	0%	1%	0%	
- December 31, 2014	0%	-1%	1%	0%	
Aggregate open position:					
- December 31, 2015	162				
- December 31, 2014	(42)				
% of tier one capital:					
- December 31, 2015	2.76%				
- December 31, 2014	-0.86%				

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

4. RISK MANAGEMENT (continued)

4.3. Market Risk (continued)

4.3.1. Foreign Exchange Risk (continued)

In thousands of EUR

	GBP	Other currencies	Total foreign currencies	Local Currency (EUR)	Total
ASSETS					
Cash and deposits with the central banks	24	184	208	9,974	10,182
Loans and receivables from banks	20,439	8,039	28,478	2,974	31,452
Loans and advances to customers	-	-	-	33,890	33,890
Securities held to maturity	-	-	-	1,500	1,500
Investments in subsidiaries	-	-	-	755	755
Total assets	20,463	8,223	28,686	49,093	77,779
LIABILITIES					
Deposits due to clients	20,442	8,081	28,523	43,619	72,142
Borrowings from other clients	-	-	-	5,087	5,087
Total liabilities	20,442	8,081	28,523	48,706	77,229
Net foreign exchange exposure					
- **December 31, 2015**	21	142	163	387	550

4.3.2. Interest Rate Risk

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 because 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, 2015:

(In thousands of EUR)

	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash balances and deposits with central banks	300	9,882	10,182
Loans and receivables from banks	-	31,452	31,452
Loans and receivables from clients	33,890	-	33,890
Held-to-maturity securities	1,500	-	1,500
Investments in subsidiaries	-	755	755
Total assets	35,690	42,089	77,779
LIABILITIES			
Deposits due to clients	33,820	38,322	72,142
Borrowings from other clients	5,087	-	5,087
Total liabilities	38,907	38,322	77,229
Interest rate risk exposure:			
- December 31, 2015	(3,219)	3,012	(257)
- December 31, 2014	(1,729)	(7,127)	508

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.2. Interest Rate Risk (Continued)

Loans to legal entities are granted as per following interest rates:

- Short-term loans with fixed interest rate: 4.30% - 12.00%

- Long-term loans with fixed interest rate: 6.00% - 12.00%

Lending interest rates applied to loans granted to individuals during 2015 are as follows:

Type of a loan	Interest rate
Mortgage loans	10.00% - 11.00%
Cash loans	8.80% -11.00%
Housing loans	4.00% - 7.50%
Loans for tourism developments	9.00% - 10.00%
Micro loans	12.00%
Loans to pensioners	8.00% - 8.50%
Flex loans	10.30% - 12.00%

Deposit interest rates which were applicable on deposits of legal entities during 2015 were as follows:

Deposit type	Interest rate
Short-term deposits	by individual contracts
Long-term deposits	by individual contracts

Deposit interest rates which were applicable on deposits of individuals during 2015 were as follows:

Deposit type	Interest rate
Deposits on demand	
Savings on demand:	
- EUR	0.15%
Term deposits in EUR:	
- from 1 to 3 months	0.30% - 0.50%
- from 3 to 6 months	0.50% - 0.80%
- from 7 to 12 months	1.20% - 1.50%
- from 13 to 24 months	1.50% - 1.70%
- over 24 months	2.20% - 2.50%
Term deposits in foreign currencies:	
- from 1 to 6	0.10% - 0.50%
- from 9 to 12	0.60% - 0.80%
- from 24 or more	1.20%

4. RISK MANAGEMENT (Continued)

4.4 Liquidity Risk

Liquidity risk includes both the risk of being unable to provide cash to settle liabilities at appropriate maturities and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

4.4.1. Liquidity Risk Management

The matching and controlled mismatching between the maturities and interest rates of assets and of liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability of the Bank to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. The Bank is exposed to daily calls on its available cash resources which influence the available cash held on the current accounts or as deposits. The Bank does not maintain cash to meet all of these needs since historical experience demonstrates that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty.

The expected maturities of the Bank's asset and liability components as of December 31, 2015 were as follows

(In thousands of EUR)

	Up to one 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 deposit accounts with central banks and loans from banks	38,709	-	-	-	2,925	-	41,634
Loans and receivables from clients	1,437	133	2,359	2,209	24,023	3,729	33,890
Securities held to maturity	-	1,500	-	-	-	-	1,500
Investments in subsidiaries	-	-	-	-	-	755	755
	40,146	1,633	2,359	2,209	26,948	4,484	77,779
Financial liabilities							
Deposits of clients	50,681	222	674	1,622	18,234	709	72,142
Borrowings from banks and other clients	101	198	240	532	2,374	1,642	5,087
Other financial liabilities	119	1	-	-	1	15	136
	50,901	421	914	2,154	20,609	2,366	77,365
Maturity gap							
- **December 31, 2014**	(10,755)	1,212	1,445	55	6,339	2,118	414
- **December 31, 2015**	(5,468)	894	1,790	859	7,586	(544)	5,117

As of December 31, 2015, the structure of assets and liabilities indicates the existence of non-conformities of remaining period of maturity of assets and liabilities per individual gaps. The Bank's liquidity, as its ability to settle its liabilities when due, depends upon the balance sheet structure, and, on the other side, upon the compliance between inflows and outflows.

4. RISK MANAGEMENT (Continued)

4.4. Liquidity Risk (Continued)

4.4.2. Remaining Contractual Maturity Analysis for Financial Liabilities (Undiscounted Cash Flows)

(In thousands of EUR)

	On Demand	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2015							
LIABILITIES							
Liabilities to banks and other customers	-	129	184	758	2,374	1,642	5,087
Deposits of clients	19,080	31,340	483	2,296	18,234	709	72,142
	19,080	31,469	667	3,054	20,608	2,351	77,229

(In thousands of EUR)

	On Demand	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2014							
LIABILITIES							
Borrowings of other clients	-	5	160	584	3,004	894	4,647
Deposits of clients	42,748	421	234	2,049	1,259	661	47,372
Subordinated loans	-	-	-	-	-	1,000	1,000
	42,748	426	394	2,633	4,263	2,555	53,019

4.5 Fair Value of Financial Assets and Liabilities

(In thousands of EUR)

	Carrying Amount		Fair Value	
	2015	2014	2015	2014
Financial assets				
Loans and receivables from banks	31,452	26,103	31,460	26,103
Loans and receivables from clients	33,890	16,715	33,880	16,715
Securities held-to-maturity	1,500	167	1,500	167
Investments in subsidiaries	755	-	755	-
Financial liabilities				
Deposits of clients	72,142	47,523	72,142	47,523
Borrowed funds from other clients	5,087	4,657	5,087	4,657

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 models or other pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affects the estimates. Therefore, the calculated fair market estimates cannot be realized in a current sale of the financial instrument.

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

4. RISK MANAGEMENT (Continued)

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

a) Loans and advances to banks

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

The fair value of floating rate placements and overnight deposits approximates their carrying amount at the statement of financial position date.

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 has performed comparison of the Bank's interest rate on loans and advances to customers with available information on the current market interest rates in the banking sector of the Montenegro (i.e. average weighted market rates by activities).

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

c) Held-to-maturity securities

Held-to-maturity securities refer to government bonds with a maturity of 182 days, issued by the Ministry of Finance of Montenegro. On a monthly basis the income from the approved (contracted) discount are recognized.

d) *Deposits and borrowings*

The estimated fair value of demand deposits and deposits with remaining contractual maturities less than one year approximates their carrying amount.

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

The carrying value of borrowings with floating interest rates approximates their fair value 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).
- Level 3 – inputs for a asset or a liability that are not based on observable market data (unobservable 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 where possible.

4. RISK MANAGEMENT (Continued)

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

4.6. Capital 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 the development of its business.

The Bank's management controls capital adequacy by applying the methodologies and limits prescribed by the Central Bank of Montenegro in the Decision on Capital Adequacy (Official Gazette of Montenegro, No. 38/11 and 55/12). In accordance with the regulations, the Bank submits quarterly reports on the capital condition and structure to the Central Bank of Montenegro. The Bank's regulatory capital is divided in Tier I (core capital) and Tier II (supplementary capital). The sum of core elements of regulatory capital deducted for the sum of deductible items represents core capital of the Bank.

Core elements of regulatory capital of a bank are the following:

1) paid-in share capital at nominal value, excluding cumulative preferential shares;
2) collected issue premiums;
3) loan loss provisions under regulatory requirement established in accordance with the decision regulating minimum standards for credit risk management in banks;
4) reserves established against post-tax income (legal, statutory, and other reserves);
5) undistributed prior years profit;
6) current year income if the shareholders` assembly decided to allocate current year income in core capital of the Bank.

Deductible items in the calculation of core capital shall be as follows:

1) prior years losses;
2) current year loss;
3) intangible assets such as goodwill, licenses, patents, trademarks and concessions;
4) nominal amount of acquired own shares, excluding cumulative preferential shares;
5) unrealised loss on fair value adjustment of financial assets available for sale;
6) positive difference between the amount of calculated loan loss provisions and the sum of the amount of allowances for impairment on balance sheet and provisioning for off-balance sheet items;
7) excess of limit in investing in real estates and fixed assets specified under special regulation of the Central Bank.

The sum of supplementary elements of regulatory capital deducted for the sum of deductible items represents supplementary capital of the Bank.

Supplementary elements of regulatory capital to be included in the supplementary capital of a bank are the following:

1) nominal value of paid-in cumulative preferential shares;
2) paid issue premiums based on cumulative preferential shares;
3) general reserves up to 1.25% of total risk weighted assets at a maximum;
4) subordinated debt meeting the requirements set out in the CBoM Decision on capital adequacy;
5) hybrid instruments meeting the requirements set out in the CBoM Decision on capital adequacy;
6) revaluation reserves for real estate property owned by a bank.

Deductible items in the calculation of supplementary capital are the following:

1) acquired own cumulative preferential shares;
2) receivables and contingent liabilities secured by hybrid instruments or subordinated debt up to the amount these instruments have been included in supplementary capital.

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 Montenegro and with the Central Bank of Montenegro Regulations. As of December 31, 2015, the capital adequacy ratio calculated by the bank for statutory financial statements is 15.65% (2014: 20.35%).

4. RISK MANAGEMENT (Continued)

4.6. Capital Management (Continued)

4.7. Risk Exposure Analysis

4.7.1. Risk Exposure Analysis (Foreign Exchange Risk)

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

(In thousands of EUR)

	2015		Change in Exchange Rate	
	Total	**Amount in foreign currency**	**10%**	**-10%**
Assets				
Loans and advances to banks	31,452	28,685	2,868	(2,868)
Total assets	31,452	28,685	2,868	(2,868)
Liabilities				
Deposits of customers	72,142	28,523	2,852	(2,852)
Total liabilities	72,142	28,523	2,852	(2,852)
Net exposure to foreign exchange risk:				
- **December 31, 2015**			16	(16)
- **December 31, 2014**			4	(4)

As of December 31, 2015, under the assumption that all other parameters remain the same upon the change in the EUR exchange rate, as compared to other currencies, by +10%, i.e. -10%, the Bank's profit would decrease, i.e., increase by EUR 16 thousand (December 31, 2014: decrease, i.e., increase by EUR 4 thousand). The reason why the Bank's exposure to currency risk is small is based on the fact that the major portion of the Bank's assets and liabilities is denominated in EUR.

4. RISK MANAGEMENT (Continued)

4.7.2. Risk Exposure Analysis (Interest Rate Risk)

In the process of interest rate risk management, the bank analyses the exposure of bank's assets and liabilities to changes in interest rates. The following table shows the effect of fluctuations in interest rates on the bank's assets and liabilities denominated in EUR in the range of +0.4% p.p. to -0.4% p.p.

(In thousands of EUR)

		Net effect of movements in interest rates	
	2015	+0.4 b.p. EUR IR	-0.4 b.p. EUR IR
Assets			
Cash and deposits with central banks	10,182	-	-
Loans and receivables from banks	31,452	-	-
Loans and receivables from clients	33,890	136	(136)
Securities held to maturity	1,500	6	(6)
Investments in subsidiaries	755	-	-
	77,779	142	(142)
Liabilities			
Deposits of the banks	261	-	-
Deposits of the clients	71,881	86	(86)
Borrowed funds from banks and other clients	5,087	20	(20)
	77,229	106	(106)
Net exposure to the interest rate risk:			
- **December 31, 2015**		36	(36)
- **December 31, 2014**		48	(48)

Under the assumption that all other parameters remain the same, the increase, or decrease in variable interest rates applied to assets and liabilities denominated in EUR by 0.4 p.p., the Bank's profit would increase, or decrease for EUR 36 thousand.

5. INTEREST INCOME AND EXPENSE

a) Interest Income

(In thousands of EUR)	2015	2014
Deposits with:		
- foreign banks	1	1
Loans:		
- corporate	1,104	727
- retail	862	984
	1,966	1,711
Securities held to maturities	4	7
	1,971	1,718
Allowances for interest receivables	(37)	(21)
	1,934	1,698

b) Interest Expense

(In thousands of EUR)	2015.	2014.
Deposits with:		
- financial institutions	1	16
- government	5	4
- corporate	144	38
- retail	183	153
Loans and other borrowings	175	121
	508	332

6. IMPAIRMENT LOSSES AND PROVISIONS

a) Impairment losses

(In thousands of EUR)	2015.	2014.
Impairment of loans	9	152

b) Provisions expenses

(In thousands of EUR)	2015.	2014.
Net increase in provisions in respect of:		
- off-balance sheet items	5	4

c) Changes in allowances for impairment of uncollectible receivables and provisions

2015

(In thousands of EUR)	Loans (Note 15)	Interest and other (Note 15)	Provisions for off-balance items	Total
Opening balance	708	45	5	758
Charge for the year	6	3	5	14
Transfer to off-balance sheet items	(239)	(11)	-	(236)
Balance at the end of the year	475	37	10	522

6. IMPAIRMENT LOSSES AND PROVISIONS (Continued)

c) Changes in allowances for impairment of uncollectible receivables and provisions (Continued)

2014

(In thousands of EUR)	Loans (Note 15)	Interest and other (Note 15)	Provisions for off-balance items	Total
Opening balance	607	24	1	632
Charge for the year, net	101	21	4	126
Balance at the end of the year	708	45	5	758

7. FEE AND COMMISSION INCOME AND EXPENSE

a) Fees and Commissions Income

(In thousands of EUR)	2015	2014
Fees and commissions for foreign payments	810	818
Fees and commissions income from transactions payments and e-banking	121	83
Fees from loans	87	103
Fees income from off-balance-sheet operations	75	26
Fees on credit card business	67	59
Fees for payroll	18	2
Other fees and commissions income	10	13
	1,188	1,104

b) Fees and Commissions Expense

(In thousands of EUR)	2015	2014
Deposit insurance premium fees	281	122
International bank charges fees	86	101
Visa and Master card fees	55	42
Fees of the Central Bank	45	68
Fees for electronic banking	40	35
	507	368

8. STAFF COSTS

(In thousands of EUR)	2015	2014
Net salaries	575	486
Taxes, surtaxes and contributions	440	381
Fees for temporary jobs	75	38
Remunerations to members of the Board of Directors	16	42
Travel expenses and per diems	9	2
Employees trainings	8	3
Other net payments to employees	5	30
Retirement benefits and jubilee awards	-	4
	1,128	986

9. GENERAL AND ADMINISTRATIVE EXPENSES

(In thousands of EUR)	2015	2014
Computer and other equipment maintenance	95	117
Professional fees	99	112
Advertising and marketing	29	37
Rentals	72	127
Miscellaneous expenses	94	48
Audit	17	21
Security	62	76
Communications networks	53	30
Electricity and fuel	32	36
Insurance	15	14
Telecommunication expenses	59	71
Backup premises expenses	6	39
Membership fees and contributions	16	16
Office supplies expenses	40	24
Postage	4	4
Utilities	7	9
Consulting fees	18	44
Representation expenses	6	4
Court expenses	5	1
	729	830

10. DEPRECIATION EXPENSES

(In thousands of EUR)	2015	2014
Property and equipment (Note 18)	137	129
Intangible assets (Note 19)	74	53
	211	182

11. OTHER INCOME

(In thousands of EUR)	2015	2014
Collection from written-off loans	50	6
Lease income	28	-
	78	6

12. INCOME TAXES

a) Components of Income Taxes

(In thousands of EUR)	2015	2014
Current taxes	-	-
Deferred taxes	15	-
	15	-

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

(In thousands of EUR)	2015	2014
Profit before tax	309	112
Depreciation expenses in income statement	211	182
Depreciation expenses for tax purposes	(372)	(213)
Other	(4)	14
Income tax reported in income statement	144	95
The amount of loss from the previous year up to the amount of taxable profit	(144)	(95)
Income tax	-	-

12. INCOME TAXES (Continued)

c) Deferred tax

Generated in	Expires in	In thousands of EUR
2011	2016	1,456
2012	2017	135
		1,591

Deferred tax assets on tax losses from previous years were not recognized.

It was recognised the amount of deferred taxes of EUR 15 thousand as 9% of the difference between tax and accounting depreciation for 2015.

13. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

(In thousands of EUR)	December 31, 2015	December 31, 2014
Cash in hand:		
- in EUR	726	1,146
- in foreign currency	207	132
Gyro account	3,402	4,737
Obligatory reserves with the Central Bank of Montenegro	5,847	4,118
	10,182	10,133

The Bank's obligatory reserves as of December 31, 2015 were set aside in accordance with the Decision of Central Bank of Montenegro on obligatory reserve of the banks to be held with the Central Bank of Montenegro (Official Gazette of Montenegro, No. 35/11, 22/12, 61/12 and 57/13, 52/14 and 7/15) which prescribes that Bank's allocate the obligatory reserve by applying rate of:

- 9.5% on deposits base which is consisted of demand deposits and deposits with agreed maturity up to one year, or up to 365 days and
- 8.5% on deposit base which is consisted of deposits with agreed maturity over one year, or over 365 days.

The Bank may hold up to 25% of the obligatory reserve in the form of Treasury bills issued by Montenegro.

The bank's obligatory reserves represent the minimum deposits set aside onto domestic accounts of obligatory reserves and/or onto the accounts of the Central Bank of Montenegro held abroad. In accordance with the Decision, on 25% of obligatory reserve held on obligatory reserve accounts, the Central Bank is paying a monthly fee, that is calculated by rate of 1% on annual basis, until eighth of the current month for previous month. The obligatory reserve is held in EUR.

Till December 31, 2015:

- the Bank may hold up to 25% of the obligatory reserve in government treasury bills issued by Montenegro of any maturity, after which the Bank may up to 10% of the obligatory reserve hold in T-bills issued by Montenegro with maturity up to 182 days;
- For the amount of 15% of the obligatory reserve of the set aside requirement, the Central Bank pays fee calculated at a rate equal to EONIA (Euro Overnight Index Average) minus 10 basis points per annum, with a note that this rate cannot be less than zero, up to the eighth day of the month for the preceding month.

For the maintenance of daily liquidity, the Bank may use up to 50% of the allocated funds of regulatory reserve. On the used amount of the regulatory reserve returned on the same day the Bank does not pay a fee. On the amount of the regulatory reserve not returned on the same day the Bank is required to pay a monthly fee at a rate determined by a special regulation of the Central Bank of Montenegro.

14. LOANS AND RECEIVABLES FROM BANKS

(In thousands of EUR)	December 31, 2015	December 31, 2015
Correspondent accounts held at foreign banks	31,452	26,103
	31,452	26,103

As of December 31, 2015, the Bank had opened bank accounts with the following foreign banks: KBC Bank NV, Brussels, Intesa Sanpaolo banka dd Bosnia and Herzegovina, Sarajevo, Intesa Sanpaolo SpA, Milan, Intesa Sanpaolo SpA, New York, Sberbank banka dd, Ljubljana and Vojvođanska banka, Novi Sad, AGBANK Baku, Privredna banka Zagreb d.d.

As of December 31, 2015, the Bank has exposure to one bank and a banking group of three entities in the amount exceeding 25% of regulatory capital, which is not in accordance with Article 58 of the Law on Banks which stipulates that the exposure to a single entity or group of related parties shall not exceed 25% of the regulatory capital.

15. LOANS AND RECEIVABLES FROM CLIENTS

(In thousands of EUR)	December 31, 2015	December 31, 2014
Loans:		
- corporate	27,027	9,183
- retail	6,915	7,932
- other	176	225
	34,118	17,340
Comprising of:		
Short-term loans:		
- corporate	2,135	2,593
- retail	660	156
Long-term loans:		
- corporate	24,892	6,590
- retail	6,255	7,776
- other	176	225
	34,118	17,340
Interest receivables:		
- loans	368	316
Accruals:		
- interest on loans	132	1
- loan origination fees	(216)	(189)
	34,402	17,468
Less:		
Allowance of impairment of loans	(475)	(708)
Allowance of impairment of interest	(37)	(45)
	(512)	(753)
	33,890	**16,715**

Short-term loans to corporate entities are mostly approved for current assets with maturities from one month to 12 months, while long-term loans are granted for a period of 12 to 180 months and mostly relate to companies in the areas of trade, construction and service industries.

Loans to retail customers include cash loans, loans for housing construction, tourist loans, mortgage loans, financing the purchase of consumables approved for the period from 12 to 300 months.

The geographical concentration of loans to customers in the Bank's loan portfolio mainly relates to clients domiciled in the territory of Montenegro, mostly in central region and in the coast.

As of December 31, 2015, the Bank was exposed to a one legal entity exceeding 25% of Bank's regulatory capital, which is not in accordance with Article 58 of the Law on Banks, which stipulates that the exposure to one or group of related parties shall not exceed 25% of Bank's regulatory capital.

As of December 31, 2015, the Bank was exposed to two employees of the Bank exceeding 1% of Bank's regulatory capital, which is not in accordance with Article 58 of the Law on Banks, which stipulates that the exposure to an employee of the Bank shall not exceeding 1% of Bank's regulatory capital.

15. LOANS AND RECEIVABLES FROM CUSTOMERS (Continued)

The concentration of the Bank's gross loan placements with clients per separate industries was as follows:

(In thousands of EUR)	December 31, 2015	December 31, 2014
Construction	16,014	143
Retail	6,915	7,932
Art and entertainment activities	1,806	1,478
Transport and storage	1,796	1,737
Trade	1,773	2,136
Manufacturing	1,570	1,010
Restaurant and accommodation services	1,147	1,221
Mining	1,099	100
Health and social care	1,046	1,000
Professional, scientific and technical activities	527	191
Agriculture, forestry and fishing	165	174
Administrative and support service activities	58	29
Information and communication	36	26
Other service activities	166	163
	34,118	**17,340**

16. INVESTMENT SECURITIES

Securities held to maturity

As of December 31, 2015, securities held to maturity amounted to EUR 1,500 thousand (2014: EUR 167 thousand) and it relates to purchase of Treasury bills with maturity of 182 days, which are issued by the Ministry of finance of Montenegro. The balance consists of treasury bills purchased on auctions held in period from July to December 2015, with annual interest rates from 0.29% to 0.49%.

Part of the T-bills were funded from obligatory reserve, which Bank holds with the Central Bank of Montenegro (Note 13).

17. INVESTMENTS IN SUBSIDIARIES

The Bank has established a limited liability company Universal Capital Development d.o.o. seated at Stanko Dragojevic Street bb, Podgorica. The main activity of the company is purchase and sale of own real estate.

Stakes in limited liability companies Universal Capital Development d.o.o. amounted to EUR 755 thousand and consisted of cash investment in the amount of EUR 330 thousand and non-monetary investment of EUR 425 thousand, which represents an immovable property acquired by the Bank pursuant to the Sale and Purchase Agreement (offices).

18. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant, equipment and other assets for 2015 and 2014 are presented as follows:

(In thousands of EUR)	Buildings	Equipment and other Asset	Investments in progress	Total
Cost				
Balance, January 1, 2014	55	1,156	181	1,392
Additions	-	143	833	976
Balance, December 31, 2014	55	1,299	1,014	2,368
Additions	2,303	193	105	2,601
Transfers to investments in subsidiaries	(425)	-	-	(425)
Transfers to intangible assets	-	-	(19)	(19)
Transfers	890	20	(910)	-
Balance, December 31, 2015	2,823	1,512	190	4,525
Accumulated depreciation				
Balance, January 1, 2014	13	712	-	725
Depreciation (Note 10)	2	127	-	129
Balance, December 31, 2014	15	839	-	854
Depreciation (Note 10)	8	129	-	137
Balance, December 31, 2015	23	968	-	991
Carrying value:				
- December 31, 2015	2,800	544	190	3,534
- December 31, 2015	40	460	1,014	1,514

As of December 31, 2015, the Bank does not have property under pledge to ensure repayment of loans and other liabilities.

19. INTANGIBLE ASSETS

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

(In thousands of EUR)	2015	2014
Cost		
Balance, January 1	784	654
Additions	67	130
Balance, December 31	851	784
Allowance for impairment		
Balance, January 1	572	519
Charge for the year (Note 10)	74	53
	646	572
The carrying value as of December 31	205	212

20. OTHER OPERATING RECEIVABLES

Other operating receivables in a amount of EUR 4,260 thousand (December 31, 2014: EUR 4,287 thousand) mostly relate to assets acquired through foreclosure of loan collateral, which are owned by the Bank in the amount of od EUR 4,220 thousand (2014: EUR 4,276 thousand). The acquired assets are recorded at the lower of the total amount of receivable and the estimated fair value of the asset.

21. DEPOSITS FROM CLIENTS

(In thousands of EUR)	December 31, 2015	December 31, 2014
Demand deposits:		
- financial institutions	-	23
- privately-owned companies	34,946	36,938
- state owned companies	1	1
- funds	16	77
- regulatory agencies	31	30
- entrepreneurs	16	5
- retail customers	15,271	5,653
- non-profit organizations	5	6
- other	6	14
	50,292	42,747
Short-term deposits:		
- privately-owned companies	168	125
- regulatory agencies	100	100
- retail customers	177	825
	445	1,050
Long-term deposits:		
- privately-owned companies	17,583	858
- retail customers	3,561	2,717
	21,144	3,575
Deposits interest	261	151
	72,142	47,523

22. BORROWINGS FROM OTHER CLIENTS

(In thousands of EUR)	2015	2014
European Investment Bank	1,928	2,397
Accrued interest	23	10
	1,951	2,407
Investment-Development Fund	3,128	2,250
Accrued interest	8	-
	3,136	2,250
Total	5,087	4,657

As of December 31, 2015, borrowings in the amount of EUR 1,951 thousand (2014: 2,407 thousand) relate to the liabilities to European Investment Bank arising from a loan intended for financing and development of small and medium enterprises in Montenegro. The interest rate on the taken loans from EIB ranges from 2.19% to 3.66%. Maturity is from seven to eleven years. The Bank has no obligation of fulfilment of financial indicators upon the specified loans.

As of December 31, 2015, borrowings in the amount of EUR 3,136 thousand (2014: 2,250 thousand) relate to the liabilities to Investment-Development Fund arising from several long term loans. The interest rate on the taken loans from EIB ranges from 2.50% to 4%. Maturity is from seven to ten years. The Bank has no obligation of fulfilment of financial indicators upon the specified loans.

22. BORROWINGS FROM OTHER CLIENTS (Continued)

Maturity upon years is presented in the following tables:

European Investment Bank:

(In thousands of EUR)	2015	2014
Up to 1 year	478	470
Up to 2 years	492	412
Up to 3 years	384	412
Up to 4 years	316	412
Up to 5 years	250	411
Over 5 years	8	280
	1,928	2,397

Investment-Development Fund:

(In thousands of EUR)	2015	2014
Up to 1 year	494	279
Up to 2 years	561	339
Up to 3 years	516	339
Up to 4 years	475	339
Up to 5 years	412	340
Over 5 years	670	614
	3,128	2,250

23. OTHER LIABILITIES

(In thousands of EUR)	December 31, 2015	December 31, 2014
Suppliers	17	49
Foundation capital placement	9	10
Advances received	3	5
Card business	-	1
Temporary account	91	68
	120	133

24. SHARE CAPITAL

As of December 31, 2015, the Bank's share capital comprised of 16,002 ordinary shares (December 31, 2014: 13,714 ordinary shares), of individual nominal value of EUR 1,00.

The Law on Banks (Official Gazette of Montenegro, No. 17/08, 44/10 and 40/11) defines the minimum amount of initial capital of Bank in the amount of EUR 5,000 thousand million.

In January 2015, there was a change of the total capital and a change in the ownership structure of the Bank. As at January 12, 2015, the Shareholders' Assembly of the Bank at its extraordinary session adopted the Decision on acceptance of the non-monetary investment of Sigma Delta Investments d.o.o. in the amount of EUR 2,288,200 and the Decision on issuance of shares amounting to EUR 2,288,200 of a nominal value of EUR 1,00 each.

As at January 30, 2015, the Commission of Securities of Montenegro adopted the Decision on establishing the success of issuance of shares based on conversion of non-monetary investment in share capital in the total value of EUR 2,228,000 each having a nominal value of EUR 1,00.

24. SHARE CAPITAL (Continued)

The ownership structure of the Bank's equity as of December 31, 2015 and 2014 was as follows:

	2015.			2014.		
Shareholder name	**Number of shares**	**In thousands EUR**	**% share**	**Number of shares**	**in thousands EUR**	**% share**
Sigma Delta Holdings	12,022	12,022	75.13%	12,022	12,022	87.66%
Sigma Delta Investments	2,288	2,288	14.30%	-	-	-
Aviplus Ou	627	627	3.92%	627	627	4.57%
Predrag Drecun	550	550	3.44%	550	550	4.01%
Pairaktaridis Emmanouil	455	455	2.84%	455	455	3.32%
Seriatos Gerasimos	20	20	0.12%	20	20	0.15%
Others	40	40	0.29%	40	40	0.29%
	16,002	16,002	100.00%	13,714	13,714	100.00%

25. CORRECTIONS OF THE FINANCIAL STATEMENTS

In accordance with the letter of the Central Bank of Montenegro that records of loans from the European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD) and institutions that carry out similar activities shall be performed on other depository institutions/other financial institutions, non-residents, since those belong to the sector of other financial institutions, the Bank, in compliance with the instructions, recorded loans from the European Investment Bank (EIB), as items of Borrowings from other clients.

BALANCE SHEET As at December 31, 2014 (In thousands of EUR)	**December 31, 2014**	**Reclassifications**	**December 31, 2014 Adjusted**
ASSETS			
Cash and deposit accounts held with central banks	10,133	-	10,133
Loans and receivables from banks	26,103	-	26,103
Loans and receivables from clients	16,715	-	16,715
Investment securities		-	
- held to maturity	167	-	167
Property, plant and equipment	1,514	-	1,514
Intangible assets	212	-	212
Other financial receivables	4,548	(4,276)	272
Other operating receivables	11	4,276	4,287
TOTAL ASSETS	**59,403**	-	**59,403**
LIABILITIES			
Deposits from clients	47,523	-	47,523
Borrowings from banks	2,407	(2,407)	-
Borrowings from other clients	2,250	2,407	4,657
Reserves	5	-	5
Current tax liabilities	-	-	-
Deferred tax liabilities	-	-	-
Other liabilities	133	-	133
Subordinated loans	1,000	-	1,000
TOTAL LIABILITIES	**53,318**		**53,318**
EQUITY			
Share capital	13,714	-	13,714
Retained earnings	(7,842)	-	(7,842)
Profit for the year	112	-	112
Other reserves	101	-	101
TOTAL EQUITY	**6,085**	-	**6,085**
TOTAL EQUITY AND LIABILITIES	**59,403**	-	**59,403**

26. COMPLIANCE WITH REGULATORY REQUIREMENTS OF THE CENTRAL BANK OF MONTENEGRO

In accordance with the regulations of the Central Bank of Montenegro, the Bank is obliged to maintain minimum solvency ratio of 10%. 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.

	The realized indicators of business performance	
(in thousands of EUR)	**2015**	**2014**
Foundation capital	16,002	4,890
Regulatory capital of the Bank (minimum amount of EUR 5 million)	5,674	5,890
Weighted balance sheet assets	28,090	22,679
Risk-weighted off-balance sheet items	2,167	2,305
The solvency ratio (the minimum amount of 10%)	15.65%	20.35%
Daily liquidity ratio as of December 31 (minimum coefficient of 0.9)	2.6%	2.6%
Decade liquidity ratios for the decade ending as of December 31 (minimum coefficient of 1)	2.64%	2.68%
The Bank's exposure to a single entity or group of related entities (limit 25% of regulatory capital of the Bank)	288.81%	267%
The sum of large exposures (limit 800% of regulatory capital of the Bank)	631.85%	85.11%
The total exposure to related parties of the Bank (limit 200% of regulatory capital of the Bank)	21.22%	35.89%
The total exposure to an employee of the Bank (limit 1% of regulatory capital of the Bank)	1.39%	1.20%
Total exposure to a shareholder who does not have a qualified participation in the bank, including exposure to legal entities which are controlled by such shareholder (limit 10% of regulatory capital of the Bank)	0.81%	11%

27. OFF-BALANCE SHEET ITEMS

	December 31, 2015	**December 31, 2014**
Irrevocable commitments for loan approval	539	201
Irrevocable letters of credit issued for payments abroad	-	221
Guarantees issued		
- payment guarantees	3,111	2,063
- performance bonds	-	12
- other forms of guarantees	-	74
Collaterals securing receivables	71,538	49,778
	75,188	52,349

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

28. RELATED PARTY TRANSACTIONS

(In thousands of EUR)	December 31, 2015	December 31, 2014
Loans:		
- individuals	657	841
- legal entities:		
-Almara d.o.o. Podgorica	1,266	1,280
-Monte Rock d.o.o. Podgorica	15,000	-
Total receivables	15,657	2,121
Deposits:		
- individuals	392	2,937
- legal entities:		
-Sigma Delta Holdings d.o.o. Podgorica	11	1,030
-Golden Estate d.o.o. Podgorica	74	76
-First Financial Holdings d.o.o. Podgorica	268	1,937
-Adriatic Properties d.o.o. Budva	1,714	1,714
-First Holidays d.o.o. Podgorica	1	9
-Seven X aviation d.o.o. Podgorica	5	17
-Peneseda d.o.o. Podgorica	697	3,052
-Almara d.o.o. Tivat	600	3
-Noble Power group limited	16,821	-
-Firstright developments limited	6,231	-
-Nova Pobjeda d.o.o. Podgorica	143	-
-Monte Rock d.o.o. Podgorica	205	-
Total liabilities	27,828	10,775
Liabilities, net	(17,647)	(8,654)
Interest income::		
- individuals	53	262
- legal entities:		
-Golden Estate d.o.o. Podgorica	-	115
-First Financial Holdings d.o.o. Podgorica	-	16
-Mont Voyage d.o.o. Podgorica	-	98
-Nova Pobjeda d.o.o. Podgorica	1	-
-Almara d.o.o. Tivat	126	101
	180	592
Fee income:		
- individuals	-	6
- legal entities:		
-Sigma Delta Holdings d.o.o. Podgorica	2	5
-Golden Estate d.o.o. Podgorica	-	16
-First Financial Holdings d.o.o. Podgorica	5	40
-Adriatic Properties d.o.o. Budva	32	223
-Adcapital Montenegro d.o.o. Podgorica	-	33
-Seven X aviation d.o.o. Podgorica	3	20
-Nova Pobjeda d.o.o. Podgorica	5	-
-Peneseda d.o.o. Podgorica	-	162
-Mont Voyage d.o.o. Podgorica	59	18
	106	523
Total income	286	1,115
Interest and fees expenses:		
- individuals	5	6
- legal entities:		
-Adriatic Properties d.o.o. Budva	6	6
-Peneseda d.o.o. Podgorica	41	-
Total expenses	52	12
Net income	234	1,103

Top management and board of directors gross wages and compensations in 2015 amounted to EUR 88 thousand (2014: EUR 41 thousand).

29. LITIGATIONS

As of December 31, 2015, the Bank was involved in several litigations filed by legal entities and individuals. According to the assessments made by the Bank's Legal Department, as of December 31, 2015 the total amount of claims against the Bank amounted to EUR 809 thousand (2014: EUR 395 thousand). The most significant litigation against the Bank was the claim filed by Lene Čavor referring to the annulment of the contract on mortgage in the amount of EUR 357 thousand, and, at the discretion of the Bank's legal representative in this dispute, the likelihood to settle the dispute in favor of the Bank is higher than 50%, and the claim filed by Kula d.o.o. processed before the Commercial Court for the determination of the annulment of the agreement on acquirement, at the discretion of the Bank's legal department, the likelihood to settle the dispute in favor of the Bank is higher than 90%.

In addition, the Bank filed several litigations against legal and individuals to collect the receivables in the amount of EUR 136 thousand (2014: EUR 927 thousand).

30. TAX 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 differ from 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. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for five years. This practically means that tax authorities could determine payment of outstanding liabilities in the period of five years from the origination of the liability.

31. EXCHANGE RATES

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

	December 31, 2015	December 31, 2014
USD	0.9152	0.8223
CHF	0.9247	0.8313
GBP	1.3550	1.2872

32. SUBSEQUENT EVENTS

The Bank was approved the loan as at February 10, 2016 when it concluded the loan agreement with Wellrock Ventures Limited, British Virgin Islands in the amount of GBP 1,850 thousand. The loan was granted with an interest rate of 0.1% per annum and a repayment due on March 31, 2020.

The Bank after the reporting date had control of the Central Bank of Montenegro. The control report was not issued until the date of issuance of these financial statements.

In addition to the above events, Management believes that there are no other significant events after the reporting date that would have impact on the financial statements for 2015.

33. GENERAL INFORMATION ABOUT THE BANK

In accordance with the Decision on the contents, terms and manner of preparation and submission of financial statements of banks ("Off. Gazette of Montenegro", No. 15/12 and 18/13), general information of the Bank are presented as follows:

Bank name: Universal Capital Bank AD, Podgorica
Address: Stanka Dragojevića bb
Corporate ID: 02684462
Phone/Fax: 020/481-481, 020/481-482
Address of webpage: www.ucbank.me
E-mail address: info@ucbank.me
The bank has headquarters and 3 branch offices.
Number of employees as of December 31, 2015 was 54.
Bank account: 907-56001-24
The establishment and entry in the Register of Business Entities: October 24, 2007.

Information about the president and members of the Board of Directors

	Name and Surname	Date of birth	Place	Residence Address (street and number)
1. President	Božo Milatović	31.05.1949.	Podgorica	St.Cetinjski put No.4/17
2. Member	Biljana Đuranović	27.02.1956.	Podgorica	St. Moskovska No.3
3. Member	Predrag Drecun	18.08.1960.	Podgorica	St.Moskovska No.19
4. Member	Vitali Jaroševits	03.04.1984.	Estonia	Vahtra Road 5-2, Peetri Borought 75312
5. Member	Lian Choon Beng	25.08.1954.	Singapur	Apt 21 Joo Seng Road Unit 04-164
Chief Executive Officer	Georgios Lychnos			

Ten major shareholders of the Bank are:

Name/Company name	Residence address / corporate address (place, street and number)	Data on shares: Number of shares	Percent of share
Sigma Delta Holding d.o.o	Ulcinjska, Podgorica, Crna Gora	12.021.836	87.66%
Aviplus	Viru Valjak Tallinna Linn, Estonia	626.959	4.57%
Drecun Predrag	Moskovska 19, Podgorica, Crna Gora	549.621	4.01%
Pairaktaridis Emmanouil	Nijaja, Grčka	455.080	3.32%
Seriatos Gerasimos	Grčka	20.000	0.15%
Saveljić Tijana	Vukice Mitrović 40, Podgorica , Crna Gora	15.000	0.11%
Aleksić Milutin	Gandijeva 76/20, Beograd, Srbija	8.000	0.06%
Djačić Biljana	Volodjina P3, Pljevlja, Crna Gora	4.000	0.03%
Redžepagić Mirza	Gavrila Dožića 1, Podgorica, Crna Gora	2.400	0.02%
Medojević Milinko	Svetozara Markovića, Podgorica Crna Gora	2.370	0.02%

The audit company that performed an audit of the financial statements of 2015 and 2014: Deloitte d.o.o. Podgorica, Bulevar Svetog Petra Cetinjskog, Maksim building, Podgorica.

The book value of shares as of December 31, 2015 and December 31, 204 amounted EUR 1,00 per share.

Net profit per share as of December 31, 2015 and 2014 was EUR 0,0184 and EUR 0,0082, respectively.

There were not dividend payments in 2013, 2014 and 2015.