

Erste Bank AD Podgorica

Godišnji izvještaj 2015.

# Opšte informacije

ERSTE BANK AD PODGORICA

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## Obraćanje Predsjednika Odbora direktora

Erste banka je u 2015. godini nastavila trend dobrog poslovanja u relativno stabilnom makroekonomskom okruženju. Poslujući na liniji strategijskih odrednica, ostvarili smo najvažnije planirane komercijalne ciljeve i zadržali veoma visok kvalitet plasmana.

Tokom 2015. godine Banka je zadržala značajno tržišno učešće u svim sferama, orijentirajući se ka klijentima i industrijskim granama čija je perspektiva poslovanja neupitna. Zabilježili smo rast u kreditima, depozitima i ostvarenom profitu.

Tržišni udio u ukupnim kreditima na kraju godine ostao je stabilan na 12,4%, dok je učešće u ukupnoj aktivnosti sniženo na 10,6%. Rast tržišnog udjela u kreditima je vođen prvenstveno rastom u segmentu kreditiranja pravnih lica. U prošloj godini smo nastavili aktivnosti na optimizaciji izvora i usklađivanju kamatnih stopa na depozite. Tržišno učešće je u skladu sa očekivanjima, smanjeno na 10,4%.

Orijentacija ka klijentu obilježiće poslovanje Erste banke i u 2016. godini, a fokus će biti na stvaranju trajnih odnosa s klijentima, kojima je Erste pouzdan partner u realizaciji njihovih finansijskih potreba i poslovnih planova. Otvaranje novih mogućnosti za građane i privredu, širenje dostupnosti kreditnih proizvoda i primjena savremenih inovativnih rješenja koje donosi trend digitalizacije, biće u središtu naših aktivnosti i u periodu koji je pred nama.

Zajednica u kojoj poslujemo je naš veoma važan partner. Zadržali smo tradicionalna partnerstva, generalna sponzorstva Prve crnogorske košarkaške lige – Erste lige i Crnogorskog simfonijskog orkestra, uz realizaciju brojnih projekata na nacionalnom i lokalnom nivou.

U ime Odbora direktora zahvaljujem se svim zaposlenima i menadžerskom timu na posvećenosti i zalaganju i čestitam na uspješno realizovanim ciljevima. I u ovoj godini nastavićemo u istom pravcu, sa ciljem stvaranja dodatne vrijednosti i doprinosa razvoju ekonomije u cjelini.

Reinhard Ortner  
Predsjednik Odbora direktora

# Odbor direktora



**REINHARD ORTNER**  
Predsjednik Odbora direktora



**CHRISTOPH SCHOEFOECK**  
Zamjenik predsjednika Odbora direktora



**SLAĐANA JAGAR**  
Članica Odbora direktora



**BORISLAV CENTNER**  
Član Odbora direktora



**SAVA IVANOV DALBOKOV**  
Član Odbora direktora



## Obraćanje Glavnog izvršnog direktora

Za nama je još jedna uspješna godina, u kojoj smo uspjeli da ostvarimo odlične finansijske rezultate. Potvrdili smo jaku tržišnu poziciju Erste banke, koja je danas značajan oslonac svim kategorijama klijenata. Iako smo dominantno usmjereni na poslovanje sa građanima, prošle godine smo značajno pojačali i partnersku podršku privredi Crne Gore.

Naše poslovanje odlikuju visok kvalitet i stabilnost, koji su oslikani kroz nekoliko ključnih parametara. U prošloj godini smo ostvarili dobit od 6,53 miliona EUR što je 9,5% više u odnosu na godinu ranije. Povrat na kapital iznosio je oko 13,3%, a povrat na aktivu 1,8%.

Neto krediti klijentima su na kraju 2015. godine iznosili 235,84 miliona EUR i bili su 1,9% viši u odnosu na godinu ranije. Tokom prošle godine, nastavljena je podrška u segmentu fizičkih lica, kroz stabilne aktivnosti kreditnih plasmana. Tržišno učešće na kraju 2015. godine iznosilo je 15,34%.

U segmentu privrede ostvaren je značajan rast obima kreditiranja, dok je broj novih klijenata sa izloženošću gotovo udvostručen. Tržišno učešće na kraju 2015. godine poraslo je na 9,98%.

Zadržali smo kvalitet aktive na veoma niskom nivou, naročito imajući u vidu prosjek na tržištu. Izloženost Erste banke lošim kreditima (NPE) je na kraju prošle godine iznosila 6,4%.

Nivo depozita je na stabilnom nivou, iako smo i prošle godine radili na optimizaciji pasivnih kamatnih stopa. Depoziti su na kraju godine iznosili 273,92 milion EUR i bili su na stabilnom novou u odnosu na kraj 2014. godine.

Likvidnost Banke je konstantno bila jaka, a svi pokazatelji likvidnosti znatno iznad zakonskih minimuma. Banka je 2015. godinu završila kao dobro kapitalizovana banka sa koeficijentom solventnosti od 20,53%\* (bez uključene dobiti tekuće godine) koji je znatno iznad zakonskog minimuma od 10%.

Hvala zaposlenima, poslovnim partnerima i klijentima na izuzetnoj saradnji. Vjerujem da ćemo kroz dugoročna partnerstva, razumijevanje potreba i transparentnu komunikaciju nastaviti da ostvarujemo zajedničke poslovne uspjehe.

Glavni izvršni direktor  
Aleksa Lukić

\* lokalni standardi izvještavanja

# Izvršni direktori



**ALEKSA LUKIĆ**, glavni izvršni direktor

- Nadležan za Sektor stanovništva, Sektor privrede, Sektor riznice, Službu ljudskih resursa, Službu marketinga i Službu komunikacija



**DARKO KEKOVIĆ**, izvršni direktor

- Nadležan za Sektor informacione tehnologije i organizacije, Sektor procesinga, Sektor upravljanja imovinom, Sektor direktnih kanala



**ALEKSANDRA RADIĆ**, izvršna direktorica

- Nadležna za Sektor finansija i računovodstva, Sektor upravljanja rizicima, Službu pravnih poslova

# Vlasnička struktura

Erste Bank AD Podgorica je u 100% vlasništvu Erste & Steiermärkische Bank d.d. Rijeka, Hrvatska.

## Informacija o radu Odbora direktora

U skladu sa Zakonom o bankama Crne Gore („Sl. list CG“ br. 17/08, 44/10 i 40/11), tokom 2015. godine održano je 17 sjednica Odbora direktora – od toga, 12 redovnih (u skladu sa zakonskom obavezom) i pet vanrednih sjednica.

Rad Odbora direktora bio je usmjeren na ispunjenje obaveza definisanih zakonskom regulativom i podzakonskim aktima, kao i Statutom i drugim opštim aktima Banke.

Odbor direktora Banke je redovno razmatrao sva pitanja od značaja za rad Banke, uključujući mjesečne izvještaje o finansijskim rezultatima, kreditnom i tržišnom riziku, riziku likvidnosti i operativnom riziku, funkcionisanju sistema interne kontrole, izvještaje o informacionoj sigurnosti i kontinuitetu poslovanja i donosio odluke iz svog djelokruga rada.

Odbor direktora je razmatrao i nalaze kontrole Centralne banke, te je u skladu sa svojim nadležnostima pratio implementaciju preporuka i sprovođenje mjera koje je kontrola naložila.

U junu 2015. godine Odbor direktora je usvojio Odluku o otvaranju sezonskog šaltera Banke u Sutormu u cilju poboljšanja konkurentnosti i pružanja boljeg servisa postojećim, ali i u cilju akvizicije novih klijenata, uzimajući u obzir popularnost ovog ljetovališta i veliku posjećenost koju bilježi u ljetnim mjesecima.

Na sjednici u julu 2015. godine, Odbor direktora je na osnovu analize tržišnih dešavanja, donio Odluku koja je omogućila intenziviranje partnerstva sa Investiciono - razvojnim fondom Crne Gore.

U septembru je Odbor direktora donio Odluku o uvođenju novog proizvoda – akreditiva u ponudu Banke.

Na novembarskoj sjednici Odbora direktora usvojena je Odluka o otvaranju filijale Banke u Kolašinu. Implementacijom ove Odluke Banka postaje prisutna u još jednoj lokalnoj zajednici i broj filijala u Crnoj Gori povećava na 17. Pored Odluke o otvaranju filijale, Odbor direktora je na ovoj sjednici usvojio i Odluku o načelnoj saglasnosti na uvođenje brokerskih, dilerskih i poslova investicionog menadžera, čija implementacija će omogućiti upotpunjavanje ponude Banke u dijelu investicionog bankarstva i stvoriti nove mogućnosti za buduću doprinos finansijskom rezultatu.

U decembru 2015. godine usvojena je Procedura o zviždačima (Whistle blowing procedure) u cilju usklađivanja sa zahtjevima regulatora i Erste Grupe i poštovanja najbolje prakse u dijelu obezbjeđivanja mehanizama za prijavu neregularnosti koje za posljedicu mogu imati štetu po klijente i Banku.

Odbor direktora je blagovremeno razmatrao izvještaje i planove rada nezavisnih funkcija Banke, u skladu sa svojim nadležnostima. Pored planova i izvještaja Odbor direktora je na predlog nezavisnih funkcija razmatrao i usvajao izmjene/dopune internih akata iz oblasti djelovanja nezavisnih funkcija.

Odbor direktora je redovno informisan o nalazima Interne revizije i implementaciji naloženih mjera/datih preporuka.

Dodatno Odbor direktora je periodično razmatrao i usvajao sumarne izvještaje o funkcionisanju sistema internih kontrola sa preporukama za unaprjeđenje koje je davao Odbor za reviziju.

Predmet odlučivanja bile su i izmjene u organizacionoj strukturi Banke, kao i imenovanja rukovodilaca druge linije menadžmenta te i sva ostala pitanja u skladu sa važećom zakonskom regulativom i internim aktima Banke.



# Makroekonomski ambijent\*

Makroekonomski ambijent u Crnoj Gori je u toku 2015. bio relativno stabilan. Prema preliminarnim podacima Monstata, BDP je realno porastao za oko 3,2%. Rast je podstaknut investicijama, kako javnim tako i privatnim, a naročito u drugoj polovini. Prema posljednjim objavljenim prognozama Ministarstva finansija, prosječan realan rast BDP-a trebalo bi da dostigne 3,8% za period od 2015-2018.

Stopa nezaposlenosti je u posljednjem kvartalu 2015. godine iznosila 17,9%, blago niža u odnosu na uporedni period prethodne godine. Prosječna godišnja stopa inflacije iznosila je 1,5%. Neto priliv SDI u 2015. godini iznosio je 619,3 miliona EUR, što je za oko 75% više nego u 2014. Ukupan priliv SDI dostigao je 757,4 miliona EUR ili 52,1% više u odnosu na prethodnu godinu. Trend rasta SDI nastavljen je značajnim povećanjem priliva po osnovu vlasničkih ulaganja (ulaganja u domaće kompanije i banke), kao i smanjenjem odliva SDI. Ukupan odliv bio je 138,2 miliona EUR, što je za 4,2% manje u odnosu na prethodnu godinu.

Nakon što je mjerama konsolidacije u 2014, budžetski deficit smanjen na 3,1% od BDP-a, povećanje kapitalnih rashoda vezanih za autoput i neostvarenje prihoda u 2015, vratili su budžetski deficit na 7,9% a javni dug je porastao na 68% od BDP-a. Bankarski sistem je stabilan sa aspekta likvidnosti.

U bankarskom sektoru u 2015. godini zabilježen je rast ukupne aktive od 10,9% u odnosu na decembar 2014. Ukupni depoziti bili su 13,7% viši u odnosu na kraj 2014, dok su ukupni krediti zabilježili skroman godišnji rast od 0,8%.

\*izvori: Ministarstvo finansija, MONSTAT, Centralna banka Crne Gore

# Stanovništvo

U Sektoru stanovništva u 2015. je nastavljen kontinuirani trend rasta broja klijenata, a njihov broj je dostigao oko 77 hiljada, što je skoro 4% više nego godinu ranije. Cilj nam je da taj trend nastavimo, kako bismo i dalje ostali čvrsto pozicionirani među vodećim bankama u segmentu stanovništva. Unapređivanje kvaliteta usluge i nastup sa inovativnom ponudom i uslugom vidimo kao put do ovog cilja.

U segmentu malog preduzetništva ostvareni su izuzetni rezultati, naročito kada je u pitanju efikasnost procesa odobravanja.

Permanently osluškujući potrebe klijenata, u narednom periodu ćemo posebno promovisati proizvode u oblasti mobilnog i elektronskog bankarstva. Očekujemo pozitivan odgovor tržišta, shodno prednostima koja ova rješenja donose klijentima – niže troškove i dostupnost servisa bez vremenske i prostorne barijere.

## Kreditni Sektor stanovništva

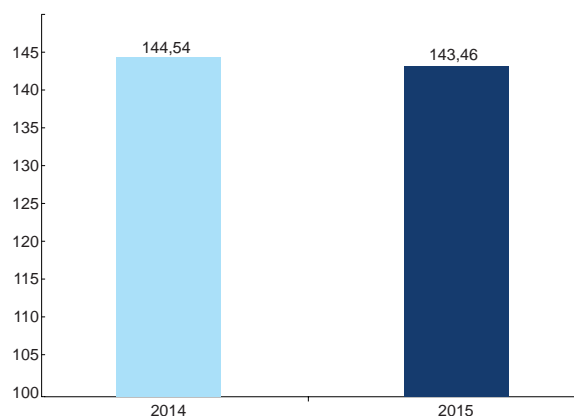
Aktivnost kreditnih plasmana je u prošloj godini ostala na stabilnom nivou. Prosječna stopa učešća u ukupnim plasmanima bankarskog sektora iznosila je 15,68%, a tržišno učešće u segmentu stanovništva iznosilo je 15,34% na kraju 2015.

U strukturi kredita Sektora stanovništva dominiraju gotovinski krediti sa 55,21% učešća, a vrijednost odobrenih gotovinskih kredita porasla je za 4,61%. Povećan je plasman dugoročnih kredita, stambenih i hipotekarnih, te je kvalitet portfelja dodatno unaprijeđen. Stambeni krediti su porasli za 3,2%. Izuzetan rezultat je ostvaren u kreditiranju malog preduzetništva, koje je zabilježilo rast portfelja za 8,39%.

Ostvaren je rast pozajmica kroz dozvoljeno prekoračenje po transakcionim računima klijenata za 3,59%, a veliko interesovanje klijenti su pokazali za svenamjenski kredit za refinansiranje.

I u protekloj godini velika pažnja posvećena je aktivnostima naplate, u cilju očuvanja visokog kvaliteta kreditnog portfelja i zadržavanje NPL-a ispod tržišnog prosjeka.

Kreditni Sektor stanovništva u milionima eura



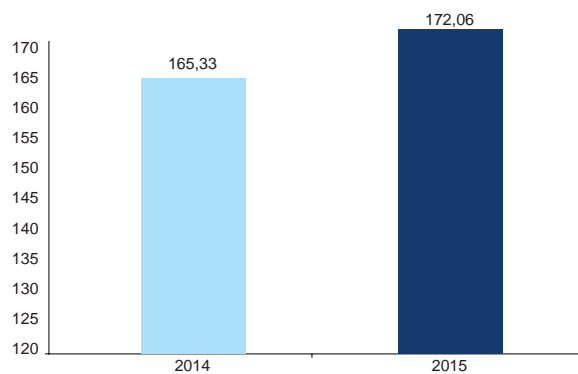
## Depoziti Sektora stanovništva

U toku 2015, shodno strategiji Banke, nastavljena je optimizacija pasivnih kamatnih stopa, što nije uticalo na dinamiku priliva novih depozita i zadržavanje postojećih. Zahvaljujući povjerenju klijenata i pored smanjenja prosječne kamatne stope za 0,97%, zabilježen je rast depozitnog portfelja segmenta stanovništva za 4,1% ili 6,73 miliona EUR, uz pad ukupnog kamatnog troška od 0,78 miliona EUR.

Tržišno učešće u depozitima sektora stanovništva na kraju godine iznosilo je 11,58%.

U strukturi depozitnog portfelja, oročeni depoziti učestvuju sa 52,62%, depoziti po viđenju učestvuju sa 46,42% i kamata sa oko 1%.

Depoziti Sektora stanovništva u milionima eura



# Privreda

Sektor privrede je u 2015. godini zabilježio rast kreditnog portfelja za 3,8%. Ostvareni rezultat u skladu je sa strateškim smjernicama, pa je tako ofanzivnom strategijom u ključnom tržišnom segmentu, privatnim kompanijama, nadomješten cjelokupan pad portfelja iz prethodnog uporednog perioda i ukupno tržišno učešće sektora vraćeno u zonu sistemskih banaka. Depoziti Sektora privrede su zabilježili pad prvenstveno kao rezultat smanjenja depozita javnog sektora.

U 2015. godini je zabilježen blagi rast ekonomije, što je uticalo i na porast tržišnog portfelja privrede u Crnoj Gori za 0,9%. Tržište depozita pravnih lica zabilježilo je značajan rast od čak 21,2%, usljed akumulacije novca namijenjenog investicionim aktivnostima prevashodno stranih kompanija u Crnoj Gori. To se prije svega odnosi na multinacionalne kompanije iz oblasti energetike.

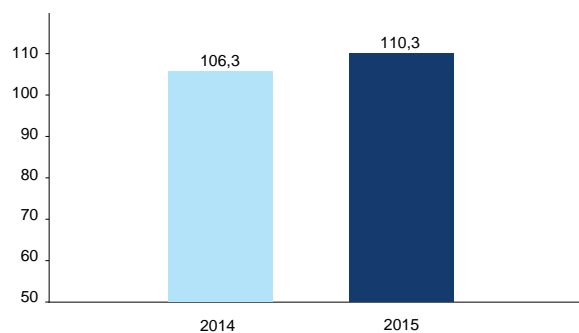
Dubina tržišta odredila je strategiju rasta u smjeru refinansiranja postojećih SME izloženosti kod drugih banaka. To je uticalo na smanjenje kamatnih stopa, dok je kvalitet portfelja dodatno unaprijeđen, te je izloženost non performing kreditima na kraju 2015. godine iznosila 7,69%.

Prihod od provizija u platnom prometu i naknada od dokumentarnih poslova je zabilježio rast što će posebno biti u fokusu i u sljedećem vremenskom razdoblju.

## Kreditni Sektor privrede

Ukupni kreditni portfelj Sektora privrede porastao je za 4 miliona EUR, prvenstveno kao rezultat rasta portfelja privatnih kompanija od čak 14,3%. Na bankarskom tržištu generalno, portfelj u privatnim kompanijama rastao je svega 2,1% u odnosu na uporednu godinu. Broj novih klijenata sa izloženošću je gotovo udvostručen u odnosu na 2014. Posebna pažnja je posvećena dubinskom pristupu klijentima i dodatno je razvijena savjetnička uloga zaposlenih u Sektoru. Takav pristup tržištu je doveo do preuzimanja značajnog broja velikih klijenata iz drugih banaka. U pomenutom periodu, tržišno učešće Sektora privrede je povećano sa 9,67% na 9,98%.

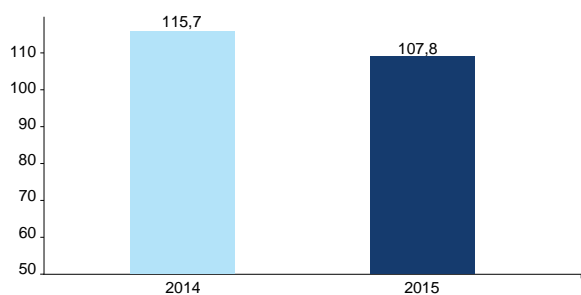
Kreditni Sektor privrede u milionima eura



## Depoziti Sektora privrede

Depozitni portfelj je planirano smanjen za 5,2% uz nastavljeno smanjivanje prosječne stope na oročenim depozitima za 0,88%, kao posljedica usklađivanja ponude sa tržišnim prilikama i politike Banke u oblasti snižavanja troška likvidnosti. Uprkos smanjenju kamatne stope, Sektor privrede je ostvario rast u depozitima privatnih kompanija za 2,1% što je rezultat povjerenja koje Banka uživa na tržištu. Sa druge strane, planirano povlačenje depozita države je uticalo da agregatni rezultat zabilježi pad.

### Depoziti Sektora privrede u milionima eura

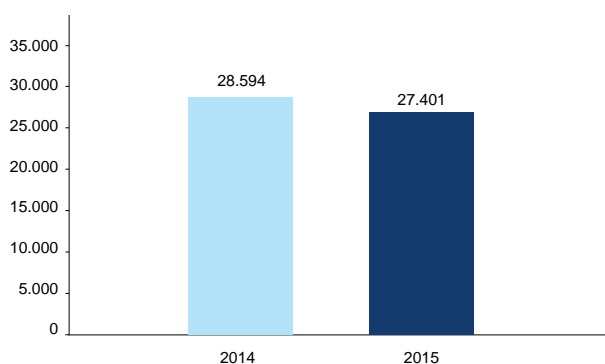


# Direktni kanali

## Kartično poslovanje

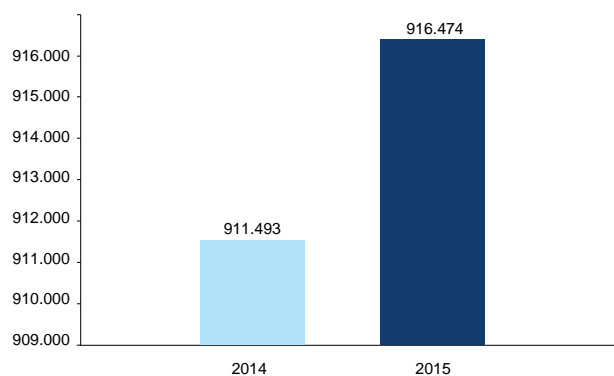
U 2015. Erste banka bilježi pad od 4,14% u broju aktivnih kartica, te je njihov broj iznosio 27.401.

### Ukupan broj kartica



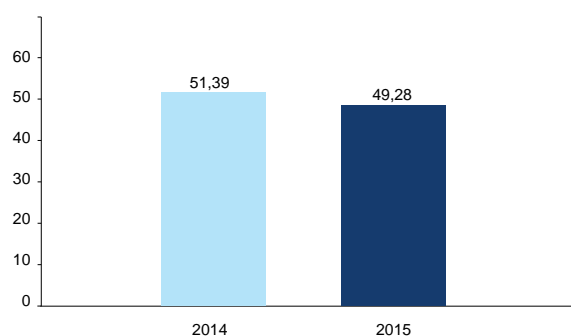
Ukupan broj transakcija platnim karticama u 2015. je porastao 0,55% na 916.474. U ukupnom broju transakcija, debitnom platnom karticom ostvareno je 92,2%, a ostatak su transakcije kreditnim karticama.

### Ukupan broj transakcija platnim karticama



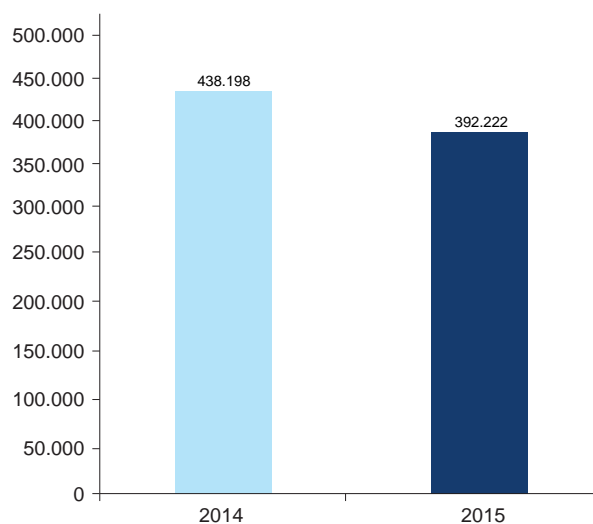
Ukupan promet ostvaren platnim karticama banke u 2015. u odnosu na 2014. bio je manji za 4,12% i iznosio je 49,28 miliona EUR.

### Ukupan promet platnim karticama u milionima eura



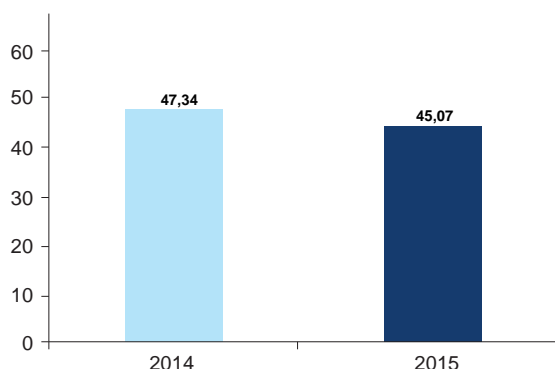
U 2015. mreža bankomata je proširena za 12,12%. Ukupan broj transakcija na bankomatima u 2015. je smanjen za 10,49% na 392.222.

### Ukupan broj transakcija platnim karticama na bankomatima



Ukupan promet platnim karticama na bankomatima Erste banke u 2015. iznosio je 45,07 miliona ili 4,79% manje nego u 2014.

## Ukupan promet platnim karticama u milionima EUR

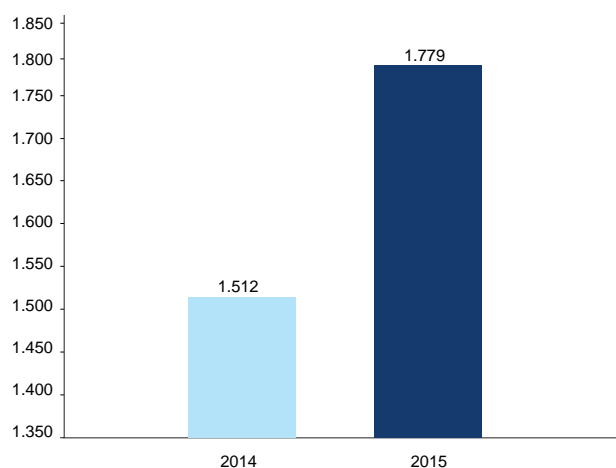


Udio kartica koje imaju funkcionalnost beskontaktnog plaćanja dostigao je 79,31% ukupnog broja debitnih platnih kartica, dok je u 2014. taj udio iznosio 30,2%. Beskontaktnih plaćanja u 2015. bilo je 21,43% u odnosu na ukupan broj plaćanja debitnim karticama. Prosječan iznos beskontaktna transakcije iznosio je 14,76 EUR.

## Digitalno bankarstvo

Broj korisnika elektronskog bankarstva u 2015. je porastao za 17,66% u odnosu na 2014.

### Broj korisnika elektronskog bankarstva



Ukupan broj naloga realizovanih putem elektronskog bankarstva u ukupnom platnom prometu banke bio je 111.922, što predstavlja rast od 43,63%. U ukupnom broju realizovanih naloga ostvarenog

putem elektronskog bankarstva, u platnom prometu prednjače poslovni subjekti sa učešćem od 87,54%.

U ukupnoj strukturi broja naloga ostvarenih putem elektronskog bankarstva u odnosu na ukupan broj platnih naloga realizovanog u platnom prometu fizička lica čine 5,1% na kraju 2015, dok pravna lica u istoj strukturi čine 28,2%.

## Info servis – SMS alarm

Broj korisnika SMS info servisa po tekućem računu u 2015. godini je porastao za 31,5% i dostigao je 11.400. Broj korisnika SMS usluge za platne kartice bio je 578.

## Noviteti u proizvodima i uslugama

U 2015. godini je predstavljen novi, unaprijeđeni servis elektronskog bankarstva za fizička lica i poslovne subjekte – NetBanking.

Uz NetBanking kao novu uslugu, banka je predstavila i display karticu kao novo sredstvo autentifikacije za navedenu uslugu. Display kartica je prva kartica te vrste na tržištu Crne Gore.

# Platni promet

Projekti primjene Zakona o platnom prometu, podzakonskih akata i regulatornih zahtjeva drugih državnih institucija obilježili su 2015. godinu u domenu platnog prometa. Tokom navedenih aktivnosti Banka je uspješno i u roku izvršila analize zakonskog okvira, sistemska prilagođavanja i usklađivanja procesa i akata, uz blagovremena obavještanja i komunikaciju sa klijentima.

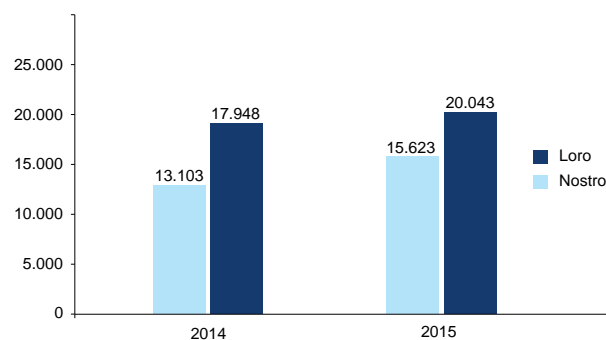
Uporedo sa ovim, sprovedene su aktivnosti u cilju poboljšanja efektivnosti i efikasnosti usluge kroz usvajanje novih operativnih uputstava, revidiranje postojećih akata, kao i jasniju sinhronizaciju poslovnih procesa sa zahtjevima prodajnih sektora. Unapređenje kvaliteta i brzine podrške internim i eksternim klijentima rezultiralo je povećanjem obima aktivnosti.

## Platni promet sa inostranstvom

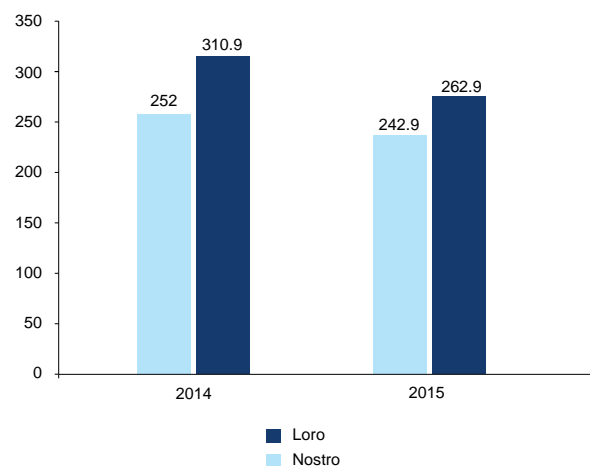
Posvećenost zadovoljstvu klijenata bio je glavni fokus u obradi naloga međunarodnog platnog prometa, što je doprinijelo uvećanju izvršenih plaćanja prema inostranstvu za oko 19,23%. Banka je izvršila 15.623 nostro doznake, ukupnog iznosa oko 263 miliona EUR. U 2015. godini realizovano je 20.043 loro doznaka u ukupnom iznosu 242,9 miliona EUR, što predstavlja povećanje broja loro transakcija od 11,67%.

Restriktivna politika zatvaranja računa velikih banaka zemalja Evropske unije u regionu je nastavljena, te je Banka imala zadatak da pored održavanja kvalitetnih korespondentnih odnosa, upravlja i optimizuje troškove.

Broj Loro/Nostro doznaka



Vrijednost Loro/Nostro doznaka u milionima eura



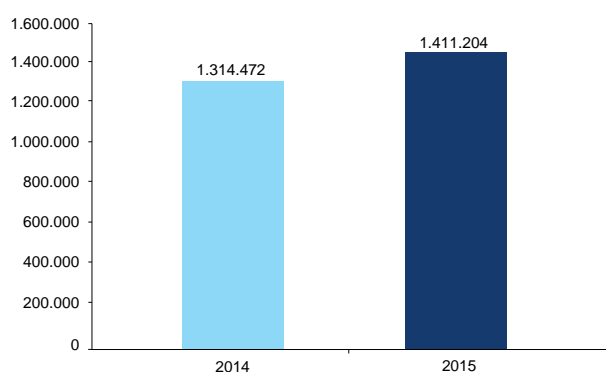
Tokom 2015. godine unovčeno je 559 čekova fizičkih lica.



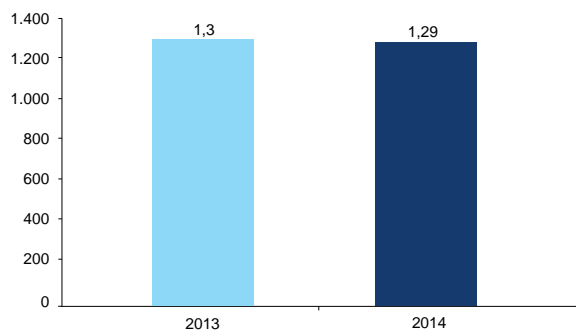
## Platni promet u zemlji

Nacionalni platni promet u 2015. znatno je uvećan u odnosu na prethodnu godinu, zahvaljujući rastu broja klijenata. Realizovano je 1.411.204 transakcija bezgotovinskog i gotovinskog platnog prometa fizičkih i pravnih lica, što predstavlja rast od 7,36%. Ukupna vrijednost ostvarenog platnog prometa iznosila je oko 1,29 miliona EUR.

### Obim transakcija u nacionalnom platnom prometu



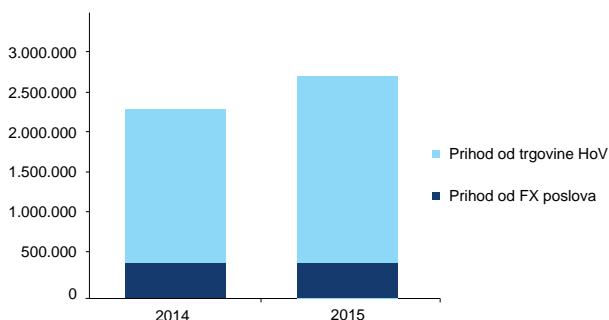
### Vrijednost nacionalnog platnog prometa u milionima eura



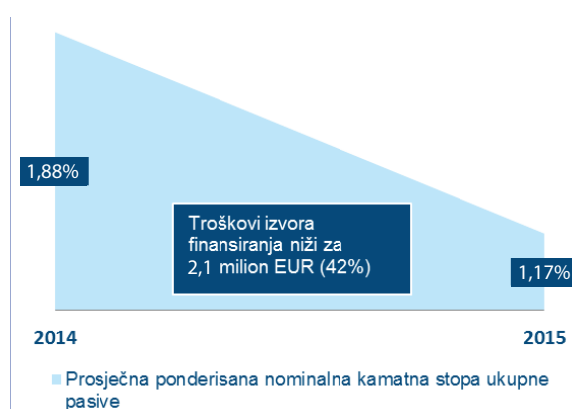
# Riznica

## Upravljanje aktivom i pasivom i trgovanje

Prihod od FX poslova u 2015. godini iznosio je 327 hiljada EUR. Dio viškova likvidnosti, koji je proistekao iz porasta nivoa depozita klijenata, plasiran je u hartije od vrijednosti, tako da je prihod od ovih poslova iznosio više od 2,5 miliona EUR, što je neznatno iznad planiranog prihoda za 2015. godinu.

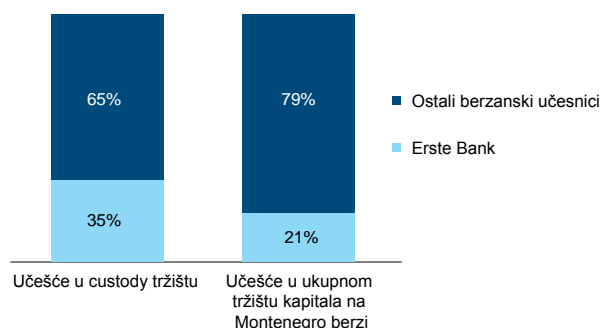


Aktivom i pasivom, u smislu likvidnosti, ročne usklađenosti izvora i plasmana sredstava je upravljao ALCO komitet u skladu sa propisanim internim odlukama i zakonskim odredbama koje propisuje regulator. Likvidnost je pažljivo praćena, planirana i projektovana na optimalnom nivou, tako da je raspoloživa likvidnost, osim plasmana u kredite klijentima i HoV, iskorišćena i za prijevremenu otplatu 11,5 miliona EUR ranije povučenih kreditnih linija od Erste Holdinga. Ovom operacijom na pasivi ukupna zaduženost Banke po osnovu uzetih kredita je smanjena je za 85% u odnosu na kraj 2014. godine. Ovim je Banka snažno uticala na strukturu izvora finansiranja, na način što su depoziti klijenata postali dominantan izvor, čiji je udio bio veći od 90% ukupnih izvora. Uporedo sa tim, posebna pažnja je posvećena i kontroli troškova pasive. Aktivnim uticajem na cjenovnu politiku depozita, prosječno ponderisana nominalna kamatna stopa ukupne pasive snižena za 0,71% u odnosu na 2014. godinu, pri čemu je prosječna cijena oročenih depozita pala za 0,96%. U ukupnom iznosu, troškovi izvora finansiranja u 2015. godini (kreditni od banaka + depoziti klijenata) su bili manji za 2,1 milion EUR, odnosno niži za 42% u odnosu na 2014. godinu. Ovim je značajno neutralisan negativan uticaj na neto maržu koju je ostvarila Banka, a koji se ogledao u padu prosječne ponderisane kamatne stope na kreditima, za nešto više od 1% u odnosu na 2014. godinu.



## Custody i depozitarni poslovi

Iako se sa obavljanjem ovih poslova započelo početkom 2015. godine, Banka je uspjela da se visoko pozicionira na tržištu. Učešće u custody tržištu je iznosilo 35%, dok je učešće u ukupnom tržištu kapitala na Montenegro berzi iznosilo preko 21%. Ukupno naplaćene provizije po ovim poslovima su iznosile 184 hiljade EUR, a zajedno sa ostvarenim neto profitom od trgovanja obveznicama, u iznosu od 199 hiljade EUR, Odjeljenja custody i depozitarnih poslova su ostvarila neto rezultat u iznosu od 336 hiljade EUR.



Polovinom 2015. godine klijent depozitarnog odjeljenja je postao najveći privatizacioni fond u Crnoj Gori, čija ukupna imovina, u okviru otvorenog i zatvorenog dijela iznosi preko 40 miliona EUR. Važno je pomenuti i to da je, u okviru četvrte emisije međunarodnih obveznica države Crne Gore, Erste Group od strane Ministarstva finansija ponovo bila izabrana za Join Lead Manager-a i Bookrunner-a izdanja.

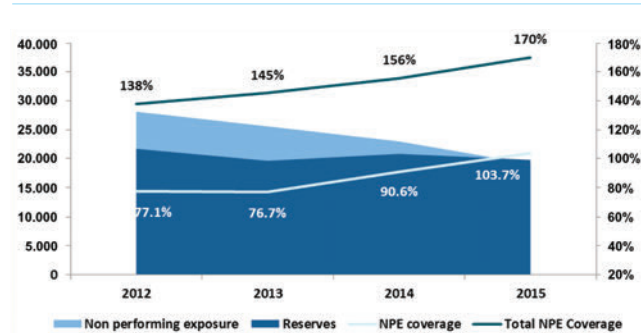
# Upravljanje rizicima

Tokom 2015. godine makroekonomski ambijent u Crnoj Gori je relativno stabilan. Prema preliminarnim podacima, realni BDP pokazuje rast od 3,2%. Rast je podstaknut investicijama, kako javnim tako i privatnim. Nakon što je mjerama konsolidacije u 2014. budžetski deficit smanjen na 3,1% od BDP-a, povećanje kapitalnih rashoda vezanih za autoput i neostvarenje prihoda u 2015. vratili su budžetski deficit na 7,9% a javni dug se povećao na 68% od BDP-a. Bankarski sistem je stabilan sa aspekta likvidnosti. Tokom 2015. godine iznos sistemskog NPL-a je smanjen za oko 4%, međutim, i dalje predstavlja opterećenje za bilanse banaka. Prisutna je značajna nelikvidnost privrede, oko 20% od ukupnih pravnih lica i preduzetnika ima blokirani račun usljed nemogućnosti izmirenja obaveza.

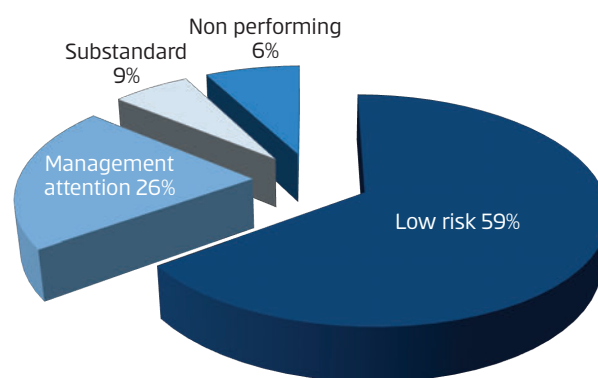
Rizični profil Erste banke u 2015. godini bio je znatno bolji od profila bankarskog tržišta kao cjeline. To se ogleda u znatno boljim pokazateljima kvaliteta aktive i nižeg kreditnog rizika od industrijskog prosjeka. Izraženi su niži procenti dana kašnjenja i NPL-a u odnosu na sistemske vrijednosti. Kašnjenja preko 90 dana su se smanjivala tokom 2015. godine. U segmentu privrede DPD > 90 je smanjeno sa 11,1% na 8,9%, a u segmentu retailsa sa 6,7% na 5,8%.

Trošak rezervacija je imao pozitivnu vrijednost od 1,5 mil EUR u 2015. U % od kredita, trošak, odnosno prihod je iznosio -0,64% u odnosu na 0,3% troška u 2014. Pokrivenost NPE rezervama visoka je i iznosila je 103,7% na kraju 2015. bez uključivanja vrijednosti kolaterala.

## NON-PERFORMING EXPOSURE (NPE) POKRIVENOST REZERVAMA



## Izloženost po kategorijama rizika u Erste banci



Non performing izloženost (NPE) je padala tokom 2015, te je na kraju godine iznosila 6,4%. Udio izloženosti u najboljoj rejting kategoriji „Low risk“ se smanjio sa 65% na dan 31.12.2014. na 59% na 31.12.2015. To nije rezultat kvarenja portfelja već uticaj uvođenja novog rejtinga za klijente.

Likvidnost Banke je konstantno bila jaka – svi pokazatelji likvidnosti znatno iznad zakonskih minimuma. Izloženost tržišnom riziku je i tokom 2015. godine ostala na niskom nivou.

Banka je 2015. godinu završila kao dobro kapitalizovana banka sa koeficijentom solventnosti od 19,28%\* (bez uključene dobiti tekuće godine) koji je znatno iznad zakonskog minimuma od 10%.

Tokom 2015. godine Banka je zadržala značajno tržišno učešće u svim sferama, pritom izuzetno vodeći računa o kvalitetu plasmana i orijentišući se ka klijentima i industrijskim granama koje nijesu ili su minimalno pogođene krizom i čija je perspektiva poslovanja neupitna. Izlaganje banke prema granama industrije koje su značajnije pogođene krizom, npr. građevinarstvu, ostala je minimalna i te grane nijesu bile u fokusu interesovanja.

# Ljudski resursi

Sa strateškog gledišta ljudski resursi predstavljaju najvažniji potencijal firme, dok upravljanje njima iziskuje sistemsko privlačenje, praćenje, evaluaciju, ulaganje u edukaciju i usavršavanje, a sve sa ciljem ostvarivanja planova organizacije.

Imajući u vidu današnje vrijeme tržišnog poslovanja, iskorak u odnosu na konkurenciju i osvajanje tržišta karakteriše upravo ljudski odnos, orijentisanost ka klijentu i nadovezivanje na njegove potrebe i očekivanja. S tim u vezi Banka će nastaviti svoju orijentisanost i opredijeljenost u tom pravcu.

U 2015. godini nastavili smo da oplemenjujemo odnose u kolektivu, da razvijamo i usavršavamo kompetencije (vještine i znanje), stvaramo preduslove za rast i razvoj, kao i da održavamo esenciju uspjehnosti i prepoznatljivosti Erste banke – zadovoljstvo, stručnost i motivisanost kolektivnog duha.

Godinu smo završili sa 266 zaposlenih. Od ukupnog broja zaposlenih, 48% čine žene, dok je prosječna starosna dob 39 godina.

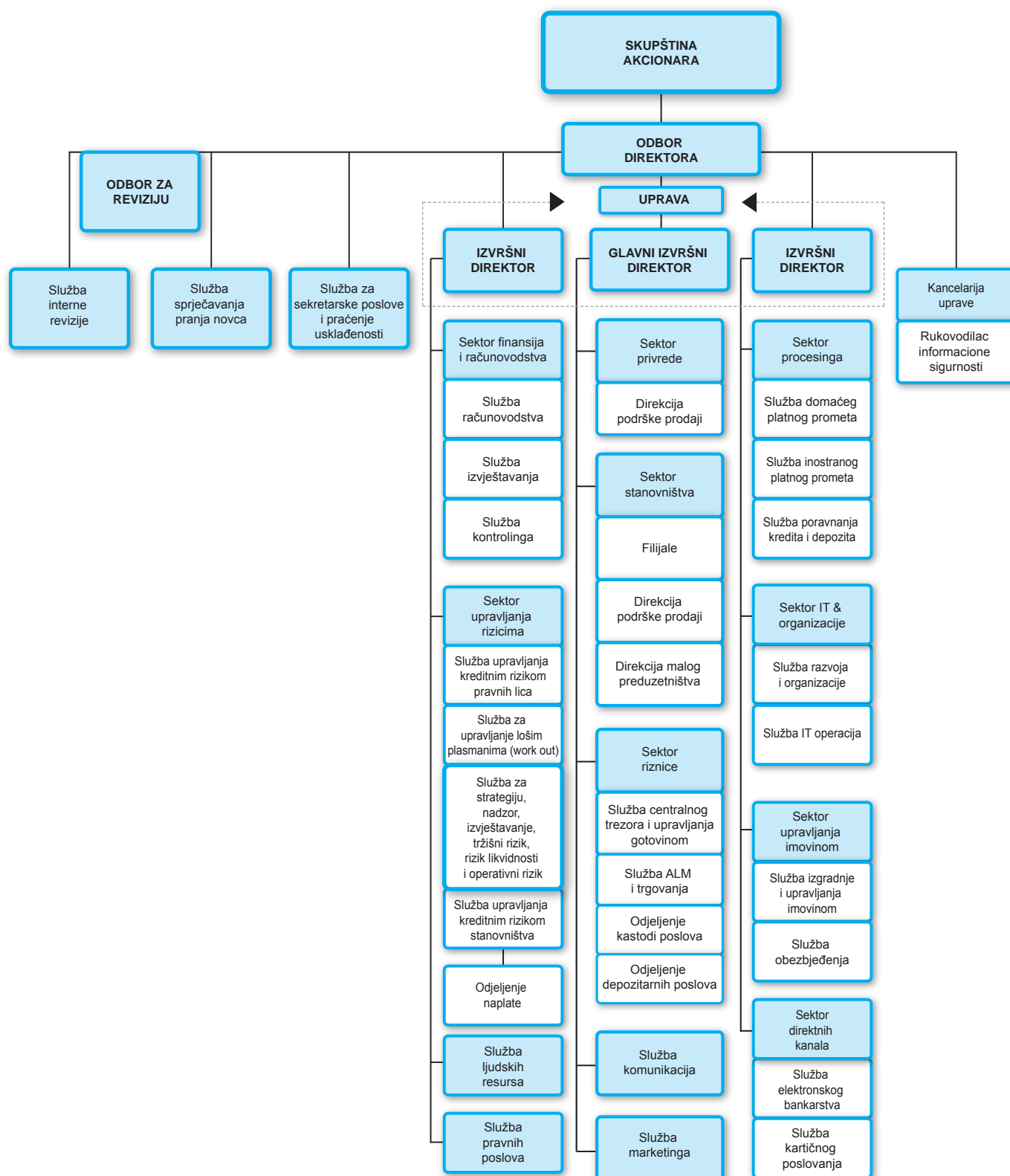
Kao i u prethodnim godinama, i 2015. smo učestvovali u Vladinom u programu "Stručno osposobljavanje visokoškolaca" i omogućili da 50 visokoškolaca obavi stručnu praksu u Erste banci, od kojih je 30% nastavilo sa radom u banci.

U sklopu Sistema upravljanja učinkom zaposlenih, ova godina je donijela upotrebu ove, veoma značajne alatke za rast i razvoj, na jedan drugačiji i kvalitetniji način. Održane su edukacije za zaposlene u smislu preciznijeg i jasnijeg definisanja ciljeva, unapređenja komunikacije sa nadređenima i realnijeg procesa ocjenjivanja i samoocjenjivanja. Kroz novinu u aplikaciji - razvojni plan, definisali smo prostor za unapređenje vještina i znanja zaposlenih, što je stvorilo uslove da godinu pred nama obilježi realizacija edukacija prema razvojnim planovima.

U oblasti edukacija je u 2015. godini uglavnom fokus bio usmjeren na specijalistička i stručna znanja kroz sticanje sertifikata, licenci, prisustvovanje radionicama unutar Erste grupacije, kao i edukacijama koje su sprovodili eksterni izvođači. U 2015. godini prosječno je bilo 5,13 dana edukacije po zaposlenom.

Obavljanje poslovanja Banke organizovano je u devet sektora i sedam službi opremljenih i osposobljenih za specijalizovano obavljanje grupa srodnih poslova iz predmeta poslovanja banke.

## Organizaciona struktura - šema:



**ERSTE BANK A.D., PODGORICA  
FINANCIAL STATEMENTS FOR THE YEAR  
ENDED DECEMBER 31, 2015  
AND INDEPENDENT AUDITORS' REPORT**

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## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE OWNERS OF ERSTE BANK A.D., PODGORICA**

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

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

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

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

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

#### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



**Other matters**

The financial statements of the Bank for the year ended 31 December 2014 were audited by another auditor whose report dated 27 February 2015 expressed an unqualified opinion.

Podgorica, 25 March 2016

*Ernst & Young Montenegro d.o.o*  
Ernst & Young Montenegro d.o.o.

**ERSTE BANK A.D., PODGORICA****STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2015**

| In thousands of EUR  | Notes     | 2015          | 2014<br>reclassified |
|--|-----------|---------------|----------------------|
| Interest income  |           | 24,069        | 26,474               |
| Interest expense   |           | (5,524)       | (7,765)              |
| <b>Net interest income</b>                                       | <b>5</b>  | <b>18,545</b> | <b>18,709</b>        |
| Fee and commission income  |           | 4,127         | 3,835                |
| Fee and commission expense                                       |           | (898)         | (732)                |
| <b>Net fee and commission income</b>                             | <b>6</b>  | <b>3,229</b>  | <b>3,103</b>         |
| Net trading income   |           | 327           | 367                  |
| Net gains from investment in securities                          |           | 293           | 688                  |
| Dividend income  |           | 2             | 1                    |
| Gains on derecognition of non-financial assets                   |           | 2             | 24                   |
| Impairment gain/loss on assets                                   | 7         | 255           | (1,382)              |
| Provisions   | 8         | (534)         | (276)                |
| General administrative expenses                                  | 9         | (14,630)      | (14,330)             |
| Other operating result   | 10        | (312)         | (385)                |
| <b>INCOME BEFORE TAX</b>   |           | <b>7,177</b>  | <b>6,519</b>         |
| Income tax   | 11        | (645)         | (551)                |
| <b>INCOME FOR THE YEAR</b>                                       |           | <b>6,532</b>  | <b>5,968</b>         |
| <b>Other comprehensive income</b>                                |           |               |                      |
| (Losses)/ Gains on available for sale financial assets           |           | (797)         | 695                  |
| Income tax effect  |           | 72            | (58)                 |
| Actuarial gains on long-term employee benefits                   | 22        | (5)           | (29)                 |
| Income tax effect  |           | 1             | 3                    |
| Revaluation of property  |           | -             | (472)                |
| Income tax effect  |           | -             | 43                   |
| <b>Total other comprehensive income for the year, net of tax</b> |           | <b>(729)</b>  | <b>182</b>           |
| <b>Total comprehensive income for the year, net of tax</b>       |           | <b>5,803</b>  | <b>6,150</b>         |
| <b>Earnings per share</b>  | <b>31</b> |               |                      |
| Basic Earnings per share (in EUR)                                |           | 1.223         | 1.118                |
| Diluted earnings per share (in EUR)                              |           | 1.223         | 1.118                |

The accompanying notes are an integral part of these financial statements.

Podgorica, February 29, 2016

Approved by and signed on behalf of Erste Bank A.D., Podgorica

  
Aleksa Lukić  
Chief Executive Director

  
Aleksandra Radić  
Executive Director

  
Kristina Bukilić  
Director of Finance and Accounting



**ERSTE BANK A.D., PODGORICA****STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2015**

| In thousands of EUR                               | Note | 2015           | 2014           |
|---|------|----------------|----------------|
| <b>ASSETS</b>                                     |      |                |                |
| Cash and balances with banks and Central Bank     | 12   | 48,380         | 56,615         |
| Loans and advances to banks, net                  | 13   | 11,605         | 32,313         |
| Loans and advances to customers, net              | 14   | 235,842        | 231,451        |
| Financial assets available for sale               | 15   | 14,824         | 40,130         |
| Financial assets held to maturity                 | 16   | 51,265         | 7,917          |
| Investment property                               |      | 257            | 135            |
| Property and equipment                            | 17   | 3,400          | 3,590          |
| Intangible assets                                 | 18   | 1,693          | 2,051          |
| Other assets, net                                 | 19   | 1,973          | 2,682          |
| <b>Total assets</b>                               |      | <b>369,239</b> | <b>376,884</b> |
| <b>LIABILITIES AND EQUITY</b>                     |      |                |                |
| <b>Liabilities</b>                                |      |                |                |
| Deposits from banks                               |      | 415            | 162            |
| Deposits from customers                           | 20   | 273,916        | 273,906        |
| Deposits from custody business                    |      | 140            | 398            |
| Other borrowed funds                              | 21   | 21,663         | 36,743         |
| Debt securities                                   | 22   | 15,029         | 15,025         |
| Current tax liability                             |      | 691            | 621            |
| Deferred tax liabilities                          | 11   | 162            | 244            |
| Provisions  | 23   | 2,242          | 1,598          |
| Other liabilities                                 | 24   | 3,031          | 2,209          |
| <b>Total liabilities</b>                          |      | <b>317,289</b> | <b>330,906</b> |
| <b>Shareholders' equity</b>                       |      |                |                |
| Share capital                                     |      | 6,910          | 6,910          |
| Other reserves                                    |      | 2,638          | 3,545          |
| Retained earnings                                 |      | 42,402         | 35,523         |
| <b>Total shareholders' equity</b>                 | 25   | <b>51,950</b>  | <b>45,978</b>  |
| <b>Total liabilities and shareholders' equity</b> |      | <b>369,239</b> | <b>376,884</b> |

The accompanying notes are an integral part of these financial statements.

Podgorica, February 29, 2016

Approved by and signed on behalf of Erste Bank A.D., Podgorica

|  |  |  |
|--|--|--|
| <br><b>Aleksa Lukić</b><br>Chief Executive Director | <br><b>Aleksandra Radic</b><br>Executive Director | <br><b>Kristina Bukilic</b><br>Director of Finance and Accounting |
|--|--|--|





## ERSTE BANK A.D., PODGORICA

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2015

| In thousands of EUR   | 2015     | 2014     |
|---|----------|----------|
| Operating activities  |          |          |
| Net income  | 6,532    | 5,968    |
| <i>Adjustments to reconcile net income to cash flows from operating activities:</i> |          |          |
| Depreciation and amortization   | 1,228    | 1,322    |
| Net losses on fixed assets  | 12       | 18       |
| Foreign currency translation gains  | (327)    | (368)    |
| Interest on securities  | (2,537)  | (2,031)  |
| Provision for loan losses   | 255      | 826      |
| Income tax expense  | 645      | 551      |
| <i>Change in operating assets and liabilities:</i>                                  |          |          |
| Increase in mandatory reserves with the Central Bank of Montenegro                  | 1,520    | (2,215)  |
| Increase in loans and advances to customers   | (2,930)  | 27,968   |
| Increase in accrued interest and other assets                                       | (697)    | 1,926    |
| Increase in securities available for sale   | 25,306   | (21,461) |
| Increase in securities held to maturity   | (43,347) | (1,743)  |
| Increase in deposits from banks and customers                                       | 1,386    | 54,540   |
| Increase in other liabilities   | 1,897    | (584)    |
| Paid income tax   | (583)    | (564)    |
| Net cash used in operating activities   | (11,640) | 64,153   |
| Investing activities  |          |          |
| Net additions to fixed and intangible assets  | (793)    | (860)    |
| Net cash used in investing activities   | (793)    | (860)    |
| Financing activities:   |          |          |
| Repayments of borrowings  | (15,035) | (34,839) |
| Net cash used in financing activities   | (15,035) | (34,839) |
| Net (decrease)/ increase in cash and cash equivalents                               | (27,468) | 28,454   |
| Cash and cash equivalents at beginning of year                                      | 71,367   | 42,913   |
| Cash and cash equivalents at end of year (Notes 30)                                 | 43,899   | 71,367   |

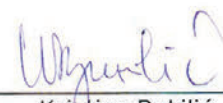
The accompanying notes are an integral part of these financial statements.

Podgorica, February 29, 2016

Approved by and signed on behalf of Erste Bank A.D., Podgorica

  
Aleksa Lukić  
Chief Executive Director

  
Aleksandra Radic  
Executive Director

  
Kristina Bukilić  
Director of Finance and Accounting



## ERSTE BANK A.D., PODGORICA

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2015

| In thousands of EUR                                      | Share capital | Share premium | Other reserves | General risk reserves | Special regulatory reserves | Revaluation reserves - Property valuation | Fair value reserves | Retained earnings | Total         |
|--|---------------|---------------|----------------|-----------------------|-----------------------------|---|---------------------|-------------------|---------------|
| Balance as at January 1, 2014                            | 5,339         | 1,571         | 300            | 182                   | 1,467                       | 430                                       | 958                 | 29,568            | 39,815        |
| Total comprehensive income                               | -             | -             | -              | -                     | -                           | (430)                                     | 638                 | 5,942             | 6,150         |
| Change of revaluation model                              | -             | -             | -              | -                     | -                           | -   | -                   | 13                | 13            |
| <b>Balance as at December 31, 2014</b>                   | <b>5,339</b>  | <b>1,571</b>  | <b>300</b>     | <b>182</b>            | <b>1,467</b>                | <b>-</b>                                  | <b>1,596</b>        | <b>35,523</b>     | <b>45,978</b> |
| Adjustment on correction of error (note 2.7 and note 25) | -             | -             | -              | (182)                 | -                           | -   | -                   | 182               | -             |
| Adjustment on correction of error (note 2.7 and note 23) | -             | -             | -              | -                     | -                           | -   | (725)               | 169               | 169           |
| Total comprehensive income                               | -             | -             | -              | -                     | -                           | -   | -                   | 6,528             | 5,803         |
| <b>Balance as at December 31, 2015</b>                   | <b>5,339</b>  | <b>1,571</b>  | <b>300</b>     | <b>-</b>              | <b>1,467</b>                | <b>-</b>                                  | <b>871</b>          | <b>42,402</b>     | <b>51,950</b> |

The accompanying notes are an integral part of these financial statements.

Podgorica, February 29, 2016

Approved by and signed on behalf of Erste Bank A.D., Podgorica

|   |   |   |
|---|---|---|
|  |  |  |
| Aleksa Lukić  | Aleksandra Radić  | Kristina Bukilić  |
| Chief Executive Director  | Executive Director  | Director of Finance and Accounting  |



# 1. ACTIVITY

Erste Bank A.D., Podgorica ("the Bank") was registered in April 2002, based on the Decision of the Monetary Council of the Central Bank of Montenegro as Opportunity Bank A.D. Podgorica. The Bank changed its name in July 2009 to Erste Bank AD, Podgorica. The Bank has received a license to perform payments and deposit activities domestically and abroad.

The Bank is a joint stock company incorporated and domiciled in Montenegro. Its registered office is at Studentska bb, Podgorica, Montenegro.

In accordance with the Law on Banks, Articles of Association, Statute and Decision of the Central Bank of Montenegro, the Bank performs the following operations:

- accepting deposits and other funds of private individuals and legal entities and the use of these funds, either partially or wholly, for granting loans or investing on the Bank's own behalf;
- issuing guarantees and accepting other obligations;
- purchase and collection of claims;
- issuing, processing and recording payment instruments (including credit cards, travel and bank checks);
- foreign payment operations;
- financial leasing;
- trading on its own behalf and for its own account or for the account of clients with foreign currencies, including exchange operations,
- currency and interest rate instruments;
- collecting, analyzing and giving information and advice on credit worthiness of companies and entrepreneurs and other issues regarding operations;
- deposit operations;
- safe-keeping services;
- activities directly related to the operations of the Bank and other activities, which are of an ancillary nature in relation to the Bank operations.

The Bank conducts its operations through its Head Office and sixteen branches located in the cities of Podgorica, Berane, Nikšić, Bijelo Polje, Pljevlja, Bar, Kotor, Ulcinj, Budva, Herceg Novi, Rožaje, Cetinje and Tivat.

Erste & Steiermarkische Bank d.d., Rijeka, Croatia owns 100% shares of the Bank from February 27, 2009. The ultimate parent of the Group is Erste Group Bank AG, Vienna, Austria.

As at December 31, 2015, the Bank had 266 employees (2014: 268 employees).

## Members of the Board of Directors

As of the issuance date of the accompanying financial statements, i.e. on 29 February 2016, the members of the Board of Directors were as presented below:

| Position held | First name and surname |
|---------------|------------------------|
| President     | Reinhard Ortner        |
| Member        | Borislav Centner       |
| Member        | Sava Ivanov Dalbokov   |
| Member        | Christoph Schofbock    |
| Member        | Sladana Jagar          |

| Position held            | First name and surname |
|--------------------------|------------------------|
| Chief Executive Director | Aleksa Lukić           |
| Executive director       | Aleksandra Radić       |
| Executive director       | Darko Keković          |

## 2. BASIS OF PREPARATION

### 2.1. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in accordance with Montenegrin banking regulation and related instructions. These financial statements are based on the Bank's statutory books and records, as adjusted and reclassified in order to comply with IFRS.

### 2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the financial instruments at fair value through profit or loss, financial instruments available for sale, which are measured at fair value.

### 2.3 Functional and presentation currency

The financial statements are presented in thousands of Euro (EUR) which is the Bank's functional and presentation currency.

### 2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if

the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in Note 4.

A summary of the principal accounting policies applied in preparing the IFRS financial statements are set out within Note 3 to the financial statements.

### 2.5 Consolidation

The Bank does not have control over any other entity.

### 2.6 Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

### 2.7 Correction of an error

The opening balance adjustment of retained earnings as at January 1, 2015 of EUR 351 thousand is related to the effects of reversal of reserves for operational risk the Bank was recognizing from FY 2009 in accordance with the Decision of the Central Bank of Montenegro on minimum standards for operational risk management in banks ("Official Gazette of Montenegro" no. 24/2009) which become ineffective from FY 2013.

Accordingly, based on the Management Decision on December 30, 2015, the Bank adjusted opening balance of retained earnings as at January 1, 2015 of EUR 351 thousand which were previously presented under General risk reserves of EUR 182 thousand and Other liabilities of EUR 169 thousand.

## 2. BASIS OF PREPARATION (continued)

### 2.8 Reclassification of comparative figures on previously adopted and issued Statement of Comprehensive Income for the year ended 2014

In order to adapt presentation of Statement of Comprehensive Income with Erste Group accounting policies, the Bank has reclassified comparative figures in the Statement of Comprehensive Income for the year ended 2014 and appropriate note disclosure of these restatements have also been included in the current year's financial statements.

The comparative amounts have been reclassified to reflect the below matters:

The comparative amounts have been reclassified to reflect the below matters:

| In thousands of EUR                                    | Interest expense | Gains on derecognition of non-financial assets | Impairment gain/loss on assets | Provisions | General administrative expenses | Other operating result | Total    |
|--|------------------|--|--------------------------------|------------|---------------------------------|------------------------|----------|
| Impairment on non-financial assets – foreclosed assets |                  |  | 866                            |            |                                 | (866)                  | -        |
| Impairment on Loans and advances to banks              |                  |  | (2)                            |            |                                 | 2                      | -        |
| Provision for Commitments and guarantees given         |                  |  | (308)                          | 308        |                                 |                        | -        |
| Personnel expenses                                     | 9                |  |                                |            | (9)                             |                        | -        |
| Deposit insurance fund commission                      |                  |  |                                |            | 1,191                           | (1,191)                | -        |
| Provision for litigation                               |                  |  |                                | (32)       |                                 | 32                     | -        |
| Net losses from fixed and acquired assets              |                  | (24)   |                                |            |                                 | 24                     | -        |
| <b>Total</b>   | <b>9</b>         | <b>(24)</b>                                    | <b>556</b>                     | <b>276</b> | <b>1,182</b>                    | <b>(1,999)</b>         | <b>-</b> |



**2. BASIS OF PREPARATION (continued)****2.8 Reclassification of comparative figures on previously adopted and issued Statement of Comprehensive Income for the year ended 2014 (continued)**

| In thousands of EUR  | Previously<br>Adopted<br>and Issued<br>Statement of<br>Comprehensive<br>Income 2014 | Effects of<br>Reclassification | Reclassified<br>Statement of<br>Comprehensive<br>Income 2014 |
|--|---|--------------------------------|--|
| Interest income  | 26,475  | (1)                            | 26,474   |
| Interest expense   | (7,756)   | (9)                            | (7,765)  |
| <b>Net interest income</b>                                       | <b>18,719</b>   | <b>(10)</b>                    | <b>18,709</b>  |
| Fee and commission income  | 3,835   |                                | 3,835  |
| Fee and commission expense                                       | (732)   |                                | (732)  |
| <b>Net fee and commission income</b>                             | <b>3,103</b>  |                                | <b>3,103</b>   |
| Net trading income   | 367   |                                | 367  |
| Net gains from investment in securities                          | 688   |                                | 688  |
| Dividend income  | -   | 1                              | 1  |
| Gains on derecognition of non-financial assets                   | -   | 24                             | 24   |
| Impairment gain/loss on assets                                   | (826)   | (556)                          | (1,382)  |
| Provisions   | -   | 276                            | (276)  |
| General administrative expenses                                  | (13,148)  | (1,182)                        | (14,330)   |
| Other operating result   | (2,384)   | 1,999                          | (385)  |
| <b>INCOME BEFORE TAX</b>   | <b>6,519</b>  | <b>-</b>                       | <b>6,519</b>   |
| Income tax   | (551)   | -                              | (551)  |
| <b>INCOME FOR THE YEAR</b>                                       | <b>5,968</b>  | <b>-</b>                       | <b>5,968</b>   |
| <b>Other comprehensive income</b>                                |   |                                |  |
| (Losses)/ Gains on available for sale financial assets           | 695   | -                              | 695  |
| Income tax effect  | (58)  | -                              | (58)   |
| Actuarial gains on long-term employee benefits                   | (29)  | -                              | (29)   |
| Income tax effect  | 3   | -                              | 3  |
| Revaluation of property  | (472)   | -                              | (472)  |
| Income tax effect  | 43  | -                              | 43   |
| <b>Total other comprehensive income for the year, net of tax</b> | <b>182</b>  | <b>-</b>                       | <b>182</b>   |
| <b>Total comprehensive income for the year, net of tax</b>       | <b>6,150</b>  | <b>-</b>                       | <b>6,150</b>   |

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Application of amended and new IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2015. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Bank are listed below.

#### 3.1.1 Effective standards and interpretations

The following standards and their amendments have been mandatory since 1 January 2015:

- IFRIC 21 Levies
- Annual Improvements to IFRSs 2011-2013 Cycle

##### *IFRIC 21 Levies*

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. These criteria are among others applied for recovery & resolution fund which is presented in other operating income. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Bank as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014, but in EU for annual periods beginning on or after 17 June 2014.

##### *Annual Improvements to IFRSs 2011-2013 Cycle*

In December 2013, the IASB issued a set of amendments to various standards. The amendments are effective for annual periods beginning on or after 1 July 2014, but in EU for annual periods beginning on or after 1 January 2015. Application of these amendments did not have a significant impact on financial statements of the Bank.

#### 3.1.2 Standards and interpretations not yet effective

The standards and interpretations shown below were issued by the IASB but are not yet effective.

Following standards, amendments and interpretations are not yet endorsed by the EU:

- IFRS 9: Financial Instruments
- IFRS 14 Regulatory Deferral Accounts: The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard
- IFRS 15: Revenue from Contracts with Customers including amendments to IFRS 15: Effective date of IFRS 15
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception
- IFRS 16: Leases
- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses

Following standards, amendments and interpretations are already endorsed by the EU:

- Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions
- Annual Improvements to IFRSs 2010-2012 Cycle
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11: Accounting for Acquisitions of Interest in Joint Operations
- Amendments to IAS 1: Disclosure Initiative
- Annual Improvements to IFRSs 2012-2014 Cycle

The adoption of standards and interpretation is described below:

##### *IFRS 9: Financial Instruments (IASB Effective Date: 1 January 2018)*

IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses three main areas of accounting for financial instruments: classification and measurement, impairment and hedge accounting.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.1 Application of amended and new IFRS/IAS (continued)

##### 3.1.2 Standards and interpretations not yet effective (continued)

IFRS 9 introduces two classification criteria for financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both the following conditions are met: a) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding and b) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows. Measurement of a fair value through other comprehensive income is applicable to financial assets that meet condition a) but the business model applied to them is focused both on holding the assets to collect contractual cash flows and selling the assets. All other financial assets are measured at fair value with changes recognised in profit or loss. For investments in equity instruments that are not held for trading, an entity may make an irrevocable election at initial recognition to measure them at fair value with changes recognised in other comprehensive income.

IFRS 9 does not change classification and measurement principles for financial liabilities compared to IAS 39. The only change is related to financial liabilities designated at fair value through profit or loss (fair value option). The fair value changes related to the credit risk of such liabilities will be presented in other comprehensive income.

The standard provides a uniform impairment model applied to both financial assets and off-balance sheet credit risk bearing exposures (loan commitments and financial guarantees). At initial recognition of financial instruments loss allowance to reflect credit loss is recognised in the form of 12-month expected losses. Lifetime expected losses are to be recognised for all instrument whose credit risk increases subsequently after initial recognition. Furthermore the standard brings new rules for accounting for losses resulting from modification of contractual conditions of financial assets.

During the year 2015, the Erste Group proceeded with the development of master business concepts and business requirements documentation addressing the changes in policies, procedures, processes and systems, assessed as necessary in preparation for transition to IFRS 9 on 1 January

2018. As part of this effort, iterative financial impact studies (notably with regards to classification/measurement and impairment of financial assets) were started across the Erste Group and are planned to continue throughout 2016, along with gradually moving from the concept phase to the implementation phase of the documented business requirements.

*IFRS 14 Regulatory Deferral Accounts (IASB Effective Date: 1 January 2016)*

IFRS 14 Regulatory Deferral Accounts permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for regulatory deferral account balances in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. The bank does not expect any significant impact from application of IFRS 14.

*IFRS 15 Revenue from Contracts with Customers (IASB Effective Date: 1 January 2018)*

IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 15 specifies how and when an entity recognises revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative and more relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. Also in the areas of variable considerations and capitalisation of cost IFRS 15 provides modified regulations. The standard is not focused on recognition of revenues from financial services. The Bank does not expect any significant impact from application of IFRS 15

*Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (IASB Effective Date: 1 January 2016)*

Amendments to IFRS 10 and IAS 28 were issued in September 2014 and are effective for annual periods beginning on or after 1 January 2016. These amendments deal with the sale or contribution of assets or subsidiaries in a transaction between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised only when the assets or the subsidiaries constitute a business, as defined in IFRS 3. Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

*Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (IASB Effective Date: 1 January 2016)*

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.1 Application of amended and new IFRS/IAS (continued)

##### 3.1.2 Standards and interpretations not yet effective (continued)

The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value. Also, they clarify that when applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries. Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

*Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (IASB Effective Date: 1 January 2016)*

Amendments to IAS 16 and IAS 38 were issued in May 2014 and are effective for annual periods beginning on or after 1 January 2016. The amendments prohibit the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

*Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (IASB Effective Date: 1 January 2016)*

Amendments to IFRS 11 were issued in May 2014 and are effective for annual periods beginning on or after 1 January 2016. The amendments specify that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

*Amendments to IAS 1: Disclosure Initiative (IASB effective date: 1 January 2016)*

*Disclosure Initiative (Amendments to IAS 1) makes the following changes:*

#### Materiality

The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.

Statement of financial position and statement of profit or loss and other comprehensive income

The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

#### Notes

The amendments add additional examples of possible ways of ordering the notes to clarify that understand ability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

These changes and clarifications are not expected to trigger significant changes in the presentation of the Bank's financial statements.

*Annual Improvements to IFRSs 2012-2014 Cycle (IASB effective date: 1 January 2016)*

In September 2014, the IASB issued a set of amendments to various standards. The amendments are effective for annual periods beginning on or after 1 January 2016. Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

*IFRS 16 Leases (IASB Effective Date: 1 January 2019)*

In January 2016, the IASB issued IFRS 16 being effective for annual periods beginning on or after 1 January 2019. IFRS 16 specifies the depiction of lease arrangements in the financial statements. Compared to the previous standard IAS 17, there is a fundamental alteration in respect of the recognition of operating leasing arrangements for the lessee. As defined in IFRS 16, the standard requires the lessee to recognize a right of use asset on the debit side of the statement of financial position as well as a corresponding lease liability on the credit side of the statement of financial position except for immateriality in cases of short term leasing arrange

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.1 Application of amended and new IFRS/IAS (continued)

##### 3.1.2 Standards and interpretations not yet effective (continued)

ments and small ticket leasing arrangements for low-value assets. By contrast, accounting changes for the lessor are only minor compared to IAS 17. Compared to IAS 17 the notes will be much more comprehensive under IFRS 16. The Bank does not expect any significant impact from application of IFRS 16.

*Amendments to IAS 12 – Recognition of deferred tax assets for unrealised losses (IASB effective date: 1 January 2017)*

Amendments to IAS 12 were issued in January 2016 and are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that unrealised losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can lead to deductible temporary differences. The amendments also clarify that not the carrying amount but the tax base of an asset is the relevant base for the estimate of future taxable profits and that the carrying amount is not the ceiling to be used for the calculation. When comparing deductible temporary differences with future taxable profits, the future taxable profits exclude tax deductions resulting from the reversal of those deductible temporary differences. Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

#### 3.2 Recognition of income and expenses

##### 3.2.1 Interest

Interest income and expense are recognized in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

##### 3.2.2 Fees and commissions

Fees and commissions income/expenses arising upon financial services provided by/to the Bank include transfer payments and other banking services.

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are deferred and recognized as a part of the effective interest rate.

When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized in the statement of comprehensive income on an accrual basis.

Other fees and commission expense relate mainly to transaction and service fees, which are recognized in the statement of comprehensive income as the services are provided or received.

##### 3.2.3 Net trading income

Net trading income include foreign currency exchange gains (realized and unrealized) and losses, fair value adjustments and gains/losses on sale of financial assets at fair value through profit or loss and financial assets available for sale.

##### 3.2.4 Operating lease expenses

The Bank is involved in operating lease arrangements as the lessee. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

##### 3.2.5 Income and other taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

##### 3.2.6 Current income tax

Current tax represents an amount calculated and payable under the Montenegrin Corporate Income Tax Law. The income tax rate is 9% (2014: 9%) and is payable on taxable profit.

Taxable profit includes the profit shown in the statutory statement of comprehensive income, adjusted for differences, as defined by the Montenegrin Corporate Income Tax Law.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.2 Recognition of income and expenses (continued)

##### 3.2.6 Current income tax (continued)

Montenegrin Tax Law does not allow tax losses of the current period to be used to recover tax paid within a specific carry back period. However, current year tax losses may be used to decrease taxable profits for future periods up to a maximum of five years.

##### 3.2.7 Deferred tax

Deferred tax is provided using the statement of financial position method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently, enacted tax rates are used in the determination of deferred income tax. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### 3.3 Financial assets and liabilities

##### *Classification*

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and advances. The Bank classifies its financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

Financial assets or liabilities at fair value through profit or loss are financial instruments that are classified as held for trading or upon initial recognition are designated by the Bank as at fair value through profit or loss. Financial

assets or liabilities at fair value through profit or loss are those that the Bank acquired or incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or derivatives.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and the ability to hold them to maturity.

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

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

Equity investments are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in equity prices.

##### *Recognition*

Financial assets or liabilities at fair value through profit or loss, held to maturity investments and financial assets available for sale are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. All other financial assets and liabilities are recognized on the settlement date, i.e., the date that an asset is delivered to or by Bank.

##### *Initial measurement*

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Financial assets and liabilities (continued)

##### **Derecognition**

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank writes off certain loans when they are determined to be uncollectible (see Note 28).

##### **Amortized cost measurement**

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

##### **Fair value measurement**

The fair values stated for financial instruments are the amounts for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values of certain financial instruments are approximately equivalent to their carrying amounts. These include cash as well as receivables and liabilities without a defined maturity or fixed interest rate. For other receivables and liabilities, future anticipated cash flows are discounted to their present value using current interest rates.

##### **Subsequent measurement**

###### *Financial assets or financial liabilities held-for-trading*

Financial assets or financial liabilities held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognized in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net

trading income' according to the terms of the contract, or when the right to the payment has been established.

###### *Loans and advances*

Loans and advances are subsequently measured at amortized cost using the effective interest rate method less allowances for impairment. Amortized cost is calculated by taking into account any issuance costs and any discount or premium on settlement. The losses arising from impairment are recognized in the statement of comprehensive income.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within loans and advances.

If a lessor transfers substantially all the risks and rewards incident to the ownership of an asset to the lessee, lease contracts are classified as finance leases. The Bank, as a lessor, recognizes assets held under a finance lease in its statement of financial position and presents them as finance lease receivables at an amount equal to the net investment in the lease. The sum of future minimum lease payments and initial origination fees equate to the gross investment in the lease (since finance lease contracts include a purchase clause at the end of the lease period there is no unguaranteed residual value). The difference between the gross and net investment in the lease represents unearned finance income, which is recognized as interest income over the lease term at a constant periodic rate of return on the net investment in the lease.

###### *Financial assets available for sale*

Financial assets available-for-sale are subsequently measured at fair value. Unrealized gains and losses are recognized directly in equity in the fair value reserve. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of comprehensive income. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding financial asset available for sale are recognized in the statement of comprehensive income when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the statement of comprehensive income and removed from the fair value reserve.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Financial assets and liabilities (continued)

##### *Subsequent measurement (continued)*

##### *Financial assets held to maturity*

Financial assets held-to-maturity are non-derivative financial assets quoted in an active market with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, financial assets held-to-maturity are subsequently measured at amortized cost using the effective interest rate, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in interest income. The losses arising from impairment of such investments are recognized in the statement of comprehensive income.

##### *Other financial liabilities*

Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

##### *Identification and measurement of impairment*

At each statement of financial position date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed individually for impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or

issuers in the group, or economic conditions that correlate with defaults in the group.

##### *Identification and measurement of impairment*

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in statement of comprehensive income and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through statement of comprehensive income.

Impairment losses on financial assets available for sale are recognized by transferring the difference between the amortized acquisition cost and current fair value out of equity to statement of comprehensive income. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through statement of comprehensive income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized directly in equity.

##### *Renegotiated loans*

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

##### *Cash and cash equivalents*

Cash and cash equivalents include notes and coins on hand, current accounts with the Central Bank of Montenegro and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Financial assets and liabilities (continued)

##### *Cash and cash equivalents (continued)*

changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

#### 3.4 Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at historical cost. In previous year the buildings were stated at fair value model, and Bank changed its accounting policy during 2015 to historical cost model.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Depreciation rates in use are as follows:

| Description                     | %          |
|---------------------------------|------------|
| Building                        | 2.5        |
| Computers and related equipment | 14.29 – 25 |
| Furniture and other equipment   | 10 – 33.33 |

Maintenance and repairs are charged to profit and loss account when incurred. Improvements are capitalized.

#### 3.5 Intangible assets

Intangible assets are stated at cost decreased for accumulated amortization and impairment. Intangible assets represent computer software, Swift license, Master Card license and other intangible assets. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives. Amortization rates used range from 10% to 40%.

#### 3.6 Acquired assets held for sale

The Bank acquired properties through the enforcement of security over loans and advances. Acquired properties are measured at the lower of its carrying amount and fair value less cost to sell.

#### 3.7 Employment benefits

Pursuant to the Collective Bargaining Agreement, the Bank is obliged to pay retirement benefits in an amount equal to six average monthly salaries in the Bank. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and/or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Provision for retirement benefits is calculated by independent actuary. The liability recognized in the statement of financial position is the present value of the obligation, determined by discounting estimated future outflows using the projected unit credit method. Actuarial gains and losses are recognized in the period in which they arise in other comprehensive income.

#### 3.8 Financial guarantees

In ordinary course of business, the Bank gives financial guarantees, consisting of guarantees, performance bonds and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to the financial guarantees is taken to the statement of comprehensive income. The premium received is recognized in the statement of comprehensive income on a straight line basis over the life of the guarantee.

#### 3.9 Foreign currency translation

Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate ruling at the statement of financial position date. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income using .

Non-monetary assets denominated in foreign currency are translated at the rate ruling at the historic date.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Financial assets and liabilities (continued)

#### 3.9 Foreign currency translation (continued)

Official exchange rates for major currencies used in the translation of assets and liabilities denominated in foreign currencies at December 31, 2015 and 2014 are as follows:

| In EUR | 2015   | 2014   |
|--------|--------|--------|
| USD    | 0.9152 | 0.8224 |
| CHF    | 0.9247 | 0.8314 |
| GBP    | 1.3550 | 1.2783 |

## 4. USE OF ESTIMATES AND JUDGMENTS

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

These disclosures supplement the commentary on financial risk management (see Note 27).

The most significant uses of judgment and estimates are as follows:

### 4.1 Impairment losses on loans

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, local economic conditions that correlate with defaults on assets.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### 4.2 Fair value of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, con-

centration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

### 4.3 Long-term employee benefits

The cost of the long-term employee benefits is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases and personnel turnover rate. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

### 4.4 Useful lives of intangible assets, property, plant and equipment

The Bank reviews useful lives of intangible assets, property, plant and equipment as of each annual reporting period.

## 5. NET INTEREST INCOME

| In thousands of EUR                        | 2015           | 2014<br>reclassified |
|--|----------------|----------------------|
| <b>Interest income</b>                     |                |                      |
| Time deposits with banks                   | 1              | 2                    |
| foreign banks                              | 1              | 1                    |
| Central bank                               | -              | 1                    |
| Loans                                      | 21,531         | 24,441               |
| corporate customers                        | 4,382          | 5,274                |
| retail customers                           | 14,843         | 15,192               |
| public institutions                        | 2,304          | 3,968                |
| other                                      | 2              | 7                    |
| Securities                                 | 2,537          | 2,031                |
| held to maturity                           | 1,269          | 184                  |
| available for sale                         | 1,268          | 1,847                |
| <b>Total interest income</b>               | <b>24,069</b>  | <b>26,474</b>        |
| <b>Interest expense</b>                    |                |                      |
| Deposits and borrowed funds from banks     | (1,120)        | (2,147)              |
| Deposits and borrowed funds from customers | (4,005)        | (5,082)              |
| corporate customers                        | (1,201)        | (1,334)              |
| retail customers                           | (2,708)        | (3,518)              |
| public institutions                        | (96)           | (230)                |
| Debt securities                            | (388)          | (429)                |
| Subordinated loans                         | -              | (98)                 |
| Other liabilities                          | (12)           | (9)                  |
| <b>Total interest expense</b>              | <b>(5,524)</b> | <b>(7,765)</b>       |
| <b>Net interest income</b>                 | <b>18,545</b>  | <b>18,709</b>        |

## 6. NET FEE AND COMMISSION INCOME AND EXPENSE

| In thousands of EUR                     | 2015         | 2014         |
|---|--------------|--------------|
| <b>Fee and commission income</b>        |              |              |
| Lending business                        | 650          | 723          |
| Card transactions                       | 854          | 851          |
| Payment transfers                       | 2,227        | 1,909        |
| Other fee and commission income         | 396          | 352          |
| <b>Total fee and commission income</b>  | <b>4,127</b> | <b>3,835</b> |
| <b>Fee and commission expense</b>       |              |              |
| Card transactions                       | (487)        | (475)        |
| Payment transfers                       | (334)        | (214)        |
| Custodial fees                          | (48)         | (25)         |
| Other fee and commission expenses       | (29)         | (18)         |
| <b>Total fee and commission expense</b> | <b>(898)</b> | <b>(732)</b> |
| <b>Net fee and commission income</b>    | <b>3,229</b> | <b>3,103</b> |

## 7. IMPAIRMENT GAIN/LOSS ON ASSETS

| In thousands of EUR   | 2015         | 2014<br>reclassified |
|---|--------------|----------------------|
| Impairment / reversal of impairment on financial assets           |              |                      |
| Loans and advances to customers (note 14)                         | 1,036        | 3,611                |
| Recoveries on written off loans                                   | (2,640)      | (3,094)              |
| Impairment on non-financial assets - repossessed assets (note 19) | 1,349        | 865                  |
| <b>Total</b>  | <b>(255)</b> | <b>1,382</b>         |

## 8. PROVISIONS

| In thousands of EUR              | 2015       | 2014<br>reclassified |
|----------------------------------|------------|----------------------|
| Commitments and guarantees given | 121        | 308                  |
| Provision for litigation         | 413        | (32)                 |
| <b>Total</b>                     | <b>534</b> | <b>276</b>           |

## 9. GENERAL ADMINISTRATIVE EXPENSES

| In thousands of EUR                              | 2015          | 2014 reclassified |
|--|---------------|-------------------|
| Personnel expenses                               | 7,459         | 6,971             |
| Other administrative expenses                    | 5,942         | 6,037             |
| Depreciation of property and equipment (note 17) | 630           | 649               |
| Amortization of intangible assets (note 18)      | 599           | 673               |
| <b>Total</b>                                     | <b>14,630</b> | <b>14,330</b>     |

Personal expenses relate to following:

| In thousands of EUR                                 | 2015         | 2014 reclassified |
|---|--------------|-------------------|
| Wages and salaries - net                            | 4,306        | 4,083             |
| Tax on salaries                                     | 582          | 739               |
| Employee contributions                              | 1,252        | 1,389             |
| Legal social security contribution                  | 729          | 715               |
| Other personnel expenses                            | 311          | 7                 |
| Provision for long-term employee benefits (note 23) | 24           | 38                |
| Provisions for unused vacation                      | 255          | -                 |
| <b>Total</b>  | <b>7,459</b> | <b>6,971</b>      |

Other administrative expenses relate to following:

| In thousands of EUR                 | 2015         | 2014 reclassified |
|-------------------------------------|--------------|-------------------|
| Expenses dependent upon personnel   | 165          | 149               |
| Expenses for office space           | 1,316        | 1,282             |
| Office operating expenses           | 553          | 456               |
| IT expenses                         | 1,076        | 1,137             |
| Advertising / marketing             | 566          | 602               |
| Legal and consulting costs          | 916          | 1,205             |
| Payment into deposit insurance fund | 1,343        | 1,191             |
| Sundry administrative expenses      | 7            | 15                |
| <b>Total</b>                        | <b>5,942</b> | <b>6,037</b>      |



## 10. OTHER OPERATING RESULTS

| In thousands of EUR                       | 2015         | 2014 reclassified |
|---|--------------|-------------------|
| Other operating income                    | 57           | 59                |
| Net losses from fixed and acquired assets | (49)         | (108)             |
| Provisions for other assets (note 19)     | (217)        | (274)             |
| Other miscellaneous expense               | (103)        | (62)              |
| <b>Total</b>                              | <b>(312)</b> | <b>(385)</b>      |

Provisions for other assets in the amount of EUR 217 thousand (2014: EUR 274 thousand) mostly relate to provisions for fees and commissions.

## 11. INCOME TAX

The components of income tax for the years ended December 31, 2015 and December 31, 2014 are:

| <b>In thousands EUR</b>  | <b>2015</b> | <b>2014</b> |
|--|-------------|-------------|
| Current tax – current income tax   | 654         | 585         |
| Deferred tax – relating to origination and reversal of temporary differences | (9)         | (34)        |
|  | <u>645</u>  | <u>551</u>  |

Reconciliation between the tax expense and the accounting result multiplied by the Montenegrin tax rate for the year ended December 31, 2015 and 2014 is as follows:

| <b>In thousands EUR</b>                 | <b>2015</b>  | <b>2014</b>  |
|---|--------------|--------------|
| Accounting profit before tax            | 7,177        | 6,519        |
| At Montenegrin statutory tax rate of 9% | 646          | 587          |
| Other                                   | (1)          | (36)         |
|   | <u>645</u>   | <u>551</u>   |
| <b>Effective interest rate</b>          | <b>8.99%</b> | <b>8.45%</b> |

**11. INCOME TAX (continued)**

Deferred tax related to items charged or credited directly to equity during the year is as follows:

| <b>In thousands EUR</b>   | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|
| Losses on financial assets available for sale                       | (72)        | 58          |
| Revaluation of property   | -           | (42)        |
| Actuarial gains on long-term employee benefits recognized in equity | (1)         | (3)         |
|   | <b>(73)</b> | <b>13</b>   |

Deferred tax assets and liabilities recognized in statement of financial position relate to the following:

| <b>In thousands of EUR</b>  | <b>2015</b>   |                    |              | <b>2014</b>   |                    |              |
|---|---------------|--------------------|--------------|---------------|--------------------|--------------|
|   | <b>Assets</b> | <b>Liabilities</b> | <b>Net</b>   | <b>Assets</b> | <b>Liabilities</b> | <b>Net</b>   |
| Actuarial gains on long-term employee benefits recognized in equity   | -             | (8)                | (8)          | -             | (8)                | (8)          |
| Gains on financial assets available for sale  | -             | (85)               | (85)         | -             | (158)              | (158)        |
| Temporary differences between intangible assets, property and equipment for tax purposes and their carrying amounts |               | (69)               | (69)         | -             | (78)               | (78)         |
| <b>Net tax assets/(liabilities)</b>   | <b>-</b>      | <b>(162)</b>       | <b>(162)</b> | <b>-</b>      | <b>(244)</b>       | <b>(244)</b> |

## 12. CASH AND CASH EQUIVALENTS

| In thousands EUR   | 2015          | 2014          |
|--|---------------|---------------|
| Cash on hand (note 30)   | 12,293        | 10,649        |
| Current accounts with the Central Bank of Montenegro (note 30) | 20,394        | 28,753        |
| Deposits with the Central Bank of Montenegro                   | 15,693        | 17,213        |
| <b>Balance as at December 31,</b>                              | <b>48,380</b> | <b>56,615</b> |

The Bank's obligatory reserves on 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, 57/13, 52/14 and 7/15) which prescribes that banks 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. On deposits with agreed maturity over one year, or 365 days, and clause on possibility of termination of the deposit within less than one year, the rate applied is 9.5%.

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 and to December 31, 2015 on 15% of obligatory reserve held on obligatory reserve accounts, the Central Bank is paying a monthly fee that is 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, until 8th of the current month for previous month. The Bank may hold part of obligatory reserve in government treasury bills issued by Montenegro, as follows: up to 25% in the form of bills with any type of maturity, after what the Bank may hold additional 10% in the form of bills with maturity up to 182 days.. The obligatory reserve is held in EUR.

## 13. LOANS AND ADVANCES TO BANKS, NET

In thousands of EUR

|   | 2015          | 2014          |
|---|---------------|---------------|
| Current accounts with foreign banks (note 30) | 11,212        | 31,965        |
| Time accounts with foreign banks              | -             | -             |
| Deposit for Master Card business              | 396           | 356           |
| Allowance for impairment                      | (3)           | (8)           |
| <b>Balance as at December 31,</b>             | <b>11,605</b> | <b>32,313</b> |

## 14. LOANS AND ADVANCES TO CUSTOMERS, NET

| In thousands of EUR               | 2015           |                 |                 | 2014           |                 |                 |
|-----------------------------------|----------------|-----------------|-----------------|----------------|-----------------|-----------------|
|                                   | Gross Amount   | Impairment      | Carrying amount | Gross Amount   | Impairment      | Carrying amount |
| <b>Retail customers</b>           |                |                 |                 |                |                 |                 |
| Personal loans                    | 79,702         | (2,325)         | 77,377          | 90,159         | (7,176)         | 82,983          |
| Credit cards                      | 3,192          | (444)           | 2,748           | 4,870          | (733)           | 4,137           |
| Finance lease                     | 30             | (26)            | 4               | 142            | (133)           | 9               |
| Housing loans                     | 33,032         | (1,003)         | 32,029          | 37,480         | (2,008)         | 35,472          |
| Mortgage loans                    | 7,303          | (1,211)         | 6,092           | 8,297          | (963)           | 7,334           |
| Other lending                     | 19,736         | (4,166)         | 15,570          | 3,301          | (127)           | 3,174           |
| <b>Corporate customers</b>        |                |                 |                 |                |                 |                 |
| Credit cards                      | 74             | (4)             | 70              | 59             | (2)             | 57              |
| Finance lease                     | 244            | (60)            | 184             | 492            | (203)           | 289             |
| Factoring                         | -              | -               | -               | 25             | -               | 25              |
| Revolving loans                   | 10,162         | (320)           | 9,842           | 665            | (86)            | 579             |
| Investment loans                  | -              | -               | -               | 30,532         | (3,031)         | 27,501          |
| Other lending                     | 61,343         | (8,108)         | 53,235          | 29,968         | (4,677)         | 25,291          |
| <b>Public customers</b>           |                |                 |                 |                |                 |                 |
| Factoring                         | 1,798          | (74)            | 1,724           | 3,680          | (6)             | 3,674           |
| Investment loans                  | -              | -               | -               | 13,057         | (97)            | 12,960          |
| Other lending                     | 36,639         | (224)           | 36,415          | 27,855         | (160)           | 27,695          |
| <b>Other customers</b>            |                |                 |                 |                |                 |                 |
| Investment loans                  | 582            | (30)            | 552             | 292            | (19)            | 273             |
| Other lending                     | -              | -               | -               | (2)            | -               | (2)             |
| <b>Balance as at December 31,</b> | <b>253,837</b> | <b>(17,995)</b> | <b>235,842</b>  | <b>250,872</b> | <b>(19,421)</b> | <b>231,451</b>  |

A reconciliation of allowance for impairment of loans and advances to customers is as follows:

| In thousands of EUR               | 2015          | 2014          |
|-----------------------------------|---------------|---------------|
| Balance as at January 1,          | 19,421        | 18,807        |
| Charge for the year (note 7)      | 1,036         | 3,611         |
| Unwinding                         | (769)         | (811)         |
| Write off                         | (1,693)       | (2,186)       |
| <b>Balance as at December 31,</b> | <b>17,995</b> | <b>19,421</b> |

**14. LOANS AND ADVANCES TO CUSTOMERS, NET (continued)**

Analysis of loans and advances to customers by sector is as follows:

| In thousands of EUR                      | 2015           | 2014           |
|--|----------------|----------------|
| Agriculture                              | 3,095          | 2,439          |
| Building construction                    | 6,407          | 7,779          |
| Trade                                    | 35,939         | 33,333         |
| Tourism                                  | 3,839          | 4,907          |
| Production                               | 7,296          | 5,483          |
| Transportation                           | 4,352          | 2,572          |
| Administration and other public services | 40,202         | 41,801         |
| Retail                                   | 142,995        | 144,249        |
| Other                                    | 9,712          | 8,309          |
|  | 253,837        | 250,872        |
| Less: Allowance for impairment           | (17,995)       | (19,421)       |
| <b>Balance as at December 31,</b>        | <b>235,842</b> | <b>231,451</b> |

Analysis of loans and advances to customers by maturity is as follows:

| In thousands of EUR                    | Due          | Short term    | Long term      | Impairment      | Carrying amount |
|--|--------------|---------------|----------------|-----------------|-----------------|
| Retail customers                       | 2,772        | 1,875         | 138,348        | (9,175)         | 133,820         |
| Corporate customers                    | 4,461        | 21,021        | 46,341         | (8,492)         | 63,331          |
| Public customers                       | -            | -             | 38,437         | (298)           | 38,139          |
| Other customers                        | -            | 268           | 314            | (30)            | 552             |
| <b>Balance as at December 31, 2015</b> | <b>7,233</b> | <b>23,164</b> | <b>223,440</b> | <b>(17,995)</b> | <b>235,842</b>  |

| In thousands of EUR                    | Due          | Short term    | Long term      | Impairment      | Carrying amount |
|--|--------------|---------------|----------------|-----------------|-----------------|
| Retail customers                       | 4,146        | 24,509        | 115,594        | (11,140)        | 133,109         |
| Corporate customers                    | 2,797        | 26,714        | 32,230         | (7,999)         | 53,742          |
| Public customers                       | 1            | 16,857        | 27,734         | (263)           | 44,329          |
| Other customers                        | -            | 99            | 191            | (19)            | 271             |
| <b>Balance as at December 31, 2014</b> | <b>6,944</b> | <b>68,179</b> | <b>175,749</b> | <b>(19,421)</b> | <b>231,451</b>  |

**14. LOANS AND ADVANCES TO CUSTOMERS, NET (continued)**

Accrued interest and deferred loan fees that are included in gross loans in above table:

| In thousands of EUR                    | Due Interest | Accrued Interest | Impairment   | Carrying amount of Interest | Deferred income |
|--|--------------|------------------|--------------|-----------------------------|-----------------|
| Retail customers                       | 257          | 770              | (137)        | 890                         | 282             |
| Corporate customers                    | 154          | 174              | (50)         | 278                         | 105             |
| Public customers                       | -            | 89               | (1)          | 88                          | 14              |
| Other customers                        | -            | 6                | -            | 6                           | 2               |
| <b>Balance as at December 31, 2015</b> | <b>411</b>   | <b>1,039</b>     | <b>(188)</b> | <b>1,262</b>                | <b>403</b>      |

| In thousands of EUR                    | Due Interest | Accrued Interest | Impairment   | Carrying amount of Interest | Deferred income |
|--|--------------|------------------|--------------|-----------------------------|-----------------|
| Retail customers                       | 300          | 710              | (160)        | 850                         | 371             |
| Corporate customers                    | 193          | 161              | (34)         | 320                         | 101             |
| Public customers                       | 1            | 111              | (1)          | 111                         | 20              |
| Other customers                        | -            | 2                | (1)          | 1                           | 2               |
| <b>Balance as at December 31, 2014</b> | <b>494</b>   | <b>984</b>       | <b>(196)</b> | <b>1,282</b>                | <b>494</b>      |

The Bank manages its exposure to credit risk by applying a range of control measures including: regular assessments using agreed credit criteria and diversification of sector risk to avoid undue concentration in any particular type of business or geographic location. The Bank obtains security in the form of mortgages, guarantees and pledges in order to reduce the level of credit risk.

For loans granted to individuals weighted average interest rate was 10.28% (FY 2014: 11.01%) p.a. (FY 2014: 11.01%) and for loans granted to companies weighted average interest rate was 6.32% p.a. (FY 2014: 7.82%).

As disclosed in Note 21, the Bank assigned to the EFSE Luxembourg as collateral for loans granted from the EFSE loan fund of EUR 894 thousand (31 December 2014: EUR 1,897 thousand) relating to all present and future payment claims and all other rights which relate to any Sub-Loan refinanced under Framework Agreement between the Bank and EFSE Luxembourg and any rights and claims arising from any collateral or guarantee granted either by the Sub-Borrower or any other obligor as a security for such Sub-Loan.

**Finance lease receivables**

Loans and advances to customers include the following finance lease receivables:

| In thousands of EUR                            | 2015       | 2014       |
|--|------------|------------|
| More than five years                           | 30         | 36         |
| Between one and five years                     | 97         | 193        |
| Less than one year                             | 168        | 438        |
| Gross investment in finance leases, receivable | 295        | 667        |
| Unearned future income on finance leases       | (21)       | (33)       |
| <b>Net investment in finance leases</b>        | <b>274</b> | <b>634</b> |



**14. LOANS AND ADVANCES TO CUSTOMERS, NET (continued)**

Future minimum lease payments receivable, unearned future income and the net investment in finance lease by maturity as at December 31, 2015 and 2014 are as follows:

| In thousands of EUR                                     | <b>2015</b>             |                        |                                |
|---|-------------------------|------------------------|--------------------------------|
|   | <b>Gross investment</b> | <b>Unearned income</b> | <b>Investment in the lease</b> |
| Less than one year                                      | 168                     | (5)                    | 163                            |
| Between one and five years                              | 97                      | (10)                   | 87                             |
| More than five years                                    | 30                      | (6)                    | 24                             |
| <b>Investment in finance leases at end of year 2015</b> | <b>295</b>              | <b>(21)</b>            | <b>274</b>                     |

| In thousands of EUR                                     | <b>2014</b>             |                        |                                |
|---|-------------------------|------------------------|--------------------------------|
|   | <b>Gross investment</b> | <b>Unearned income</b> | <b>Investment in the lease</b> |
| Less than one year                                      | 438                     | (7)                    | 431                            |
| Between one and five years                              | 193                     | (15)                   | 178                            |
| More than five years                                    | 36                      | (11)                   | 25                             |
| <b>Investment in finance leases at end of year 2014</b> | <b>667</b>              | <b>(33)</b>            | <b>634</b>                     |

## 15. FINANCIAL ASSETS AVAILABLE FOR SALE

| In thousands EUR  | 2015          | 2014          |
|---|---------------|---------------|
| Debt instruments – Eurobonds of the Ministry of Finance of the Government of Montenegro | 12,059        | 37,514        |
| Debt instruments – Bonds of the Ministry of Finance of the Government of Serbia         | 2,052         | 2,057         |
|   | 14,111        | 39,571        |
| Equity instruments  | 713           | 559           |
| <b>Balance as at December 31,</b>   | <b>14,824</b> | <b>40,130</b> |

The following table presents debt instruments for Eurobonds of the Ministry of Finance of the Government of Montenegro and Bonds of the Ministry of Finance of the Government of Serbia:

| In thousands of EUR  | Outstanding amount | Maturity date  |
|--|--------------------|----------------|
| Eurobonds of the Ministry of Finance of the Government of Montenegro | 107                | April 8, 2016  |
| Bonds of the Ministry of Finance of the Government of Serbia         | 2,052              | June 13, 2016  |
| Eurobonds of the Ministry of Finance of the Government of Montenegro | 3,397              | March 18, 2020 |
| Eurobonds of the Ministry of Finance of the Government of Montenegro | 8,555              | May 20, 2019   |
| <b>Financial assets available for sale as of December 31, 2015</b>   | <b>14,111</b>      |                |

**15. FINANCIAL ASSETS AVAILABLE FOR SALE (continued)**

| <b>In thousands of EUR</b>  | <b>Outstanding<br/>amount</b> | <b>Maturity date</b> |
|---|-------------------------------|----------------------|
| Eurobonds of the Ministry of Finance<br>of the Government of Montenegro | 110                           | April 8, 2016        |
| Bonds of the Ministry of Finance<br>of the Government of Serbia         | 2,057                         | June 13, 2016        |
| Eurobonds of the Ministry of Finance<br>of the Government of Montenegro | 7,738                         | March 3, 2016        |
| Eurobonds of the Ministry of Finance<br>of the Government of Montenegro | 29,666                        | May 20, 2019         |
| <b>Financial assets available for sale as of December 31, 2014</b>      | <b>39,571</b>                 |                      |

## 16. FINANCIAL ASSETS HELD TO MATURITY

| In thousands of EUR   | 2015          | 2014         |
|---|---------------|--------------|
| Debt instruments – Eurobonds of the Ministry of Finance of the Government of Montenegro | 50,637        | 6,988        |
| Bonds of Work Fund Podgorica  | 628           | 929          |
| <b>Balance as at December 31,</b>   | <b>51,265</b> | <b>7,917</b> |

The following table presents debt instruments held to maturity for Eurobonds of the Ministry of Finance of the Government of Montenegro and Bonds of Work Fund Podgorica:

| In thousands of EUR  | Outstanding amount | Maturity date     |
|--|--------------------|-------------------|
| Eurobonds of the Ministry of Finance of the Government of Montenegro   | 500                | March 2, 2016     |
| Eurobonds of the Ministry of Finance of the Government of Montenegro   | 4,000              | January 13, 2016  |
| Eurobonds of the Ministry of Finance of the Government of Montenegro   | 4,699              | February 23, 2020 |
| Eurobonds of the Ministry of Finance of the Government of Montenegro (reclassified from financial asset available for sale, note 15) | 25,000             | May 20, 2019      |
| Eurobonds of the Ministry of Finance of the Government of Montenegro (reclassified from financial asset available for sale, note 15) | 16,438             | March 18, 2020    |
| Bonds of Work Fund Podgorica   | 628                | July 25, 2017     |
| <b>Financial assets held to maturity as of December 31, 2015</b>   | <b>51,265</b>      |                   |

According to the Bank's ALCO Committee's Decision from 29 May 2015, the Bank reclassified EUR 40,000 thousand of Eurobonds issued by the Ministry of Finance initially recognized as Available for sale to Held for maturity financial instruments.

As the Bank has ability to hold abovementioned debt instruments to maturity, with this Decision, the Bank has also reduced the risk of the possible negative impact of the change in market value of these securities on the Bank's capital adequacy.

**16. FINANCIAL ASSETS HELD TO MATURITY (continued)**

| <b>In thousands of EUR</b>  | <b>Outstanding<br/>amount</b> | <b>Maturity date</b> |
|---|-------------------------------|----------------------|
| Eurobonds of the Ministry of Finance<br>of the Government of Montenegro | 6,988                         | February 24, 2015    |
| Bonds of Work Fund Podgorica  | 929                           | July 25, 2017        |
| <b>Financial assets held to maturity as of December 31, 2014</b>        | <b>7,917</b>                  |                      |

## 17. PROPERTY AND EQUIPMENT

Property, plant and equipment are stated in the statement of financial position at cost.

| In thousands EUR                  | Buildings    | IT equipment | Other assets | Total        |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Cost                              |              |              |              |              |
| Balance, January 1, 2014          | 2,803        | 1,786        | 3,469        | 8,058        |
| Additions                         | -            | 171          | 130          | 301          |
| Sale and disposals                | -            | -            | (89)         | (89)         |
| Write-off                         | -            | (138)        | (278)        | (416)        |
| Reclassification                  | (673)        | (120)        | 120          | (673)        |
| <b>Balance, December 31, 2014</b> | <b>2,130</b> | <b>1,699</b> | <b>3,352</b> | <b>7,181</b> |
| Additions                         | -            | 226          | 232          | 458          |
| Sale and disposals                | -            | (51)         | (2)          | (53)         |
| Write-off                         | -            | (44)         | (56)         | (100)        |
| <b>Balance, December 31, 2015</b> | <b>2,130</b> | <b>1,830</b> | <b>3,526</b> | <b>7,486</b> |
| Accumulated depreciation          |              |              |              |              |
| Balance, January 1, 2014          | 559          | 1,321        | 1,754        | 3,634        |
| Depreciation (note 9)             | 54           | 181          | 414          | 649          |
| Sale and disposals                | -            | -            | (79)         | (79)         |
| Write-off                         | -            | (134)        | (265)        | (399)        |
| Reclassification                  | (214)        | (119)        | 119          | (214)        |
| <b>Balance, December 31, 2014</b> | <b>399</b>   | <b>1,249</b> | <b>1,943</b> | <b>3,591</b> |
| Depreciation (note 9)             | 53           | 176          | 401          | 630          |
| Sale and disposals                | -            | (47)         | (2)          | (49)         |
| Write-off                         | -            | (41)         | (45)         | (86)         |
| <b>Balance, December 31, 2015</b> | <b>452</b>   | <b>1,337</b> | <b>2,297</b> | <b>4,086</b> |
| <b>Net book value:</b>            |              |              |              |              |
| <b>- December 31, 2014</b>        | <b>1,731</b> | <b>450</b>   | <b>1,409</b> | <b>3,590</b> |
| <b>- December 31, 2015</b>        | <b>1,678</b> | <b>493</b>   | <b>1,229</b> | <b>3,400</b> |

## 18. INTANGIBLE ASSETS

The movements in intangible assets for the year ended as at December 31, 2015 and 2014 were as follows:

| In thousands of EUR             | Computer Software | Purchased Licenses | Other intangible assets | Total        |
|---------------------------------|-------------------|--------------------|-------------------------|--------------|
| <b>Cost</b>                     |                   |                    |                         |              |
| As at January 1, 2014           | 2,864             | 8                  | 1,560                   | 4,432        |
| Additions                       | 79                | -                  | 346                     | 425          |
| Write-off                       | -                 | -                  | (396)                   | (396)        |
| <b>As at December 31, 2014</b>  | <b>2,943</b>      | <b>8</b>           | <b>1,510</b>            | <b>4,461</b> |
| Additions                       | 197               | 8                  | 36                      | 241          |
| Reclassification                | 81                | -                  | (81)                    | -            |
| <b>As at December 31, 2015</b>  | <b>3,221</b>      | <b>16</b>          | <b>1,465</b>            | <b>4,702</b> |
| <b>Accumulated amortization</b> |                   |                    |                         |              |
| As at January 1, 2014           | 1,276             | 3                  | 854                     | 2,133        |
| Charge for the year (note 9)    | 293               | 1                  | 379                     | 673          |
| Write-off                       | -                 | -                  | (396)                   | (396)        |
| <b>As at December 31, 2014</b>  | <b>1,569</b>      | <b>4</b>           | <b>837</b>              | <b>2,410</b> |
| Charge for the year (note 9)    | 317               | 3                  | 279                     | 599          |
| <b>As at December 31, 2015</b>  | <b>1,886</b>      | <b>7</b>           | <b>1,116</b>            | <b>3,009</b> |
| <b>Net book value:</b>          |                   |                    |                         |              |
| - December 31, 2014             | 1,374             | 4                  | 673                     | 2,051        |
| - December 31, 2015             | 1,335             | 9                  | 349                     | 1,693        |

## 19. OTHER ASSETS, NET

| In thousands EUR                  | 2015         | 2014         |
|-----------------------------------|--------------|--------------|
| Accrued commissions               | 641          | 377          |
| Prepaid expenses                  | 115          | 75           |
| Reposessed assets                 | 3,626        | 3,310        |
| Other receivables                 | 604          | 367          |
|                                   | 4,986        | 4,129        |
| Less: Allowance for impairment    | (3,013)      | (1,447)      |
| <b>Balance as at December 31,</b> | <b>1,973</b> | <b>2,682</b> |

Accrued commissions relates to the receivables based on commission or fees from the mandatory activities, commission or fees for payment operations services, card business activities and other commission or fees.

Other receivables in the amount of EUR 604 thousand (2014: EUR 367 thousand) relates to: receivable from health fund for maternity leave and sick leaves in the amount of EUR 238 thousand (2014: EUR 211 thousand ), receivables from credit card transactions in the amount of EUR 93 thousand (2014: EUR 55 thousand), and other receivables in the amount of EUR 273 thousand (2014: EUR 101 thousand).

Movements in allowances are presented as follows:

| In thousands EUR                         | 2015         | 2014         |
|--|--------------|--------------|
| Balance as at January 1,                 | 1,447        | 308          |
| Charge/release for the year:             |              |              |
| Impairment on reposessed assets (note 7) | 1,349        | 865          |
| Provisions for other assets (note 10)    | 217          | 274          |
| <b>Balance as at December 31,</b>        | <b>3,013</b> | <b>1,447</b> |



## 20. DEPOSITS FROM CUSTOMERS

| In thousands of EUR               | 2015           | 2014           |
|-----------------------------------|----------------|----------------|
| Demand deposits                   | 119,077        | 107,576        |
| Retail customers                  | 77,906         | 62,468         |
| Corporate customers               | 34,912         | 33,434         |
| Public                            | 4,253          | 9,232          |
| Other                             | 2,006          | 2,442          |
| Term deposits                     | 152,741        | 162,851        |
| Retail customers                  | 89,984         | 97,981         |
| Corporate customers               | 58,334         | 59,991         |
| Public                            | 3,860          | 4,416          |
| Other                             | 563            | 463            |
| Interest accrued                  | 2,098          | 3,479          |
| <b>Balance as at December 31,</b> | <b>273,916</b> | <b>273,906</b> |

Demand deposits includes current account balances of corporate, retail, public and other customers that may be withdrawn at any time by the customer.

Term deposits includes account balances of corporate, retail, public and other customers that pays a fixed rate of interest until a contractual maturity date.

Average interest rate for demand deposits was 0.01% for retail and corporate customers.

Average interest rate for term deposits was 2.03 % for retail and 2.33% for corporate customers.

## 21. OTHER BORROWED FUNDS

| In thousands of EUR               | 2015          | 2014          |
|-----------------------------------|---------------|---------------|
| Current (due within one year)     | 2,327         | 4,034         |
| Non-current (due after one year)  | 19,264        | 32,600        |
| Accrued interest                  | 89            | 154           |
| Deferred origination fees         | (17)          | (45)          |
| <b>Balance as at December 31,</b> | <b>21,663</b> | <b>36,743</b> |

The following table presents structure of other borrowed funds:

| Name of Financial institution / Bank                   | Initial amount | Interest rate | Balance at<br>December 2015 | Balance at<br>December 2014 |
|--|----------------|---------------|-----------------------------|-----------------------------|
| EFSE, Luxembourg                                       | 2,500          | 7.25%         | 894                         | 1,897                       |
| EIB  | 6,000          | 2.95%-3.51%   | 6,027                       | 6,025                       |
| Erste Group bank AG                                    | 5,015          | 2.89%         | 5,032                       | 11,843                      |
| Steiermaerkische bank und Sparkasse                    | 3,485          | 2.89%         | 3,497                       | 8,231                       |
| Investment development fund,<br>Republic of Montenegro | 3,785          | 2.89%         | 2,798                       | 2,992                       |
| KFW  | 13,000         | 6.60%         | 1,171                       | 3,511                       |
| Ministry of Finance, Republic of Montenegro            | 2,231          | 0.98%         | 2,244                       | 2,244                       |
| <b>Balance as at December 31,</b>                      |                |               | <b>21,663</b>               | <b>36,743</b>               |

Other borrowed funds in the amount of EUR 21,663 thousand decreased comparing with previous year (2014: EUR 36,743 thousand) as a result of increased liquidity from customer deposits.

Other borrowed funds include loans from EFSE Luxembourg in the amount of EUR 894 thousand (2014: EUR 1,897 thousand), The Bank assigned to the EFSE Luxembourg as collateral for these loans all present and future payment claims and all other rights which relate to any Sub-Loan refinanced under Framework Agreement between the Bank and EFSE Luxembourg and any rights and claims arising from any collateral or guarantee granted either by the Sub-Borrower or any other obligor as a security for such Sub-Loan.

There is no other collaterals granted from the Bank to other borrowers.

Borrowings from EFSE and KFW are subject of financial covenants. As of December 31, 2015, the Bank is not breaching these covenants.

**OTHER BORROWED FUNDS (continued)**

In thousands of EUR

| Name of Financial institution / Bank                | 2015                             | 2014                             |
|---|----------------------------------|----------------------------------|
|   | Current (due<br>within one year) | Current (due<br>within one year) |
| EFSE  | 361                              | 985                              |
| Investment development fund, Republic of Montenegro | 785                              | 685                              |
| KFW   | 1,181                            | 2,364                            |
| <b>Balance as at December 31,</b>                   | <b>2,327</b>                     | <b>4,034</b>                     |

## 22. DEBT SECURITIES

Debt securities issued as of December 31, 2015 in the amount of EUR 15,029 thousand (2014: EUR 15,025 thousand) relate to 15,000 bonds of nominal value of EUR 1,000 issued on March 10, 2011. These bonds mature on March 10, 2016 and were fully purchased by Erste & Steiermarkische Bank D.D. - Croatia.

Interest rate on issued bonds is 6M EURIBOR + 2.44%. Interest rate is 2.77% (2014: 2.77%) and total payment of interest on bonds issued in 2015 was EUR 388 thousand (2014: EUR 420 thousand).

## 23. PROVISIONS

| In thousands of EUR                                | 2015         | 2014         |
|--|--------------|--------------|
| Provision for long term employee benefits (note 9) | 287          | 263          |
| Provision for contingent liabilities               | 1,213        | 1,092        |
| Provision for legal claims                         | 487          | 75           |
| Provision for unused holidays                      | 255          | -            |
| Provision for operating risk                       | -            | 168          |
| <b>Balance as at December 31,</b>                  | <b>2,242</b> | <b>1,598</b> |

Provision for long-term employee benefits in the amount of EUR 287 thousand (2014: EUR 263 thousand) relates to upon retirement benefits payable in an amount equal to six average monthly salaries in the Bank and for jubilee provisions.

Provision for retirement benefits is calculated by independent actuary. The liability recognized in the statement of financial position is the present value of the obligation, determined by discounting estimated future outflows using the projected unit credit method. The actuary used discount rate of 5.12% (2014: 4.16 %) and expected increase in salaries of 1% (2014:1%) and personnel turnover rate of 4.58% (2014: 5.86%).

A reconciliation of provision for long term employee benefits is as follows:

| In thousands of EUR                         | 2015       | 2014       |
|---|------------|------------|
| Balance as at January 1,                    | 263        | 191        |
| Additions:                                  |            |            |
| Service costs                               | 19         | 31         |
| Interest costs                              | 12         | 9          |
| Actuarial gains on jubilee provisions       | 2          | 7          |
| Use   | (14)       | (4)        |
| Actuarial gains on upon retirement benefits | 5          | 29         |
| <b>Balance as at December 31,</b>           | <b>287</b> | <b>263</b> |

**23. PROVISIONS (continued)**

Provision for contingent liabilities relates to the following:

| In thousands of EUR              | 2015         | 2014         |
|----------------------------------|--------------|--------------|
| Issued guarantees                | 905          | 693          |
| Credit commitments:              |              |              |
| - overdrafts                     | 177          | 184          |
| - credit cards                   | 47           | 159          |
| - revolving loans                | 50           | 5            |
| - risk participation             | 34           | 51           |
| <b>Balance as at 31 December</b> | <b>1,213</b> | <b>1,092</b> |

A reconciliation of provision for contingent liabilities is as follows:

| In thousands of EUR              | 2015         | 2014         |
|----------------------------------|--------------|--------------|
| Balance as at 1 January          | 1,092        | 783          |
| Reversals/(additions)            | 121          | 309          |
| <b>Balance as at 31 December</b> | <b>1,213</b> | <b>1,092</b> |

**Legal claims**

On the statement of financial position date, the Bank was involved in 117 court cases as defendant. The Bank made a provision for the value of possible compensation on legal claims estimated at EUR 487 thousand (2014: EUR 75 thousand).

## 24. OTHER LIABILITIES

| In thousands of EUR                                 | 2015         | 2014         |
|---|--------------|--------------|
| Accrued expenses                                    | 536          | 640          |
| Accrued employee benefits                           | 773          | 195          |
| Items in course of collection and other liabilities | 1,722        | 1,374        |
| <b>Balance as at December 31,</b>                   | <b>3,031</b> | <b>2,209</b> |

Accrued expenses in the amount of EUR 536 thousand (2014: EUR 640 thousand) relates to accrued liabilities to Fund for deposit insurance and other administrative expenses as IT expenses, expenses for office space and legal and consulting costs.

## 25. EQUITY

| In thousands of EUR                   | 2015          | 2014          |
|---------------------------------------|---------------|---------------|
| Share capital                         | 5,339         | 5,339         |
| Share premium                         | 1,571         | 1,571         |
| General risk reserves                 | -             | 182           |
| Other capital reserves                | 300           | 300           |
| Fair value reserves                   | 871           | 1,596         |
| Regulatory reserves for credit losses | 1,467         | 1,467         |
| Retained earnings                     | 42,402        | 35,523        |
| <b>Balance as at 31 December</b>      | <b>51,950</b> | <b>45,978</b> |

### Share capital

As at December 31, 2015, the Bank's share capital comprised of 5,339 ordinary shares of individual par value of EUR 1,000 each.

### Share premium

Share premium represents the amount by which the issue price of the shares exceeded their accounting par value.

### General risk reserves

General risk reserves relate to part of reserves for operational risks.

### Other capital reserves

Other capital reserves represent amounts allocated from retained earnings based on decision of the Bank's General Assembly.

### Fair value reserves

This reserve comprises changes in fair value of financial assets available for sale.

### Regulatory reserves for credit losses

Regulatory reserves for credit losses relate to the difference between the provisions for impairment of financial assets and provision for contingent liabilities recorded in the Bank's statutory accounts as of December 31, 2012 and the amount of the relating provisions assessed in accordance with the new regulation of the Central Bank of Montenegro applicable from 1 January 2013. These reserves are not distributable.



## **25. Equity (continued)**

### **Retained earnings**

Retained earnings represent accumulated net profits, as well as income and expenses recognized in other comprehensive income brought forward.

### **Dividends**

The Board of Directors of the Bank did not declare dividends for the year 2015 (2014: nil).

## 26. CONTINGENT LIABILITIES AND COMMITMENTS

The Bank provides guarantees, overdraft loans, finance lease and limits on credit cards. These agreements have fixed limits and generally extend for a period up to one year. The contractual amounts of contingent liabilities are set out in the following table by category. The amounts reflected in the table for guarantee, overdraft loans and credit card limits represent the maximum accounting loss that would be recognized at the statement of financial position date if counterparties failed completely to perform as contracted.

| In thousands of EUR                   | 2015          | 2014          |
|---------------------------------------|---------------|---------------|
| Guarantees                            | 26,493        | 26,110        |
| Unused overdraft limit on loans       | 8,668         | 8,640         |
| Revolving loans                       | 1,794         | 760           |
| Risk participation                    | 6,000         | 9,000         |
| Credit cards                          | 1,755         | 2,916         |
| Provisions for contingent liabilities | (1,213)       | (1,092)       |
| <b>Balance as at December 31</b>      | <b>43,497</b> | <b>46,334</b> |

Guarantees commitments in the amount of EUR 26,493 thousand (2014: EUR 26,110 thousand) consists of the guarantees given to retail customers in the amount of EUR 19 thousand (2014: EUR 216 thousand), to corporate customers in amount of EUR 22,811 thousand (2014: EUR 25,894 thousand), to financial institutions in amount of EUR 3,661 thousand (2014: EUR 0 thousand) and to Ministry of Finance of the Government of Montenegro in amount of EUR 2 thousand (2014: EUR 0 thousand).

Revolving loans were granted in 2015 and total amount as of December 31, 2015 was EUR 1,794 thousand (2014: 760 thousand).

Risk participation is contingent liability of the Bank where Bank does not participate in the financing of loans, but in the case that the debtor is in default, Bank is obliged to pay the funds in the amount of 50% of claims of main creditor.

Any unused portion of the approved credit limit for overdrafts and credit cards are located within the contingent liabilities as credit card in the amount of EUR 1,755 thousand (2014: EUR 2,916 thousand).

Provision for contingent liabilities consist of following:

| In thousands of EUR              | 2015         | 2014         |
|----------------------------------|--------------|--------------|
| Guarantees                       | 905          | 693          |
| Credit cards                     | 177          | 159          |
| Revolving loans                  | 47           | 5            |
| Used overdraft limit on loans    | 50           | 184          |
| Risk participation               | 34           | 51           |
| Project financing                | -            | -            |
| <b>Balance as at December 31</b> | <b>1,213</b> | <b>1,092</b> |

## 27. RELATED PARTY TRANSACTIONS

As disclosed in Note 1, the Bank is owned by Erste & Steiermarkische Bank DD, Croatia and ultimately owned by Erste Group Bank AG, Vienna, Austria.

In the course of its business, the Bank has entered into various transactions with related parties. The Bank's related parties are: immediate parent company, ultimate parent company and other Erste group entities, and key members of management.

A summary of the Bank's transactions with the Erste Group Bank entities were as follows:

| In thousands of EUR                 | 2015          | 2014          |
|-------------------------------------|---------------|---------------|
| Assets                              |               |               |
| Current accounts with foreign banks | 6,244         | 13,531        |
| Other assets                        | -             | 57            |
|                                     | <b>6,244</b>  | <b>13,588</b> |
| Liabilities                         |               |               |
| Demand deposits                     | 289           | 271           |
| Borrowings                          | 23,502        | 35,099        |
| Accrued interest                    | 60            | 35            |
| Other liabilities                   | -             | 84            |
|                                     | <b>23,851</b> | <b>35,489</b> |
| <b>Fee and commission income</b>    | <b>385</b>    | <b>425</b>    |
| Expenses                            |               |               |
| Interest and similar expenses       | 1,085         | 1,823         |
| Other administrative expenses       | 623           | 189           |
|                                     | <b>1,708</b>  | <b>2,012</b>  |

**27. RELATED PARTY TRANSACTIONS (continued)**

The above stated amounts include following amounts relating to Erste & Steiermarkische Bank DD, Croatia:

| <b>In thousands of EUR</b>          | <b>2015</b>   | <b>2014</b>   |
|-------------------------------------|---------------|---------------|
| <b>Assets</b>                       |               |               |
| Current accounts with foreign banks | 3,133         | 5,696         |
| Other assets                        | -             | 56            |
|                                     | <b>3,133</b>  | <b>5,752</b>  |
| <b>Liabilities</b>                  |               |               |
| Demand deposits                     | 60            | 60            |
| Borrowings/Debt securities          | 14,998        | 15,025        |
| Accrued interest                    | 31            | 35            |
| Other liabilities                   | -             | 84            |
|                                     | <b>15,089</b> | <b>15,204</b> |
| <b>Expenses</b>                     |               |               |
| Interest and similar expenses       | 379           | 420           |
| Other administrative expenses       | 11            | 174           |
|                                     | <b>390</b>    | <b>594</b>    |

**Compensation to and other transactions with key management personnel of the Bank**

In 2015 the Bank paid to top management personnel gross salaries and other compensations in the amount of EUR 413 thousand (2014: EUR 593 thousand) .

The year end balances of loans to and deposits from members of the Board of Directors were null ( 2014: nil)

The Bank did not grant new loans to the members of the Board of Directors during 2015 (2014: nil).

The Bank granted new loans to the local management personnel who are not members of the Board of Directors, in 2015 amounted to EUR 25 thousand (2014: 210 thousand).

The outstanding balance as at December 31, 2015 for granted loans amounted to EUR 119 thousand (2014: EUR 215 thousand). Interest income on granted loans to management personnel in 2015 amounted to EUR 0 thousand (2014: 6).

Outstanding balances due from related parties at the year-end are secured with cash collateral amounted EUR 105 thousands. There have been no guarantees provided or received for any related party receivables or payables. For the year ended December 31, 2015, the Bank has not made any provisions for doubtful debts relating to amounts owned by related parties (2014: nil).

## 28. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES

The table below sets out the Bank's classification of financial assets and liabilities, and their fair values:

| In thousands of EUR                           | Total carrying value | Stated at fair value | Stated at amortized cost | Fair value     |
|---|----------------------|----------------------|--------------------------|----------------|
| <b>As at 31 December 2014</b>                 |                      |                      |                          |                |
| Cash and balances with banks and Central bank | 56,615               | -                    | 56,615                   | 56,615         |
| Loans and advances to Banks, net              | 32,313               | -                    | 32,313                   | 32,324         |
| Loans and advances to customers, net          | 231,451              | -                    | 231,451                  | 215,374        |
| Financial assets available for sale           | 40,130               | 40,130               | -                        | 40,130         |
| Financial assets held to maturity             | 7,917                | -                    | 7,917                    | 7,917          |
|   | <b>368,426</b>       | <b>40,130</b>        | <b>328,296</b>           | <b>352,360</b> |
| Deposits from banks                           | 162                  | -                    | 162                      | 162            |
| Deposits from customers                       | 273,906              | -                    | 273,906                  | 266,341        |
| Other borrowed funds                          | 36,743               | -                    | 36,743                   | 35,106         |
|   | <b>310,811</b>       | <b>-</b>             | <b>310,811</b>           | <b>301,609</b> |
| <b>As at 31 December 2015</b>                 |                      |                      |                          |                |
| Cash and balances with banks and Central bank | 48,380               | -                    | 48,379                   | 48,379         |
| Loans and advances to Banks, net              | 11,605               | -                    | 11,605                   | 11,612         |
| Loans and advances to customers, net          | 235,842              | -                    | 235,842                  | 214,484        |
| Financial assets available for sale           | 14,824               | 14,824               | -                        | 14,824         |
| Financial assets held to maturity             | 51,265               | -                    | 51,265                   | 51,265         |
|   | <b>361,916</b>       | <b>14,824</b>        | <b>347,091</b>           | <b>340,564</b> |
| Deposits from banks                           | 415                  | -                    | 415                      | 434            |
| Deposits from customers                       | 273,916              | -                    | 273,916                  | 266,241        |
| Debt securities                               | 15,029               | -                    | 15,029                   | 15,659         |
| Other borrowed funds                          | 21,663               | -                    | 21,663                   | 20,384         |
|   | <b>311,023</b>       | <b>-</b>             | <b>311,023</b>           | <b>302,718</b> |

## 28. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES (continued)

### Assets recorded at fair value

Financial assets available for sale as at December 31, 2015 in the amount of EUR 14,111 thousand (2014: EUR 39,571 thousand) are stated at fair value determined using valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly (Level 2 of the fair value hierarchy) and in the amount of EUR 713 thousand (2014: EUR 559 thousand) at fair value determined using techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data (Level 3 of the fair value hierarchy).

### Assets not recorded at fair value

Management on the Bank considers that the fair values of financial assets and liabilities not recorded at fair value do not depart significantly from their fair values, which is based on the following assumptions used to determine fair values which correspond to Level 3 of the fair value hierarchy.

#### *Assets for which fair value approximates carrying value*

For financial assets and financial liabilities that are liquid or having a short term maturity (less than one year) it is assumed that the carrying amount approximates their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity and variable rate financial instruments.

#### *Fixed rate financial instruments*

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments to the extent that such rates are observable. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

| <b>December 31, 2014</b>            | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>  |
|-------------------------------------|----------------|----------------|----------------|---------------|
| Financial assets available for sale | -              | 39,571         | 559            | 40,130        |
| <b>Total assets</b>                 | <b>-</b>       | <b>39,571</b>  | <b>559</b>     | <b>40,130</b> |

| <b>December 31, 2015</b>      | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>  |
|-------------------------------|----------------|----------------|----------------|---------------|
| Available for sale securities | -              | 14,111         | 713            | 14,824        |
| <b>Total assets</b>           | <b>-</b>       | <b>14,111</b>  | <b>713</b>     | <b>14,824</b> |

## 29. FINANCIAL RISK MANAGEMENT

### Introduction and overview

The main objectives of Bank's risk management framework are the following:

- Contribute to development of various business lines optimizing their overall risk adjusted profitability;
- The Bank should be very competitive entity at the Montenegrin market, including part of foreign clients, without neglecting the quality of loan portfolio and efficient risk control;
- Guaranteeing the Bank's sustainability through the implementation of qualitative risk management infrastructure.

The Bank's risk management model depends on:

- strong management influence, from Board of Directors to local operational teams;
- strong internal procedures and guidelines framework;
- continuous supervision by independent bodies.

Traditionally, the Bank is mainly exposed to credit risk and consequently the largest focus is given to the management and continuous development and improvement of credit risk management, but not neglecting in any instance of other risks the Bank is exposed to in its activities such as liquidity risk, operational risk, market risks, legal risk, reputation risk and the like.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee (ALCO), Credit Committees and Audit Committee which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. The Board of Directors consists of shareholders representatives and other members.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Board of Directors adopted following policies:

- Credit policy
- Policies and procedures for management of the credit risk;
- Policies and procedures for management of the liquidity risk;
- Policies and procedures for management of the market risks;
- Policies and procedures for management of the country risk;
- Policies and procedures for management of the operational risks;
- Risk provisioning policy;
- Policies and procedures for managing bad placements;
- Collection procedures

## 29. FINANCIAL RISK MANAGEMENT (continued)

### Introduction and overview (continued)

Risk policies cover all aspects of the respective type of risk and requirements, quantitative limitations with regard to risk management, risk control as well as, if applicable, performance control, accounting and also regulatory requirements.

The Bank's Internal Audit Department monitors compliance with the Bank's risks management policies and procedures and undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

According to the Law on Banks, the Bank complied with all requirements relating to election of the members of the Board of Directors, election of executive directors and formation of audit committee.

The Bank's Audit Committee is responsible for analyzing the Bank's financial reports, analyzing and monitoring the system of internal controls, activities undertaken by executive directors in order to inform Board of Directors, compliance with law, regulations and the Bank's acts. Audit Committee is assisted in these functions by Internal Audit..

### Credit risk

Credit risk is the risk of financial loss occurring as a result of counterparty's default regarding its contractual obligations to the Bank.

To manage the level of credit risk, the Bank:

- reviews the creditworthiness of customers applying for loans, guarantees and other credit products,
- establishes credit limits on the basis of the risk assessment,
- deals with counterparties of good credit standing and takes appropriate collateral.

Customers are monitored continually and risk limits are adjusted if necessary. Risk limits also take into account various collateral types.

The Bank's primary exposure to credit risk arises through its loans granted to small and medium sized companies and individuals. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position.

Basic principles of loan portfolio are:

- Diversification of loans by industries;
- Diversification within the industry and region;
- Diversification by exposure (limit, individual and group);
- Diversification by maturity;
- Diversification by products.

In accordance with the Central Bank of Montenegro regulations, the total amount of loans and receivables including off statement of financial position liabilities, that relate to one client or the group of related clients cannot exceed 25% of bank's own funds. Exceptions, among others, are exposures to the Government of Montenegro or exposures secured with first class collateral, i.e. those which fulfilling Central Bank of Montenegro conditions.

According to regulation exposure to one client or the group of related clients that exceeds 10% of bank's own funds is considered as large exposure.

Loans to individuals and loans to companies are granted through 7 credit committees depending on level of exposure and level of non-secured exposure.



**29. FINANCIAL RISK MANAGEMENT (continued)****Credit risk (continued)**

The Risk Management Department continuously monitors and measures the level of credit risk and prepares monthly reports on the level of credit risk and reports it to the management and the Board of Directors.

The credit quality of financial assets is managed by the bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the bank's internal credit rating system. The amounts presented are gross of impairment allowances.

|                                       | Neither past due nor impaired |                      |             | Past due but not impaired | Individually impaired | Total   |
|---------------------------------------|-------------------------------|----------------------|-------------|---------------------------|-----------------------|---------|
|                                       | Low Risk                      | Management Attention | Substandard |                           |                       |         |
|                                       | 2015                          | 2015                 | 2015        | 2015                      | 2015                  | 2015    |
| Loans and advances to banks, gross    | 1,513                         | -                    | -           | 10,095                    | -                     | 11,608  |
| Loan and advances to customers, gross | 133,538                       | 64,050               | 12,109      | 25,695                    | 18,445                | 253,837 |
| public sector                         | 21,083                        | 17,172               | -           | 182                       | -                     | 38,437  |
| commercial customers                  | 38,612                        | 16,802               | 1,472       | 6,845                     | 8,092                 | 71,823  |
| other financial institutions          | 110                           | -                    | -           | -                         | -                     | 110     |
| private customers                     | 73,609                        | 30,076               | 10,483      | 18,474                    | 10,353                | 142,995 |
| other                                 | 124                           | -                    | 154         | 194                       | -                     | 472     |
| Investment securities AfS and HtM     | 64,036                        | 2,052                | -           | -                         | -                     | 66,088  |
| Financial assets available for sale   | 12,772                        | 2,052                | -           | -                         | -                     | 14,824  |
| Financial assets held to maturity     | 51,264                        | -                    | -           | -                         | -                     | 51,264  |

|                                       | Neither past due nor impaired |                      |             | Past due but not impaired | Individually impaired | Total   |
|---------------------------------------|-------------------------------|----------------------|-------------|---------------------------|-----------------------|---------|
|                                       | Low Risk                      | Management Attention | Substandard |                           |                       |         |
|                                       | 2014                          | 2014                 | 2014        | 2014                      | 2014                  | 2014    |
| Loans and advances to banks, gross    | 6,953                         | -                    | -           | 25,368                    | -                     | 32,321  |
| Loan and advances to customers, gross | 151,132                       | 40,409               | 8,862       | 28,141                    | 22,328                | 250,872 |
| public sector                         | 40,111                        | 4,196                | -           | 285                       | -                     | 44,592  |
| commercial customers                  | 28,205                        | 16,591               | 2,075       | 6,690                     | 8,178                 | 61,739  |
| other financial institutions          | -                             | -                    | -           | -                         | -                     | -       |
| private customers                     | 82,816                        | 19,622               | 6,495       | 21,166                    | 14,150                | 144,249 |
| other                                 | -                             | -                    | 292         | -                         | -                     | 292     |
| Investment securities AfS and HtM     | 45,431                        | 2,199                | 417         | -                         | -                     | 48,047  |
| Financial assets available for sale   | 37,514                        | 2,199                | 417         | -                         | -                     | 40,130  |
| Financial assets held to maturity     | 7,917                         | -                    | -           | -                         | -                     | 7,917   |

## 29. FINANCIAL RISK MANAGEMENT (continued)

### Credit risk (continued)

Past due loans and advances but not impaired include those that are only past due by a few days. An analysis of past due but not impaired loans by age is provided in the following tables.

| 31 December 2015                      | Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91 day | Total  |
|---------------------------------------|-------------------|---------------|---------------|------------------|--------|
| Loans and advances to banks, gross    | 10,095            | -             | -             | -                | 10,095 |
| Loan and advances to customers, gross | 20,050            | 5,082         | 461           | 102              | 25,695 |
| public sector                         | 182               | -             | -             | -                | 182    |
| commercial customers                  | 4,515             | 2,156         | 172           | 2                | 6,845  |
| other financial institutions          | -                 | -             | -             | -                | -      |
| private customers                     | 15,159            | 2,926         | 289           | 100              | 18,474 |
| other                                 | 194               | -             | -             | -                | 194    |
| Investment securities AfS and HtM     | -                 | -             | -             | -                | -      |
| Financial assets available for sale   | -                 | -             | -             | -                | -      |
| Financial assets held to maturity     | -                 | -             | -             | -                | -      |

| 31 December 2014                      | Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91 day | Total  |
|---------------------------------------|-------------------|---------------|---------------|------------------|--------|
| Loans and advances to banks, gross    | 17,771            | 7,597         | -             | -                | 25,368 |
| Loan and advances to customers, gross | 21,653            | 5,468         | 940           | 80               | 28,141 |
| public sector                         | 285               | -             | -             | -                | 285    |
| commercial customers                  | 3,536             | 2,752         | 402           | -                | 6,690  |
| other financial institutions          | -                 | -             | -             | -                | -      |
| private customers                     | 17,832            | 2,716         | 538           | 80               | 21,166 |
| other                                 | -                 | -             | -             | -                | -      |
| Investment securities AfS and HtM     | -                 | -             | -             | -                | -      |
| Financial assets available for sale   | -                 | -             | -             | -                | -      |
| Financial assets held to maturity     | -                 | -             | -             | -                | -      |

See Note 14 for more detailed information on the allowance for impairment losses on loans and advances to customers.

### Impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance is a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

The Bank grades credit risk exposures to individuals and companies into various categories. The Bank estimates recoverable amounts by discounting future cash flows on individual level for all individually significant exposures classified in the non performing categories. Collective provisions for performing categories are based on estimations of probabilities of default and losses given default for corporate and retail exposures using its own historical data.

## 29. FINANCIAL RISK MANAGEMENT (continued)

### Credit risk (continued)

#### *Individually impaired loans and securities*

Individually impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan and securities agreement.

#### *Past due but not impaired loans*

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

#### *Loans with renegotiated terms*

Loans with renegotiated terms amounted to EUR 5,642 thousand as at December 31, 2015 (2014: EUR 5,148 thousand).

#### *Write-off policy*

The Bank writes off a loan balance when determines that the loans are uncollectable. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation and there is no perspective that will pay in the future and there is no adequate collateral. For smaller balance standardized loans, secured mainly with guarantors and there is no payment from guarantors, charge off decisions generally are based on a product specific past due status. These loans are graded R4 in the Bank's internal credit risk grading system.

Unrecoverable borrowings R4 are those where it is considered that the total receivables will not be recovered by primary or secondary cash flow. Concerning unrecoverable placements R4, by default the present value of these receivables equals zero, except when there is a very good collateralization of approved loan.

Written off loans that are considered irrecoverable and which are registered in the off statement of financial position records of the Bank amount to EUR 13,091 thousand as of December 31, 2015 (2014: EUR 15,212 thousand).

#### *Collateral*

The amount and type of collateral depend on an assessment of the credit risk of the counterparty.

The Bank holds collaterals against loans and advances to customers in the form of mortgage interests over property, pledge, guarantors and bill of exchange. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and reassessment according local regulation. Collateral generally is not held over loans and advances to banks. Collateral usually is not held against investment securities and no such collateral was held at December 31, 2015 or 2014.

## 29. FINANCIAL RISK MANAGEMENT (continued)

### Credit risk (continued)

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

| In thousands of EUR                                   | Loan and advances<br>to customers |                |
|---|-----------------------------------|----------------|
|   | 2015                              | 2014           |
| Against individually impaired - property              | 13,949                            | 18,678         |
| Against collectively impaired:                        |                                   |                |
| Property  | 129,711                           | 151,599        |
| Other pledges   | 8,864                             | 10,862         |
| Montenegro Government guarantees                      | 12,653                            | 4,075          |
| Guarantee of banks with rating A or more              | 2,862                             | 1,638          |
| Against past due but not impaired – cash deposits     | 3                                 | 356            |
| Against neither past due nor impaired – cash deposits | 2,881                             | 3,350          |
| <b>Total</b>  | <b>170,923</b>                    | <b>190,558</b> |

Collateral values above do not include co-guarantors that the Bank may use as security for loans and advances.

It is the Bank's policy to dispose of repossessed assets. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

During the year the Bank took possession of collateral with a carrying value of EUR 309 thousand (2014: EUR 1,406 thousand) at the statement of financial position date, which the Bank is in process of selling.

### Credit risk concentrations

The Bank monitors concentrations of credit risk by industry sector to mitigate its risk and diversify its portfolio. An analysis of concentrations of credit risk at the reporting date is shown below:

| In thousands of EUR         | Loan and advances to<br>customers | Loan and advances to<br>customers | Debt securities<br>(HTM and AFS) |               |
|-----------------------------|-----------------------------------|-----------------------------------|----------------------------------|---------------|
|                             | 2015                              | 2014                              | 2015                             | 2014          |
| Retail customers            | 133,820                           | 133,109                           | -                                | -             |
| Corporate customers         | 63,331                            | 53,742                            | -                                | -             |
| Other financial institution | -                                 | (2)                               | -                                | -             |
| Government                  | 38,139                            | 44,329                            | 65,375                           | 47,488        |
| Other                       | 552                               | 273                               | 713                              | 559           |
|                             | <b>235,842</b>                    | <b>231,451</b>                    | <b>66,088</b>                    | <b>48,047</b> |

Industrial risk concentrations are presented in Note 14.

The maximum credit exposure to any customer of related group of customers (apart from the Government or the Government guaranteed and other banks) as at December 31, 2015 was EUR 9,686 thousand (2014: EUR 8,228 thousand).

## 29. FINANCIAL RISK MANAGEMENT (continued)

### Country risk

Country risk is the probability of incurring losses to the Bank due to the inability of persons or companies outside of Montenegro to repay obligations due to political, social and economic environment of the country of the debtor. Risks include:

- Political-economic risk, where loss is probably due to political restrictions created by the acts of the country, state bodies or other bodies in the country of the debtor, and/or because of the general economic condition in the country;
- Transfer risk, where probability of loss due to currency restrictions created by the acts of the country, state bodies or other bodies in the country of the debtor, and/or because of the general economic condition in the country.

Risk Management Department monitors risk on an ongoing basis and recommends any needed changes in order to keep the policy and procedures in line with the Bank's strategy and goals.

Risk Management Department submits to the Board monthly reports about country risk exposure.

The Board of Directors reviews the adequacy of the system used to manage country risk and approve any policy changes if needed.

### Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of its liquidity position. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank has access to a diverse funding base. Funds are raised using:

- deposits with wide ranges of maturity;
- long term borrowings;
- share capital.

The Bank's general policy aim is to manage liquidity risk in order to meet its obligations associated with its financial liabilities and to increase its liquidity level. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall Bank's strategy.

The daily liquidity position is monitored by the Risk Department and the Treasury Department which have formal procedures. Control of liquidity level is necessary in order to maintain liquidity risk on acceptable level. The Bank follows its internal and legal limits prescribed by the Central Bank of Montenegro.

The table below presents undiscounted assets and liabilities by earliest remaining contractual maturities.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

**29. FINANCIAL RISK MANAGEMENT (continued)****Liquidity risk (continued)**

| <b>In thousands of EUR</b>           | <b>Up to 3 months</b> | <b>3 months to 1 year</b> | <b>1 to 5 years</b> | <b>More than 5 years</b> | <b>Total undiscounted financial assets/ liabilities</b> |
|--------------------------------------|-----------------------|---------------------------|---------------------|--------------------------|---|
| Non derivative assets                |                       |                           |                     |                          |   |
| Cash and cash equivalents            | 40,533                | -                         | 7,847               | -                        | 48,380  |
| Loans and advanced to Banks          | 11,212                | -                         | 396                 | -                        | 11,608  |
| Loans and advances to customers      | 27,098                | 66,908                    | 148,472             | 81,444                   | 323,922   |
| Financial assets available for sale  | 2,240                 | 531                       | 14,162              | -                        | 16,933  |
| Financial assets held to maturity    | -                     | 365                       | 40,300              | -                        | 40,665  |
| <b>Total as at December 31, 2015</b> | <b>81,083</b>         | <b>67,804</b>             | <b>211,177</b>      | <b>81,444</b>            | <b>441,508</b>  |
| Non derivative liabilities           |                       |                           |                     |                          |   |
| Deposits from banks                  | 415                   | -                         | -                   | -                        | 415   |
| Deposits from customers              | 36,912                | 48,741                    | 190,707             | 48                       | 276,408   |
| Other borrowed funds                 | 8,875                 | 2,338                     | 11,474              | 118                      | 22,805  |
| Debt securities                      | 15,136                | -                         | -                   | -                        | 15,136  |
| <b>Total as at December 31, 2015</b> | <b>61,338</b>         | <b>51,079</b>             | <b>202,181</b>      | <b>166</b>               | <b>314,764</b>  |

The table below shows an analysis of the Bank's financial assets and liabilities analyzed according to when they are expected to be recovered or settled.

| <b>In thousands of EUR</b>           | <b>Up to 1 year</b> | <b>More than 1 year</b> | <b>Total</b>   |
|--------------------------------------|---------------------|-------------------------|----------------|
| Assets                               |                     |                         |                |
| Cash and cash equivalents            | 40,533              | 7,847                   | 48,380         |
| Loans and advanced to Banks          | 11,212              | 396                     | 11,608         |
| Loans and advances to customers      | 63,008              | 190,829                 | 253,837        |
| Financial assets available for sale  | 14,111              | 713                     | 14,824         |
| Financial assets held to maturity    | 10,796              | 40,468                  | 51,264         |
| <b>Total as at December 31, 2015</b> | <b>139,660</b>      | <b>240,253</b>          | <b>379,913</b> |
| Liabilities                          |                     |                         |                |
| Deposits from banks                  | 415                 | -                       | 415            |
| Deposits from customers              | 84,414              | 189,502                 | 273,916        |
| Deposits from custody business       | 140                 | -                       | 140            |
| Other borrowed funds                 | 2,403               | 19,260                  | 21,663         |
| Debt securities                      | 15,029              | -                       | 15,029         |
| <b>Total as at December 31, 2015</b> | <b>102,401</b>      | <b>208,762</b>          | <b>311,163</b> |

## 29. FINANCIAL RISK MANAGEMENT (continued)

### Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices and foreign exchange rates will affect the Bank's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return of risk.

### Management of market risk

Management of market risk is one of the main Bank's aims in order to limit potential losses caused by adverse changes in interest rates, currency risks, prices index and other market factors that could influence the value of financial instruments, impacting profitability and the capital adequacy of the Bank.

Market risk is monitored by the Risk Management Department. The Bank's system for managing the market risk consists of:

- Identification of current market risk and possible risks from new business activities;
- Measure of market risks through established mechanism and procedures for correct and updated market risk estimate;
- Monitoring market risk through analyzing of its status, changes and trends;
- Control of market risk by managing risk at level acceptable for risk profile of the Bank.

The Bank manages all market risks to which it is exposed, especially:

- Interest rate risk;
- Currency risk and
- Placement risk.

### Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature at different times or in differing amounts.

Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

In managing interest rate structure, senior management considers among others:

- macro and micro economic forecasts;
- forecasts in liquidity conditions and
- the anticipated trends in interest rates.

The Bank takes on exposure to the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes or may reduce creating losses in the event that unexpected movements by reprising periods arise. The Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily. The table below summarizes the Bank's exposure to interest rate movements.

**29. FINANCIAL RISK MANAGEMENT (continued)****Management of market risk (continued)****Interest rate risk (continued)**

Exposure to interest rate movements this analysis has been provided on basis of interest reset period or maturity date whichever is earlier.

| <b>In thousands of EUR</b>                 | <b>Carrying amount</b> | <b>Up to 3 months</b> | <b>3 months to 1 year</b> | <b>1-5 years</b> | <b>More than 5 years</b> | <b>Non interest sensitive</b> | <b>Impairment</b> |
|--|------------------------|-----------------------|---------------------------|------------------|--------------------------|-------------------------------|-------------------|
| <b>As at 31 December 2015</b>              |                        |                       |                           |                  |                          |                               |                   |
| <b>Assets</b>                              |                        |                       |                           |                  |                          |                               |                   |
| Cash and balances with banks               | 48,379                 | 3,621                 | -                         | -                | -                        | 44,758                        | -                 |
| Loans and advanced to Banks                | 11,605                 | -                     | -                         | -                | -                        | 11,608                        | (3)               |
| Loans and advances to customers            | 235,842                | 76,032                | 41,860                    | 85,442           | 50,463                   | 40                            | (17,995)          |
| Financial assets available for sale        | 14,824                 | 2,206                 | 299                       | 12,319           | -                        | -                             | -                 |
| Financial assets held to maturity          | 51,264                 | 9,679                 | 1,117                     | 40,468           | -                        | -                             | -                 |
|  | <b>361,914</b>         | <b>91,538</b>         | <b>43,276</b>             | <b>138,229</b>   | <b>50,463</b>            | <b>56,406</b>                 | <b>(17,998)</b>   |
| <b>Liabilities</b>                         |                        |                       |                           |                  |                          |                               |                   |
| Deposits from banks                        | 415                    | -                     | -                         | -                | -                        | 415                           | -                 |
| Deposits from customers                    | 273,916                | 56,587                | 97,789                    | 103,685          | 167                      | 15,688                        | -                 |
| Other borrowed funds                       | 21,663                 | 8,869                 | 2,033                     | 10,761           | -                        | -                             | -                 |
| Debt securities                            | 15,029                 | 15,029                | -                         | -                | -                        | -                             | -                 |
|  | <b>311,023</b>         | <b>80,485</b>         | <b>99,822</b>             | <b>114,446</b>   | <b>167</b>               | <b>16,103</b>                 | <b>-</b>          |
| <b>Interest rate gap</b>                   | <b>50,891</b>          | <b>11,053</b>         | <b>(56,546)</b>           | <b>23,783</b>    | <b>50,296</b>            | <b>40,303</b>                 | <b>(17,998)</b>   |
| <b>As at 31 December 2014</b>              |                        |                       |                           |                  |                          |                               |                   |
| <b>Assets</b>                              |                        |                       |                           |                  |                          |                               |                   |
| Cash and balances with banks               | 56,615                 | 3,632                 | -                         | -                | -                        | 52,983                        | -                 |
| Loans and advanced to Banks                | 32,313                 | -                     | -                         | -                | -                        | 32,321                        | (8)               |
| Loans and advances to customers            | 231,451                | 87,489                | 28,733                    | 84,035           | 50,573                   | 42                            | (19,421)          |
| <b>Financial assets available for sale</b> |                        |                       |                           |                  |                          |                               |                   |
|  | 40,130                 | 1,087                 | 1,983                     | 37,060           | -                        | -                             | -                 |
| Financial assets held to maturity          | 7,917                  | 6,988                 | 328                       | 601              | -                        | -                             | -                 |
|  | <b>368,426</b>         | <b>99,196</b>         | <b>31,044</b>             | <b>121,696</b>   | <b>50,573</b>            | <b>85,346</b>                 | <b>(19,429)</b>   |
| <b>Liabilities</b>                         |                        |                       |                           |                  |                          |                               |                   |
| Deposits from banks                        | 162                    | -                     | -                         | -                | -                        | 162                           | -                 |
| Deposits from customers                    | 273,906                | 70,875                | 117,904                   | 65,207           | 196                      | 19,724                        | -                 |
| Other borrowed funds                       | 36,743                 | 21,065                | 3,094                     | 10,493           | 2,091                    | -                             | -                 |
| Debt securities                            | 15,025                 | -                     | 15,025                    | -                | -                        | -                             | -                 |
|  | 325,836                | 91,940                | 136,023                   | 75,700           | 2,287                    | 19,886                        | -                 |
| <b>Interest rate gap</b>                   | <b>42,590</b>          | <b>7,256</b>          | <b>(104,979)</b>          | <b>45,996</b>    | <b>48,286</b>            | <b>65,460</b>                 | <b>(19,429)</b>   |



## 29. FINANCIAL RISK MANAGEMENT (continued)

### Management of market risk (continued)

#### Interest rate risk (continued)

The Bank prepares reports in accordance with regulations of the Central Bank of Montenegro for measuring interest rate risk for all positions of assets, liabilities and off-balance items, as well as for all other compensations or expenditures that are exposed to interest rate risk. Reports prepared in accordance with regulations of the Central Bank of Montenegro are used to measure risk to Net Interest Income (NII) arising from the re-pricing of assets and liabilities over time. The risk is measured upon the size and duration of potential movements in interest rates. The Bank is aware that maintaining a balanced position for all time periods in a gap reports does not ensure immunity from Interest Rate Risk (IRR). The Bank is aware of the following gap reporting limitations:

- Risk may be hidden in the re-pricing frames;
- Interest rates on assets and liabilities do not always move together;
- Exposure arising from new business.

To avoid such limitations the Bank use simulations (assumptions) with intend of projecting the future composition of the statement of financial position and applying different interest rate scenarios. Impact of loan prepayments and early withdrawing of deposits is also taken into account.

Additionally, the Bank is focused on interest rate spreads. Bank is aware that volatility of IRR spread is potential interest rate risk indicator. This spread is managed by loan pricing, deposit pricing, and investing. The Bank strives to have neither the lowest nor the highest loan or deposit rates in the market. Loans are priced in order to achieve a fair return on shareholder investment. Deposits are priced to provide fair treatment for the Bank's customers and to be reasonably competitive without increasing the Bank's cost of funds.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the net interest income sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis to a reasonable possible change in interest rates of 100 basis point (bp) parallel fall or rise in all yield curves in Montenegro. Analysis of the Bank's statement of comprehensive income using sensitivity to an increase or decrease in market interest rates is as follows:

| In thousands of EUR            | 100 bp parallel<br>increase | 100 bp parallel<br>decrease |
|--------------------------------|-----------------------------|-----------------------------|
| Average for the period         | (276)                       | 276                         |
| Maximum for the period         | (407)                       | 407                         |
| Minimum for the period         | (147)                       | 147                         |
| <b>As at December 31, 2015</b> | <b>(147)</b>                | <b>147</b>                  |
| Average for the period         | (329)                       | 329                         |
| Maximum for the period         | (515)                       | 515                         |
| Minimum for the period         | (170)                       | 170                         |
| <b>As at December 31, 2014</b> | <b>(220)</b>                | <b>220</b>                  |

The sensitivity of equity calculated by revaluing fixed rate available-for-sale financial assets at December 31, 2015, for the effects of the assumed changes in interest rates of 100 bp increase/decrease is EUR 147 thousand decrease/increase. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

## 29. FINANCIAL RISK MANAGEMENT (continued)

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored on daily basis.

Since the open positions in GBP, CHF and USD amounted to EUR -18 thousand, EUR 130 thousand and EUR 94 thousand, respectively, the management of the Bank considers that the Bank is currently not significantly exposed to the currency risk.

### Placement risk

When determining limits of exposure to the placement risk, the Bank establishes limits of placements, not just as Bank's equity expressed as percentage but, as fixed limits also, which are at acceptable levels and which are not affected by changes in the Bank's equity.

### Operational risk

Operational risk means the probability of incurring losses in the Bank's operations, as a result of inadequate internal processes, controls and systems, weaknesses and errors in performance, illegal actions and external events that may expose the Bank to loss. This includes errors, omissions, systems breakdown, natural disasters, terrorist attack and fraudulent activity, causing an impact in terms of unavailability of services, financial loss, increased costs and loss of reputation or failure to make anticipated income or profit.

The goal of operational risk management is to balance cost and risk within the constraints of the risk appetite of the Bank, but to be consistent with the prudent management required of a financial organization.

Risk Management priorities are identified through a combination of:

- experience and observation;
- internal audit assessment and knowledge;
- internal controls;
- detailed risk assessment work;
- change management procedures;
- common sense;
- incident reports.

The Bank has established a system for management of operational risks that includes:

- Policies and procedures for managing operational risks which provides identification, measurement, tracking and controlling risks;
- Responsibility for implementation and effectiveness of Operational Risk rests with the Risk Management Department, as well as monitoring and tracking the risk;
- Responsibility for identifying and managing Operational Risk lies with line management;
- Internal Audit is responsible for the completion of an agreed audit program covering all departments and branches, identifying risk and non-adherence to procedures, completing special investigations and reporting to the CEO and supervisory board.

## 29. FINANCIAL RISK MANAGEMENT (continued)

### Capital management

The Bank's regulator, the Central Bank of Montenegro, sets and monitors capital requirements for the Bank. In implementing current capital requirements the Central Bank of Montenegro requires the Bank to maintain a prescribed capital adequacy ratio of 10%.

The regulatory capital (bank own funds) of the Bank consists of:

- Basic capital and
- Supplementary capital

Basic capital consists of:

- The paid up share capital excluding cumulative preferential shares;
- Premiums realized on issuance (share premium account);
- Reserve allocated from profit after taxes (legal, statutory and other reserves);
- Undistributed retained profit from previous years for which shareholders assembly decided to be included in basic capital, less profit tax and other expected expenses;
- Current profit if following conditions are fulfilled:
- Shareholders assembly or Board of directors with power of attorney given by shareholders assembly made decision to include it in increase of share capital or reserves or undivided profit.
- Existence of profit was confirmed by external auditor
- Central bank approved inclusion of profit in basic capital

Deductible items on basic capital are: losses from current and accumulated losses from prior years, intangible assets, the outstanding balances of purchased own shares excluding cumulative preferable shares, and additional losses assessed in controls of the Central Bank.

Supplementary capital consists of:

- The nominal amount of cumulative preferential shares;
- Realized issuance premiums based on cumulative preferred shares
- General reserves for losses on assets up to 1.25% of risk weighted assets of the bank;
- Subordinated debt according to the Central Bank regulation;
- Hybrid instruments according to the Central Bank regulation;
- Revaluation reserves.

Deductible items on supplementary capital consist of: outstanding balance of purchased own cumulative preferential shares and liabilities and contingent liabilities secured by hybrid instruments or subordinated debt included in Supplementary capital.

The Bank is obliged to follow the following limitations when calculating regulatory capital:

- Total sum of supplementary capital must not be higher than basic capital;
- Total sum of subordinated debt and cumulative preferred shares cannot exceed 50% of own capital;

The Bank is required to maintain the solvency ratio at the level of at least 10%. The Policy of the Bank is to maintain strong base of capital in order to maintain confidence of market, investors and creditors and for future development. During the year, the Bank complied with the minimal solvency ratio requirement of the Central Bank of Montenegro.

## 29. FINANCIAL RISK MANAGEMENT (continued)

### Capital management (continued)

The Bank's regulatory capital and capital adequacy is calculated as follows:

| In thousands of EUR                       | 2015           | 2014           |
|---|----------------|----------------|
| Basic Capital                             |                |                |
| Share capital                             | 5,339          | 5,339          |
| Share premium                             | 1,571          | 1,571          |
| Retained earnings from the previous year  | 35,793         | 29,474         |
| Reserves allocated from retained earnings | 300            | 300            |
| Deductible items on basic capital         | (1,693)        | (2,051)        |
| <b>Total regulatory capital</b>           | <b>41,310</b>  | <b>34,633</b>  |
| Risk weighted assets:                     |                |                |
| - balance sheet                           | 143,771        | 142,080        |
| - off balance sheet                       | 11,611         | 12,257         |
| Capital charge for:                       |                |                |
| - operational risk                        | 4,438          | 4,244          |
| - country risk                            | 610            | 837            |
| - other risks                             | 845            | 909            |
| <b>Total capital requirements</b>         | <b>161,275</b> | <b>160,327</b> |
| <b>Capital Adequacy</b>                   | <b>20.53%</b>  | <b>17.00%</b>  |

The Bank calculates regulatory capital and capital adequacy based on financial statements prepared in accordance with regulations of the Central Bank of Montenegro.

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%. As of December 31, 2015 the capital adequacy ratio calculated by the Bank was 20.53% (2014: 17.00%). 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 the Central Bank of Montenegro regulations. As of December 31, 2015 the Bank complied with all requirements prescribed by the Central Bank of Montenegro.

## 30. ADDITIONAL CASH FLOW INFORMATION

### CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three month maturity from the date of acquisition including: cash on hand, non-restricted balances with the Central Bank of Montenegro and other banks.

| In thousands of EUR  | December 31,<br>2015 | December 31,<br>2014 |
|--|----------------------|----------------------|
| Cash on hands (Note 12)                                    | 12,293               | 10,649               |
| Current accounts with Central Bank of Montenegro (Note 12) | 20,394               | 28,753               |
| Loans and advances to banks (Note 13)                      | 11,212               | 31,965               |
|  | <b>43,899</b>        | <b>71,367</b>        |

## 31. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing net profit attributable to the ordinary shareholders by the weighted average number of ordinary shares for the period.

|  | 2015         | 2014         |
|--|--------------|--------------|
| Income for the year (In thousand EUR)      | 6,532        | 5,968        |
| Weighted average number of ordinary shares | 5,339        | 5,339        |
| <b>Basic Earnings per share in EUR</b>     | <b>1,223</b> | <b>1,118</b> |
| <b>Diluted earnings per share in EUR</b>   | <b>1,223</b> | <b>1,118</b> |

The Bank does not hold any potentially diluting ordinary shares such as convertible debt and stock options as at balance sheet date.

## 32. SUBSEQUENT EVENTS

There were no adjusting and non-adjusting events after the reporting date.